

2 Small Businesses in India, Brazil and South Africa: Basic characteristics

South Africa may have an environment which appears to be more conducive to opening and running a business than that of India and of Brazil where businesses have to deal with huge amounts of red tape, but these two countries make up for it by having inhabitants that are more entrepreneurially-minded than those of South Africa. This chapter takes a brief look at the overall business environment in which small firms operate in their respective countries, the size and performance of the sector and what role small enterprises play in job creation in each of these countries.

What is the business environment of each country like?

The explosion in entrepreneurship in both India and Brazil is taking place notwithstanding the high levels of red tape businesses that these two countries still face when starting up. For instance, according to rankings from the World Bank's Doing Business 2011 report, Brazil ranks 127 and India at 134 on the ease of doing business, while South Africa is ranked far higher up at 34 out of 183 countries (Table 1).

Table 1. Ranking on Doing Businesses in India, Brazil and South Africa (2010, 2009 & 2006)

	Brazil	India	South Africa
Overall (2010)	127	134	34
Starting up (2010)	128	165	75
Procedures to start up (2009)	15	12	6
Procedures to start up (2006)	18	13	8
Time in days (2010)	120	29	22
Time in days (2006)	152	33	31
Employing workers (2009)	138	104	102
Getting credit (2010)	89	32	2
Closing a business (2010)	132	134	74

Sources: Data for 2010 from World Bank (2011); data for 2006 from World Bank (2007).

In Brazil, entrepreneurs face mountains of red tape, administrative barriers, uncertainty over constantly changing regulations, difficult regulations – for example on setting up new businesses, on employment and working overtime and on minimum wages.¹¹ Starting a business takes about 16 procedures – more than double the six steps required in South Africa and more than the 13 required in India. It can take almost six times longer to start a business in Brazil (120 days) than it does in South Africa, and four times longer than the average 30 days needed in India. Yet despite this Brazil still produces entrepreneurs at a rate of almost double that of South Africa, according to the 2009 Gem Report.

¹¹ Jonathon Ortmans a US entrepreneurship expert and Senior Fellow, Kauffman Foundation, in an (undated) article called "Government and Education efforts to further entrepreneurship in Brazil", available at: <http://www.publicforuminstitute.org/nde/sources/reports/Brazil-2005.pdf>

When it comes to looking at how the three countries fare when it comes to the competitiveness of their respective marketplaces, data in the World Economic Forum's Global Competitiveness Report 2010-2011 (Table 2) reveals that the three have very similar levels of competitiveness.

Table 2. Ranking on selected Global Competitiveness measures (2010 based on 183 countries)

	Brazil	India	South Africa
Overall	58	51	54
Business costs of crime, violence	123	67	137
IP protection	89	66	27
Ethics, corruption	111	80	67
Infrastructure	62	86	63
Quality of primary education	127	98	125
Hiring and firing practices	131	89	135
Venture capital availability	60	31	39
Access to loans	65	39	41
Extent of market dominance	46	26	43
State of cluster development	23	29	39
Company spending on R&D	29	37	40
Utility patents per population	61	59	43

Source: Global Competitiveness Report 2010-2011.

The report reveals that all three countries have similar level of infrastructure development. In turn, while both Brazil and South Africa suffer from high crime rates, a poor quality of education, restrictive hiring and firing practices and similar high levels of market dominance by large firms, India and South Africa share similar levels of access to finance and similar spending on research and development. Nevertheless, despite South Africa being an easier place to start up a business according to the World Bank survey, the country's favourable business climate is undone by the disastrous consequences of Apartheid (1948-1994).¹²

How have small businesses performed?

The small business sector is significantly larger in both Brazil and India than it is in South Africa. Brazil's 16 million small and micro enterprises contribute about 20% of Brazil's GDP and employ 60 million people or 56% of the urban workforce in the formal sector, according to Brazil's small business support agency, Sebrae.¹³ According to statistics on Sebrae's MPE Data¹⁴ there were 5.89 million registered small and micro enterprises and 10.34 million informal small and micro businesses in Brazil in 2008.

¹² Apartheid effectively stifled entrepreneurship in the country, by making it illegal for black people to run or own a business outside of homelands. Bantu education also left black people with poor skills, while the Group Areas Act banished blacks to the unproductive areas of homelands and to townships kilometres outside of the centre of towns and cities. Black people also could not own property in locations or anywhere else in urban areas, which affected their ability to take out loans (Hirsch, 2005).

¹³ http://www.info.sebrae.com.br/br/rumo_lei_geral/index.htm

¹⁴ www.mpedata.com.br

Table 3. Comparative Statistics on Small Business, South Africa, Brazil and India

	South Africa (2007)	Brazil (2008)	India (2006/07)
Total small businesses	2.4 million	16 million	26.1 million
Registered firms	595 000	5.9 million	1.6 million
Informal businesses	1.4 million	10.4 million	24.6 million
GDP contribution	27% - 34% (micro, small, medium)	20% (micro and small)	8% (only MSMEs)
Percent of the workforce	56%	56.1%*	90% ¹⁵

Notes: - *Of the workforce in the formal sector in urban areas

- South Africa's statistics include small, micro and medium-sized firms; Brazil's statistics include only small and micro-sized firms; India's statistics are as according to the definition of MSMEs: Medium, Small and Micro-Enterprises as per India's classification of small businesses.

Sources: Review of trends on entrepreneurship and the contribution of small enterprises to the economy of South Africa, 2000 – 2006 (Seda); MPE Data (Sebrae) and the Quick Results of the 4th All India Census of MSMEs (MSME Ministry, India)

In India the 26 million small enterprises that qualify as Micro, Small and Medium Enterprise (MSMEs) under the 2006 MSME Act, according to the 4th All India Census of MSMEs (2006/07),¹⁶ produce 8% of the country's GDP.¹⁷ Of these firms, 1.5 million are in the formal sector, with 24.6 million in the informal sector. MSMEs employ 59.7 million people, of which just 9.5 million are employed in small enterprises operating in the formal sector.

Figures on the number of small businesses in South Africa remain sketchy with no official repository for data on the number of small enterprises. Noting this constraint, FinScope's 2010 South Africa Small Business Survey reveals that there are close to six million small businesses in the country and nearly 5.6 million small business owners. These enterprises are extremely small however: 67% employ no more than the owner themselves. In total, 300 000 businesses, or 6% of all entrepreneurs, employ five or more people. A further 1.5 million or 27% employ one to four people. And just 17% of small business owners run registered businesses.

According to statistics in the Department of Trade and Industry's Annual Review of Small Business 2006-2008, South Africa had 2.43 million small enterprises in 2007. Of these 595 000 were in the formal sector and 1.39 million were in the informal sector. A further 59 000 people above 65 years old were running a business and a further 431 000 were involved in subsistence farming. Small and micro enterprises contribute between 27% and 34% of South Africa's GDP.

Has the small business sector grown in all three countries in recent years? The answer is yes. In fact the small business sector has expanded at a similar rate in Brazil as it has in South Africa. However it is not easy to evaluate how the sector has fared in India relative to South Africa or Brazil because of changes in the classification of small businesses in 2006 by India, particularly as the new definition widened the number of businesses that could be classified as small, micro or medium.

¹⁵ <http://www.thehindu.com/news/states/tamil-nadu/article78585.ece>

¹⁶ More recent figures are not available for India: the 4th All-India Census of MSMEs was launched in May 2008 and its field work was only completed in March 2009.

¹⁷ These figures are from <http://smetimes.tradeindia.com/smetimes/news/top-stories/2009/Sep/01/sick-msmes-increase-marginally-says-4th-msme-census60059.html>. However While India conducts a census every four years by its Ministry for Small Businesses, the small business's share of India's GDP is likely to be higher hwoever as the MSME definition does not account for many small farmers and larger small businesses. According to some, MSMEs could account for 10% or less of all small firms (interview Fisme secretary general Anil Bhardwaj).

Turning to Brazil, the number of small businesses in the South American country's formal sector increased by about 28% between 2000 and 2008 – from 4.1 million to 5.7 million enterprises, this when the economy was growing on average at 3.7% a year.¹⁸ This is similar to South Africa, where the number of small businesses in the formal sector grew by 27% between 2004 and 2007 (from 422 000 to 536 000 registered enterprises) according to the Department of Trade and Industry (the dti).

Despite the growth South Africa experienced in the number of small businesses between 2004 and 2007, the sector appears to have been hit hard by the recession in 2008 and 2009. Anecdotal evidence of this appears in the 2009 Global Entrepreneurship Monitor (Gem) report, which revealed that the percentage of South Africans involved in early-stage entrepreneurial activity slid from 7.8% to 5.9%, as the number of start-ups compared to 2008 declined by 40%. Similar numbers on the effect of the recession on small businesses in India and Brazil are not readily available.

¹⁸ "Micro e pequenas empresas empregam mais da metade dos trabalhadores formais", Aqui PE, 31 August 2010: <http://www.agenciasebrae.com.br/noticia.kmf?canal=207&cod=10596251>

Box 1: On Small Businesses Data

Policymakers in South Africa need to focus on improving the collection and collation of statistics on small businesses in order to target more innovative, high-growth and knowledge-intensive businesses, which have been shown to create more sustainable jobs in the long term.

A lack of clear and accurate statistics is a major stumbling block to South Africa developing more effective policies and support schemes for small enterprises. On this, small business researchers SBP noted, in 2009, the need to improve data on the small-business sector: "We don't know how many small businesses there are, how many people they employ, or what the sector contributes to GDP. Because of the paucity of data, it's hard to say what works. You can't have evidence-based policy in the absence of evidence."¹⁹

Nowhere is the need for statistics clearer than when it comes to determining the effects the recent recession had on small businesses. The Minister of Trade and Industry Rob Davies commented in 2009²⁰ that, other than a few reports based more on anecdotal evidence than on hard facts, there were no concrete data on the impact the recession has had on small businesses. Mike Schussler of Economists.co.za said it was difficult enough to even get an accurate number on how many small businesses there were simply in survival mode. No one tracks the number of small businesses in the country, he pointed out. He believes Statistics SA, Cipro and the SA Revenue Service (Sars) should make more information on small businesses available. Said Schussler: "One of the ironies is we want to get the SME sector going, but we don't have any statistics on it."²¹

South Africa's statistics are typically derived from a variety of sources. Those from Seda are gleaned from annual labour force surveys, the Company and Intellectual Property Registration Office (Cipro) and the survey of employers and self-employed conducted between 2001 and 2005²².

In contrast, the Indian government carries out a census of its small-business sector every five years. This looks at, among other things, the number of businesses that are struggling as well as those forced to close their doors. The Statistics and Data Bank Division of the Office of the Development Commissioner of Micro Small and Medium Enterprises (MSME) collects, compiles and disseminates statistical information on various economic parameters such as the number of MSMEs in India, how many people the sector employs and fixed investment and production in the micro, small and medium enterprise sector. The census falls under a centrally sponsored scheme called "the Collection of Statistics". Based on the primary data collected through census and sample surveys, the time-series estimates on above economic parameters are maintained for use in the policy formulation and planning.²³

In Brazil, the country's small business support agency Sebrae launched a website in August 2010 called MPE Data (SME Data), www.mpedata.com.br, which carries statistics, official studies and facts about the world of small business. The site contains statistics on the number of SMEs in Brazil, their location, the degree of informality and the number of workers. The site uses Sebrae's own data and that of the Instituto Brasileiro de Geografia e Estatística (IBGE), the Departamento Intersindical de Estatística e Estudos Socioeconômicos (Dieese), the Receita Federal do Brasil e dos ministérios do Trabalho e Emprego, do Desenvolvimento, the MDIC and the Planning and budgeting ministry. According to the manager of strategy of Sebrae Francisco Cesarino, the information is updated every two weeks²⁴.

How have small firms fared in creating jobs?

While small businesses have been observed to create the most number of jobs in Brazil and South Africa, in India the average number of people employed in each small business has steadily increased in recent years.

¹⁹ SBP, 2009, "Accelerating small business growth in South Africa: A roundtable discussion".

²⁰ In an interview with Business Day in 24 November 2009.

²¹ "Lack of Statistics stymies score on recession impact", Stephen Timm, Business Day, 16 February 2010.

²² Review of Trends on Entrepreneurship and Contribution of Small Enterprises top the Economy of South Africa, 2000-2006, Seda.

²³ MSME Ministry's Annual Report 2009/10.

²⁴ Sebrae disponibiliza dados, estatísticas e estudos sobre pequenos negócios , 31 August .2010 : <http://www.agenciasebrae.com.br/noticia.kmf?canal=207&cod=10596251>

Small and micro enterprises create the most jobs in Brazil. Over a longer time horizon, studies have shown that between 1995 and 2000 96% of new jobs in Brazil were created by enterprises with fewer than 100 employees. The result is that 1.4 million jobs were added in this period (an increase of 26% while large businesses in comparison created less than 30 000 new places, with an increase of only 0.3%). In May 2010 micro and small businesses were responsible for 71.3% of the 298 041 jobs created that month, with micro-businesses of up to four employees contributing 48% of the total jobs created that month and small businesses which employ between 20 and 99 employees being responsible for the creation of 13.8% of new positions.²⁵ Brazil's state-owned Development Bank, BNDES, expects that 2.2 million jobs (up from 995 000 in 2009) will be created in the formal sector in 2010 and that 52.3% of these will be created by small and micro firms.

In South Africa between 1985 and 2005, 90% of all new jobs were created by small, micro and medium firms²⁶. According to Neil Rankin from Wits University 73% of employed people work for firms with fewer than 50 employees²⁷.

In India small enterprises are slowly growing in terms of the number of employees they take on. The average number of people employed by small, micro and medium enterprises has increased from 4.48 employees in 2001/02 to 6.24 in 2006/07²⁸.

It is clear that small businesses play a major part in all three economies. Not only do they employ the highest proportion of the workforce in each country, but in at least the example of Brazil and South Africa they create the most number of jobs. It brings home the importance of policies in all three countries to promote small businesses.

²⁵ Minister of Labour's Cadastro Geral de Empregados e Desempregados (2010).

²⁶ Finscope Small Business Survey Report, 2006.

²⁷ Quoted in the 2009 Gem Report.

²⁸ 4th All India Census of Micro, Small and Medium Enterprises.