

# REDEFINING SMALL ENTERPRISE

## Why do we need a definition of small enterprise?

A national definition of small enterprise officially identifies small enterprises, in order to:

- Inform the **design, management and assessment** of business support measures (i.e. programmes and services) in national and sub-national (i.e. provincial and local) territories.
- Measure **change** in the business sector (i.e. statistical analysis).
- Promote **consistency** in the use of terms in order to align government policy and legislation.

## What will change in the amendment?

The changes in the amendment to the National Small Enterprise Act, 2004 (Act No. 29 of 2004) include:

- **New threshold values** to account for inflation, since the Schedule was last revised in 2003.
- **Two proxies instead of three.** The new schedule defines small enterprise using two proxies – ‘total full-time equivalent of paid employees’ and ‘total annual turnover’. The third proxy – ‘total gross asset value’ – in the current definition is often inappropriate and difficult to measure and has thus been removed.
- **The size or class category ‘very small enterprise’ is subsumed by the ‘small enterprise’ category.** Many users found this size or class category unhelpful and inconsistent with international practice.

## Why the changes?

The amendment of the schedule of the Small Enterprise Definition aims to ensure that these definitions are current, relevant and applicable to the structure and nature of small, medium and micro-sized enterprises (SMMEs), thereby ensuring access to government support programmes while promoting their financial sustainability and ability to promote and create employment over the medium to long term.

## What are the implications?

Small enterprises are currently defined in many ways across different departments and functions within government. The revised definition has a bearing across government and private sector in particular with different compliance criteria applicable to small enterprise. Small businesses often have less onerous compliance, for example in the labour legislation, tax, B-BBEE codes, environmental, procurement, and company registration. Some, but not all of these pieces of legislation use the definition in the National Small Enterprises Act.

The definition of small enterprises should also provide a basis for recording statistical information and data on the sector to measure and monitor small business growth and development over time. An updated definition would help improve the monitoring of small enterprises and a better understanding of the sector.

## The definition of small enterprises for the new schedule

**‘Small enterprise’ means** a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy (mentioned in the first column of the Schedule), and classified as a micro, a small or a medium enterprise by satisfying the criteria of employees and turnover (third and fourth columns in the Schedule).



small business  
development

Department:  
Small Business Development  
REPUBLIC OF SOUTH AFRICA



CURRENT SCHEDULE					NEW SCHEDULE		
Sector or subsector according to Standard Industrial Classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (excludes fixed property)	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
COLUMN 1 Unchanged	COLUMN 2	COLUMN 3	COLUMN 4	ABSENT IN NEW SCHEDULE	COLUMN 2 'Very small' removed	COLUMN 3 'Micro' increased to 10 employees	COLUMN 4 Revised for inflation
Agriculture	Medium	100	5 million	5 million	Medium Small Micro	250 50 10	35 million 17 million 7 million
	Small	50	3 million	3 million			
	Very Small	10	0.5 million	0.5 million			
	Micro	5	0.2 million	0.1 million			
Mining and quarrying	Medium	200	39 million	23 million	Medium Small Micro	250 50 10	210 million 50 million 15 million
	Small	50	10 million	6 million			
	Very Small	20	4 million	2 million			
	Micro	5	0.2 million	0.1 million			
Manufacturing	Medium	200	51 million	19 million	Medium Small Micro	250 50 10	170 million 50 million 10 million
	Small	50	13 million	5 million			
	Very Small	20	5 million	2 million			
	Micro	5	0.2 million	0.1 million			
Electricity, gas and water	Medium	200	51 million	19 million	Medium Small Micro	250 50 10	180 million 60 million 10 million
	Small	50	13 million	5 million			
	Very Small	20	5.1 million	1.9 million			
	Micro	5	0.2 million	0.1 million			
Construction	Medium	200	26 million	5 million	Medium Small Micro	250 50 10	170 million 75 million 10 million
	Small	50	6 million	1 million			
	Very Small	20	3 million	0.5 million			
	Micro	5	0.2 million	0.1 million			
Retail and motor trade and repair services	Medium	200	39 million	6 million	Medium Small Micro	250 50 10	80 million 25 million 7.5 million
	Small	50	19 million	3 million			
	Very Small	20	4 million	0.6 million			
	Micro	5	0.2 million	0.1 million			
Wholesale trade, commercial agents and allied services	Medium	200	64 million	10 million	Medium Small Micro	250 50 10	220 million 80 million 20 million
	Small	50	32 million	5 million			
	Very Small	20	6 million	0.6 million			
	Micro	5	2million	0.1 million			
Catering, accommodation and other trade	Medium	200	13 million	3 million	Medium Small Micro	250 50 10	40 million 15 million 5 million
	Small	50	6 million	1 million			
	Very Small	20	5.1 million	1.9 million			
	Micro	5	0.2 million	0.1 million			
Transport, storage and communications	Medium	200	26 million	6 million	Medium Small Micro	250 50 10	140 million 45 million 7.5 million
	Small	50	13 million	3 million			
	Very Small	20	3 million	0.6 million			
	Micro	5	0.2 million	0.1 million			
Finance and business services	Medium	200	26 million	5 million	Medium Small Micro	250 50 10	85 million 35 million 7.5 million
	Small	50	13 million	3 million			
	Very Small	20	3 million	0.5 million			
	Micro	5	0.2 million	0.1 million			
Community, social and personal services	Medium	200	13 million	6 million	Medium Small Micro	250 50 10	70 million 22 million 5 million
	Small	50	6 million	3 million			
	Very Small	20	1 million	0.6 million			
	Micro	5	0.2 million	0.1 million			

Source: National Small Business Act No. 102 of 1996, as amended in 2003

## What about the informal sector?

The revised schedule updates have not captured any reference to the informal sector; these firms will be present in the Micro cut-offs threshold as proposed in the schedule. It is however recommended that an official definition for an 'informal enterprise' be formulated and articulated in the National Informal Business Upliftment Strategy (NIBUS) which aims to address the concerns of the informal economy.

NIBUS outlines how the DSBD understands and plans to support informal businesses, and recognises that informal business are a significant contributor to the country's gross domestic product (GDP), employment creation, sustainable livelihoods and local economic development in the country.

NIBUS characterises informal enterprises as:

- Mostly based in township and rural areas.
- Not usually registered with the CIPC, SARS or a municipality.

- Operate businesses on a survivalist mode but possess potential to grow.
- Have been in business for a minimum of six months.
- Have one to five people involved in running the business (typically family members, etc.).
- Typically use a personal account for business banking thus having no separate financial statements of the business.
- Mostly lack business skills, finance, tools of trade, etc. to grow the business.
- Limited access to information relevant for business growth.
- May have low levels of formal education.

Based on these factors, among others, NIBUS proposes a strategy to address the challenges of informal business.