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THOUGHT LEADERSHIP

Enabling and unlocking the job creation potential of SMMEs and the township economy

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Earlier this year, Krutham was commissioned by Business Unity South Africa (BUSA) and Yellowwoods to conduct research on how government and business can enable and unlock the potential of SMMEs (formal and informal) and township enterprises in addressing youth unemployment. The research focused on short-to-medium-term levers (one to five years), where existing initiatives and support systems can be used and scaled in five labour-intensive sectors: agro-processing, horticulture, tourism, logistics, and early childhood development (ECD). We conducted value chain analyses of these sectors to understand how both formal and informal SMMEs are currently integrated into these ecosystems and identified opportunities along these value chains where they exhibit the capacity to create and capture value. We outline some of the main findings and recommendations below.

This year, an unprecedented number of voters will participate in elections. At least 64 countries – representing roughly 49% of the global population – are meant to hold national elections in 2024. These elections, including South Africa's on 29 May 2024, are poised to have significant and long-lasting outcomes. In the run-up to the elections, political party campaigns included promises to address South Africa's key socio-economic issues such as service delivery, education, crime, housing and electricity. However, these issues were overshadowed by the critical challenge of youth unemployment, which emerged as the central campaign issue. This is unsurprising, given the country's official youth unemployment rate of 44%, which rises to 60% under the expanded definition (STATSSA, 2024).

Interestingly, despite their vital roles in the economy and job creation, small, micro and medium enterprises (SMMEs) and the township economy got little airtime in the political debates.



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It is worth noting that SMMEs contribute about 40% of South Africa's GDP and employ between 60% and 80% of the workforce (Gumede, 2024). For instance, while formal jobs declined by 128,000 in the final quarter of 2023, informal jobs increased by 124,000 during the same timeframe (STATSSA, 2024). The informal sector, often described as businesses that are not officially recorded or taxed, is incredibly important. It offers livelihoods and employment paths for those who cannot find work in the formal sector. Most of these businesses are SMMEs, deeply embedded in the township economy.

Despite their importance as employment sources, the contribution of SMMEs to total employment has been waning in recent years. In 2022, micro (one to nine employees) and small (10-49 employees) businesses accounted for 62% of total employment, a decline from 73% in 2008. The unfortunate reality is that SMMEs in South Africa have a high failure rate: 50% fail within 24 months of launch, while 70% to 80% fail within the first five years of operating (Adonis, 2022).

Contextualising SMME support

Very often, discussions surrounding ways to support SMMEs focus on creating opportunities for these enterprises to integrate into and serve formal supply chains. However, our research indicates that this focus might overlook the crucial role of the informal sector. This sector is not just a secondary income source; it is a thriving market in its own right, with lower barriers to entry and unique operational dynamics. These conditions foster unique opportunities for growth and innovation. SMMEs can leverage their flexibility and local connections to tailor products and services to meet the specific needs of informal markets. Additionally, informal markets act as incubators for developing entrepreneurial skills and experimenting with new business ideas.

While our research includes recommendations to support SMMEs' integration into formal supply chains, we also emphasise the need for targeted support to help them thrive in the informal sector,



particularly within township economies. Our analyses are supported by desktop research and stakeholder interactions, assisting SMMEs to succeed in both contexts.

Our recommendations fall into two broad categories that outline how organised business can provide targeted support. The first category aims to unlock opportunities for SMMEs in the informal sector, particularly within township economies, where the barriers to entry are generally lower than in formal markets. For example, enabling township restaurants to expand their market access through e-commerce platforms might require support from non-traditional actors like financial institutions or ICT companies, as businesses within the food value chain might perceive this as a competitive threat. The second category involves coordinated support to help SMMEs meet the needs of formal

supply chains, through enterprise development programmes that include incubators and facilitate access to finance and networks.

While the informal economy extends beyond any single geography, it frequently influences and interacts with township economies due to the socioeconomic ties and residential locations of the individuals involved.

This approach not only fits SMMEs into existing markets but also actively works to expand their opportunities across both formal and informal sectors.

Defining the scope



Informal economy

All economic activities and enterprises operating outside formal legal and regulatory frameworks, unrecorded and not registered for taxation.



Informal sector

Comprises all informal enterprises, their owners, and employees (whether paid or unpaid) across all economic sectors.



Informal enterprise

Enterprises, with or without employees, that are not registered for taxation (Fourie, 2018:11).



Township economy

Economic activities and enterprises within townships, both formal and informal, run by local entrepreneurs to meet community needs. Many township businesses are informal, but informal enterprises also operate in

urban and rural areas such as malls, street vendors and food stalls at taxi ranks. Many involved in informal economic activities live in townships, linking their economic contributions back to these areas through labour and capital flows. Thus, the informal economy frequently influences and interacts with township economies due to these socioeconomic ties.



SMMEs

Includes both formal and informal micro and small enterprises. Micro-enterprises are owner-operated businesses with one to four employees, typically based out of household premises. Small enterprises employ between five and nineteen employees and often possess significant growth potential.

The informal economy, sector, enterprises, township economy, and SMMEs provide jobs for marginalised groups but often lack formal support, facing funding, infrastructure, and regulatory challenges.

Focus area one: market builders

Market builders are entities, platforms and programmes dedicated to enhancing the capabilities of SMMEs as well as building and expanding viable markets. They are part of a larger ecosystem comprised of various actors, organisations, policies and resources, all designed to spur innovation, forge connections with investors and partners and improve market access for SMMEs. These market builders play a crucial role in empowering SMMEs and township economies. They do this in two important ways: (1) fostering business development and growth and (2) lowering barriers to entry to new and growing markets. In terms of fostering business development, our research focused on business incubators and associated services incubators offers, such as skills development programmes, mentorship, business idea validation and facilitating partnerships and networking. These services support the growth of SMMEs and help them integrate into broader markets that enhance their chances of survival.

Furthermore, market builders facilitate market access by linking SMME products and services with new markets and technologies. They provide essential infrastructure, such as office space, internet access and other facilities necessary for conducting core business operations. This infrastructure is crucial for SMMEs as it allows them to operate more efficiently and compete in increasingly digital and interconnected markets.

In exploring these dynamics, we examined the roles of business incubators and marketplace platforms and aggregators. These centres and infrastructures have the potential to play a pivotal role in enabling SMMEs to integrate into formal and informal sectors and markets by providing platforms to launch and expand their businesses. Market builders facilitate a nurturing ecosystem that not only supports existing businesses but also inspires the creation of new ones, driving economic growth and employment in township economies.

Timbali

Technology incubator



Case study

Since its inception in 2004, Timbali has supported agri SMMEs with a 100% survival rate in their first two years. Initially focused on floriculture, Timbali has adapted to market shifts, transitioning from indigenous flowers to herbs and now to baby vegetables, which face less competition from large commercial farmers.

Opportunity highlight: Timbali tackles the significant challenge smallholder farmers face: limited access to formal markets due to competition with larger operations. By targeting niche markets like baby vegetables, Timbali gives these farmers a competitive edge and opens up market opportunities. The programme clusters farmers to share resources, achieve economies of scale, and meet market demands.

Through a partnership with Standard Bank, Timbali provides zero-interest loans for essential inputs and fosters strategic partnerships to improve market access, linking farmers to local markets and major retailers. This dual market strategy diversifies sales options and boosts farmers' resilience, enhancing post-incubation success.

Timbali uses a franchise-like model to standardise operations while offering comprehensive training, technology access, and market entry strategies, ensuring high standards and Global GAP certification compliance. The programme's training and business development align with market demands, targeting underserved agricultural products, allowing SMMEs to fill these market gaps upon graduation.

Timbali enhances efficiency by clustering, grouping farmers by location and product to leverage economies of scale and share infrastructure. Each cluster, managed by product, services and facilities officers, receives tailored extension services, supporting both formal and informal market engagements.

The three-year incubation process also includes pre-incubation support, ranging from production coordination to market supply strategies, equipping farmers to meet both formal and informal market needs. As it evolves, Timbali continues to diversify, now including tree crops while still focusing on high-demand areas such as baby vegetables.

Market builder: Business incubators

Business incubation centres play a pivotal role in South Africa's SMME ecosystem, particularly for early-stage and informal enterprises. These centres are often integrated into corporate enterprise development (ED) and supplier development (SD) programmes, focusing on preparing SMMEs for participation in the formal economy. Their support extends across several domains, including business development services like strategic planning and market access facilitation, along with infrastructure provisions such as office space. They also offer financial assistance through direct grants or support in becoming investment-ready.

In other words, business incubators can provide a supportive environment that addresses the common hurdles of starting and running a business, such as access to premises, business registration support and mentorship. They also provide a pathway for self-employment for matriculants and school leavers who struggle to secure formal employment.

Furthermore, incubators can act as vital intermediaries between startups and large corporations. They facilitate supplier development and help startups comply with Broad-Based Black Economic Empowerment (B-BBEE) standards. By identifying and preparing SMMEs to meet the procurement standards of larger companies and offering specialised training and support, incubators can not only assist corporations in improving their B-BBEE scores but also foster equitable economic growth. This multi-faceted support system enhances the viability and sustainability of new enterprises, contributing significantly to job creation and economic diversification.

Yet, incubators' market-building potential is undermined by several operational challenges and programmatic gaps. The first is the unreliable funding models of many incubators, characterised by an overreliance on government grants and donations. Second, most incubators are concentrated around urban centres like Cape Town and Johannesburg, limiting access for rural SMMEs.

On the programme side, the predominant issues are the generic nature of support offered and inadequate networking opportunities. Many incubators employ a one-size-fits-all approach that does not account for the

diverse needs across different sectors and stages of business development. This can leave businesses ill-prepared to navigate the specific challenges of their industries. Moreover, insufficient networking and market access further hinder the growth potential of these enterprises, as effective connections with larger markets and industry networks are crucial for the survival and expansion of new ventures.

Addressing these challenges and gaps requires a nuanced approach that considers both the specific needs of different industry sectors and the stages of business development. This would ensure that support is available and tailored to foster growth and sustainability, particularly within sectors critical to economic growth and climate resilience.

Our recommendations

- **Develop sector-specific incubator programmes in collaboration with industry leaders.** Incubators targeting specific sectors, such as primary agriculture or logistics, tend to be more successful in sustaining SMMEs post-incubation, increasing revenue growth and job creation. This is especially true for sectors and industries with high growth potential that can absorb low-skilled labour, such as tourism, agriculture, horticulture and logistics (Allen et al., 2021). To further strengthen this approach, we recommend that companies co-develop incubator programmes with specific centres, ensuring that the support provided is closely aligned with real market demands. Additionally, leveraging company resources can be instrumental in establishing networks for incubatee SMMEs, facilitating connections with potential clients, partners and investors, thereby enhancing their market reach and growth potential.
- **Provide tailored business development support.** To foster SMMEs' robust development, offer tailored business development services that cater to their specific challenges and growth stages. Tailored support can range from mentoring and technical assistance to management training and marketing strategy development.

These findings have been corroborated during our stakeholder engagements as well (see the Timbali case study above). In addition, our stakeholder engagements reiterated the need to support SMMEs to not only serve formal market demands but identify opportunities along the value chain to serve informal sectors. The success of our proposed strategies is a cause for optimism about the potential outcomes.

Marketplace platforms and aggregators

Marketplace platforms and market aggregators are becoming vital market builders, especially within the food value chain, affecting both formal and informal enterprises. They include

digital e-commerce technologies that provide SMMEs with centralised platforms to connect with a broad and diverse customer base, enabling expansion beyond traditional local markets.

While both marketplace platforms and aggregators share many similarities in terms of building viable markets for SMMEs and township enterprises, it is important to note that they function somewhat differently and that these unique features offer different opportunities and pathways for enterprises.

Case study

KasiD marketplace platform

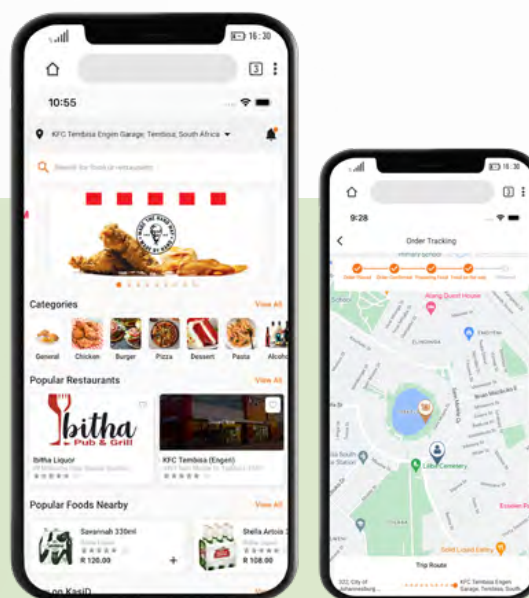
KasiD is an innovative marketplace platform that has successfully tapped into the burgeoning demand for food delivery services, creating a dynamic link between local township restaurants and a diverse customer base across suburban and township areas such as Tembisa, Kempton and Midrand. The platform facilitates meal sales through its app and boosts restaurant revenues by returning 10% of the delivery fee, enhancing visibility and reach across local and adjacent areas. KasiD also partners with major brands like Spar and KFC to extend delivery services into underserved township areas, challenging traditional views on the risk associated with these markets.

Platform structure and features

- **KasiD Restaurant** for restaurant owners wanting to list their businesses.
- **KasiD Food Delivery** for customers ordering meals.
- **KasiD Driver** for those looking to work as delivery drivers.

Key features

- **Tailored payment models:** KasiD's payment methods cater to the varied preferences and needs of its customers, who can pay using cash on delivery, card payments with FNB's secure speedpoint services, direct Mastercard payments, and a digital wallet system with a loyalty programme.
- **Flexible registration:** With flexible registration for township businesses, KasiD collaborates with FNB to promote financial inclusion and enforce quality control to ensure that a wide range of vendors can join the platform, with support on product market fit.



- **Employing local youth:** KasiD employs local youth, capitalising on their area familiarity and local cultural knowledge and provides support for obtaining a learner's license.

Challenges to scaling

- **Culinary education gaps:** Accredited culinary courses are financially inaccessible for township restaurant owners and do not address township restaurants' unique needs and contexts. There is an urgent need to develop curricula that include township cuisines and are tailored to the specific operating environments of these establishments.
- **Packaging and technology:** KasiD requires support in packaging solutions to maintain food quality and safety, alongside technological assistance to manage orders and improve operational efficiency, including advanced point-of-sale (POS) systems and sophisticated inventory and delivery apps.

Marketplace platforms are e-commerce sites where multiple vendors list and sell their products or services independently, with the platform earning a commission. Examples include Brownsense and Old Mutual's SMME e-Market for B2C and Dooka and Thrift for B2B.

Market aggregators work with various vendors under a unified brand, negotiating terms like commission charges and service consistency, focusing on brand building and serving as the public face of the business. This model increases vendor visibility, reduces marketing costs and generates revenue through commissions. Notable examples include Vuleka (see case study), MTN's MIA Aggregator programme and Tiger Brand's Agricultural Aggregator. These aggregators also streamline supply chains for SMMEs by bulk purchasing or centralising services like financing.

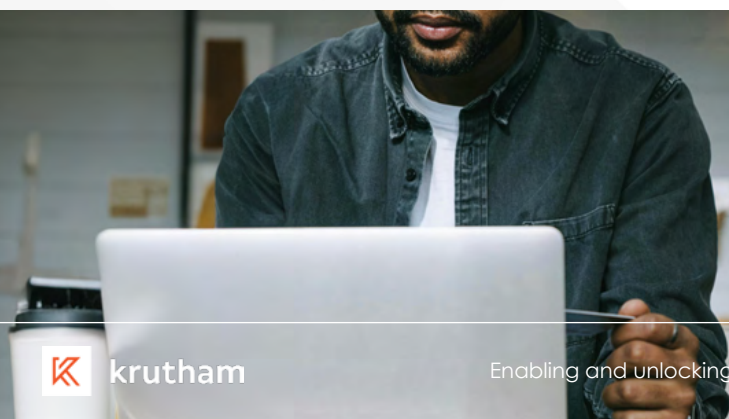
A key component of these platforms is **last-mile delivery services**, which connect online purchases with physical delivery, creating significant job opportunities, especially in logistics. These platforms have opened doors for enterprises in the township economy, creating employment and allowing local expertise to enhance service delivery. Key roles include marketing managers, client liaison officers, field agents, system administrators and fleet managers.

Our recommendations

- **Prioritise digital infrastructure investment in township economies.** The lack of digital infrastructure in township areas significantly hampers SMMEs from effectively using digital platforms such as Vuleka and KasiD. These are crucial for expanding market reach and enhancing operational efficiency in sectors like tourism, logistics and the food value chain. Significant investment in digital infrastructure, including connectivity, affordable data and digital literacy skills, is required in the short term to enable and unlock the market-building potential of marketplace platforms and aggregators.
- **Speed up the development of inclusive financial and regulatory schemes.** Reform the existing policy approach that predominantly urges the formalisation of SMMEs and the

informal economy—an approach that often proves impractical and misaligned with the operational realities of informal enterprises. Instead, use initiatives like the Intergovernmental Fintech Working Group's (IFWG) regulatory sandbox to test and refine new regulations and financial solutions. An exemplary case within the IFWG involved testing non-traditional consumer credit data to bolster financial inclusion. This includes incorporating non-financial reporting data such as telecommunications and utility payments and social media ratings into credit files, which addresses the shortcomings of traditional credit scoring models that rely heavily on formal financial transactions and credit histories. Notto's participation in testing lending based on alternative consumer credit data aimed to extend credit access to financially excluded groups; although initially paused, it will resume after acquiring a credit bureau license.

- **Enhance market access for food and restaurant marketplaces.** Formal retailers often overlook townships, creating an opportunity for township enterprises involved in last-mile delivery and the development of “kasi” e-commerce platforms that feature meals made by township restaurants. Short-term support should focus on packaging solutions and digital literacy training for township restaurant owners. Additionally, while this might be a long-term initiative, this market will significantly benefit from tailored enterprise development programmes, focusing on running a township restaurant and the development of culinary courses that focus on township meals.
- **Strengthen the buying power of independent and informal retailers.** To address the challenges spaza shop owners face in accessing products at the same price as large retailers, targeted support to strengthen their buying power is required. This entails digital aggregators enabling bulk purchasing or establishing partnerships with buyer groups to allow spaza shops to benefit from economies of scale. Additionally, grant funding can be used as a guarantee fund for suppliers to lower the risk perceptions of smaller buyers.



Market aggregators empowering township enterprises: Vuleka

Vuleka is a mobile aggregation platform designed for township-based businesses, targeting informal SMME traders. It aims to enhance their cash flow by establishing reliable supply chains and offering inventory financing solutions through a “buy now, pay later” system. Orders can be placed manually via field agents and phone calls, or digitally through WhatsApp or the Vuleka Mobile App. Vuleka purchases goods in bulk from manufacturers, stores them in its warehouse, and delivers directly to spaza shops, ensuring consistent and reliable access to inventory and reducing costs by eliminating multiple intermediaries.

The problems Vuleka addresses

- **Access to information:** Spaza shops often lack access to wholesaler inventory information, impeding their ability to plan and make informed purchasing decisions.
- **Transport costs:** Owners typically use public transport to collect merchandise, often closing their shops, resulting in income loss.
- **Buying power:** Limited buying power prevents spaza shops from securing competitive pricing, as they do not buy in the same volumes as larger retail chains.



Vuleka's solutions

- **Demand aggregation:** By buying in bulk directly from manufacturers and delivering to spaza shops, Vuleka saves owners approximately 10% on costs.
- **Credit profiles:** Vuleka helps build credit profiles for spaza shop owners, enabling them to eventually apply for loans and extend credit to their customers.

Barriers to scale

- **Pricing terms:** Vuleka faces challenges in securing the same favourable pricing terms from suppliers as large retailers, affecting spaza shops' price competitiveness.
- **Digital infrastructure:** Limited access to data and digital literacy in township areas hinders the adoption and use of the Vuleka app.

Focus area two: corporate value chains and procurement

Most South African companies have established enterprise and supplier development (ESD) programmes and allocated substantial funds to support them. In 2021, the private sector spent over R21bn on skills and ESD (B4SA, 2023). These programmes vary by sector and company and are crucial for helping SMMEs meet industry-specific standards and integrate into larger value chains. They offer vital support through training, mentorship and financial aid, enhancing the growth of SMMEs and generating socio-economic benefits in underinvested communities through job creation and economic stimulation.

The most favoured ESD strategies are grants and early payment of suppliers, as these support the cashflow of SMMEs. This is a vital support measure

for many SMMEs that struggle to obtain working capital from traditional banking channels. Despite this commitment, there is a notable fragmentation in the implementation of ESD programmes across different companies and sectors and related support functions/entities such as business incubators, accelerators and hubs. While successful collaboration models exist, there is a pressing need for co-development and sector coordination to scale these programmes effectively. To harness the potential of ESD in enabling SMMEs and the township economy, it is necessary to foster an environment of collaboration where companies can share best practices, align on objectives and work collectively to address common challenges. This collaborative approach will not only streamline the efforts towards a more unified ESD landscape but also amplify the impact of these programmes on the broader South African economy.

Sasol's investment in township infrastructure



Sasol's ESD approach empowers township economies and fenceline communities through infrastructure investments and skills development programmes, targeting unemployed youth, women, and SMMEs.

Education initiatives

Targeting ECD centres in the communities where they operate, Sasol is leveraging ECD as a catalyst for socio-economic development, with the aim to facilitate school readiness and long-term educational success. In 2022 and 2023 it provided the following support:

- Expanding early learning programmes to 270 centres, benefiting 15,184 children.
- Training 44 ECD managers and 85 practitioners.

- Establishing food gardens and providing daily nutritious meals to 4,552 children.
- Facilitating access to toy libraries impacting over 1,800 children.

Bridge to work skills programmes (Sasolburg)

- Artisan integrated learning initiative for local youth and businesses.
- Boitjhorisong welding training centre providing structural welding training.

Bridge to work skills programmes (Sasolburg)

The Ekandustria business centre supports three internet café SMMEs, enhancing their service quality with a R1m investment in solar-powered mobile business centres.

Community infrastructure

Sasol actively invests in community infrastructure support programmes to strengthen the systems sustaining the communities in which they operate. Examples include:

- Upgrading substations and enhancing facilities for emerging farmers.
- Rehabilitating an 8.8km access road in Zamdela, creating jobs and boosting economic activity.

Preparing SMMEs for a changing energy landscape

- Sasol equips SMMEs for the shift to renewable energy with a just transition strategy, involving skills training, economic diversification and social assistance.
- Sasol's sustainability summits provide a platform for SMMEs to engage with renewable energy topics and understand the implications for supply chains and job markets.

Our recommendations

- **Promote inter-company collaboration on ESD programmes.** There is a significant opportunity for industry-wide collaboration on ESD programmes. Such collaboration should transform ESD into a collective industry concern rather than a matter isolated to individual companies. For instance, AECI's ESD programme partners with its Good Chemistry fund to provide financial support. IDF Capital acts as a fund manager, assessing project viability and designing transaction structures. The Khula! App enables market access for emerging farmers, while LEAP and Ithala Development Finance Corporation support sustainable growth and assist black entrepreneurs in rural and township areas.

Furthermore, collaborations like that between Coca-Cola and Distell, which expand their supplier base and offer off-take agreements and technical support to emerging apple farmers, exemplify the benefits of such cooperative efforts.

- **Leverage market aggregators in ESD models.** Used by Tiger Brands, this would entail using an aggregator for supply chain purposes. Aggregators can cluster SMMEs by geography or product within a company's value chain, pooling resources and skills to meet supplier demands. In the tourism industry, aggregators integrate SMMEs into the supply chains for services like food and beverage, catering, or cleaning. In logistics, SMMEs can be aggregated to fulfil the

distribution requirements of company value chains.

- **Leverage B-BBEE sector charters to invest township infrastructure.** For township enterprises to thrive sustainably, basic infrastructure such as water, electricity, roads and housing is essential. Many South African companies, particularly in extractive industries like mining, are situated near informal settlements that lack these infrastructures but host vibrant informal enterprises serving the mining workforce and community. There is potential to optimise existing corporate social investment (CSI) and/or socio-economic development (SED) spend toward these infrastructural investments. While SED spend only counts 5 points of the overall BBEE scorecard, industry specific charters do have scope to spend more toward infrastructural investments. These include, among others, sector charters for finance, ICT and Agri-BEE.
- **Prioritise CSI and SED expenditure towards early childhood development (ECD) infrastructure.** The employment potential of ECD in South Africa is substantial, particularly within the paid care economy, which encompasses a broad range of occupations including teachers, childminders and social workers. This sector accounts for 13.8% of total employment, with a predominantly female workforce. Targeted investment in ECD can yield a 7% to 10% annual return through improved educational outcomes and economic productivity, creating over 450,000 direct jobs. Current CSI expenditure supports education significantly, with 44% directed towards it in 2022. However, to maximise impact, these investments must be informed by the insights of ECD stakeholders and expand beyond bursaries and scholarships to include comprehensive infrastructure and school development. Using industry-specific charters to increase infrastructural spending can effectively support township economies and enhance educational facilities.

Concluding thoughts

SMMes—both formal and informal, including those in township economies—are crucial for addressing the significant challenge of youth unemployment in South Africa. Our analysis and stakeholder engagements underline the necessity for a multifaceted approach to developing markets where township enterprises and SMMes can effectively participate.

The main recommendations in this piece focused on interventions to build markets for SMMes to participate in informal value chains as well as

formal sectors, by leveraging existing infrastructure such as business incubators and corporate procurement programmes. Yet, this discussion merely scratches the surface of additional barriers, notably access to finance, which contributes to the high failure rate of SMMes. Our research suggests that scaling funding models such as the SME Fund, which leverages public funding to attract private investment, could be transformative. This approach involves intermediaries who on-lend to SMMes, with organised business playing a crucial role in mobilising risk-tolerant capital by engaging with philanthropic funders, DFIs, or impact investors to enhance private sector finance.

Moreover, providing meaningful long-term support for SMMes, especially those in informal settings, requires regulatory reforms that reflect their unique realities. Instead of merely advocating for formalisation, there should be a concerted effort between the government and the private sector to revise funding requirements and access to entrepreneurial support programs. This would ensure that such initiatives inclusively support informal enterprises, enabling them to thrive within the broader economic ecosystem.

Krutham encourages business, policymakers and stakeholders to explore innovative solutions for supporting SMMes and integrating them into supply chains.

We work with clients across the spectrum of capital, from profit-led investment in emerging markets to philanthropy, to develop products and systems that help mobilise finance to deliver better social outcomes. Our capital markets team provides detailed, on-the-ground insights and information on a broad range of issues, from infrastructure to capital market regulatory issues.

Talk to us about how we can help you.

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