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*Reflections on the  
impact of COVID-19 on  
small businesses  
(SMEs) in South Africa,  
September 2020.*

PROMOTION AND DEVELOPMENT OF SMALL BUSINESS IN  
SOUTH AFRICA, COVID -19 AND BEYOND



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The SBI welcomes feedback on this research and the resulting suite of papers, which can be submitted to Ms Leandre Swart at [leandre@smallbusinessinstitute.co.za](mailto:leandre@smallbusinessinstitute.co.za)

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## Background

The COVID-19 pandemic and containment measures imposed by governments have triggered economic hardship across the world, especially for smaller businesses. In South Africa, the suffering by small, medium and micro firms and the fate of these businesses particularly has been brought into sharp relief. Even before the advent of the pandemic there has been a decline, of some magnitude over the years, in the number of active small businesses and in the country's entrepreneurial stock.

In most parts of the world, SMEs account for the vast majority of firms, contributing disproportionately to their country's economy and especially employment. It is in these small businesses, and the aspirations of their business owners, where future organic growth opportunities are found - not in large-scale corporations. Small businesses drive innovation and competition in markets and form the backbone of many successful economies. In South Africa and despite years of lip-service paid to the importance of small businesses by government and big business, we are yet to achieve this reality.

The Small Business Institute (SBI), with support from mining house Exxaro is embarking on ambitious research in a COVID-19 world to analyse the situational environment for small businesses of South Africa. Conducted by small business research experts SBP, we will review and compare the ongoing findings and proposals from government, government agencies, academics, NGOs and the business community on the economic impact of the novel coronavirus over the next five months. We'll be looking closely at what's happening on the ground in two districts – one in the Free State and one in Mpumalanga – examining historic, systemic challenges for businesses and those wrought by the economic shock and devastation of COVID-19 in both a macro and micro context.

Small businesses – all businesses – were having a tough time of it before the appearance of the novel coronavirus. We will identify the activities, barriers, or mindsets that were holding these businesses back. There will be no point to layering clever, forward-looking initiatives on top of a foundation impeding business growth. Ultimately, we will make recommendations to support small businesses, whether formal or informal, to rebound and grow, ensuring greater economic activity and money flowing into the economy.

Our first reflective note focuses on the many surveys conducted during lockdown. We reviewed over 160 surveys and papers published since April. What has all the research output told us?

The novel coronavirus pandemic – and the measures to contain it - has hit economies in several ways. An acute and dramatic loss of demand and revenue for goods and services harshly affects a business' ability to function, causing severe liquidity shortages. Supply chains have been interrupted, workers have been laid off or furloughed and firms are unable to pay full salaries, or not at all. Consumers experience a loss of income, which in turn reduces spending and consumption. Sectors such as tourism, construction, and personal services have been acutely affected, contributing to reduced business and consumer confidence. These knocks have hurt all businesses – large and small – but their effect on smaller firms is especially brutal because of their higher levels of vulnerability to shocks.

## **How are South African SMEs faring?**

Never before has there been such a flood of research surveying small businesses in South Africa. As one of our business chamber leaders said, “our members are experiencing an intense survey fatigue.” We reviewed 22 surveys conducted in the period from April to September, all looking at the impact of COVID-19 lockdown measures on SMEs. There may have been more, but most covered similar ground and so we are confident we can assert the findings below.

In seeking to understand what the surveys are telling us; we have attempted to encapsulate some of their top-line findings. A difficult task given that the surveys posed different questions and used different sampling methodologies - ranging from informal, to small, to medium businesses – defined in various ways.

To identify common threads amongst all the surveys we attempted to summarise their findings into two main categories: “Impact” and “Expectations”. In each of these categories, we asked what the findings are telling us (and not telling us), the important questions that can show the lockdown effects on revenue, staff changes (including layoffs and intended), SMEs who had applied for relief funding and either receiving or approved for relief funding by the time of survey, small businesses that had closed, and how many businesses were reporting an increased adoption of technology in their operations. To cover “expectations,” we looked at what small businesses projected their survival rate to be, according to survey categories of one month or less, between one to three months, and between three to six months.

Because of the varied methodologies applied to the many different surveys, we focused on those that explored more than one sector, and which concentrated on formal, active businesses. Table 1 presents a snapshot of top line findings in the featured surveys offering insights into the impact of the COVID-19 pandemic on South Africa’s formal SMEs.

**Table 1: Top-line findings from surveys - Impact of Covid-19 on small businesses (SMEs)**

Month	Survey	Sample	Impact						Expectations		
			Drop in Revenue	Staff Layoffs (actual & intended)	Applied for Relief	Approved/received Relief	Digital Uptake	Closed Permanent	Survival 1 month or less	Survival between 1-3 months	Survival between 3-6 months
March	GEN22	1 20		Estimate 42 350 people will lose jobs in firms surveyed			63%			71%	
April	StatsSA (1)	707	85,4%	20%	38,2%				30%	54%	
April	StatsSA (2)	2 182	90%	36%				9%	30%	55%	7%
April	SASFIN	1 000	79%	53%					28%	45%	12%
April	(Heavy Chef) Combat Covid	2 280	89%	71%	50%	32%	54%			75%	
May	SASFA	2 300	70%		47%	32%*				75%	
May	Nedbank	1 000	65%	26,8%	92%		57%		10%	57%	
May	ISI	1 012	82%	12%	73%	29%				86%	
May	Visa Covid Tracker	150	70%	91%							
June/ July August	Redflank	1 800	76%	43%			36%	4%			
July	TransUnion	659	96%	59%		3%**			6%	26%	17%***

\*Reported that 47% applied for govt relief and only 32% of those were successful, implying that only 15% of SMEs with turnover of below R10m per annum had any support.

\*\*refers only to businesses that received support from govt & private sector SMME relief funds. 73% of respondents received mix including UIF relief, payment terms, credit payment holidays, tax relief, credit extensions, discounts.

\*\*\*24% of respondents didn't know how long their businesses could survive.

The surveys featured in Table 1 indicate alarming disruptions affecting small businesses. They show the extreme concern of SME business owners about the debilitating impact of the extended lockdown

containment measures on their liquidity position, ability to retain staff, pay their bills, and the very survival of their businesses, with very few expecting to survive after three to six months of lockdown.

The magnitude of concerns can be confirmed by correlations found in consumer sentiment. Findings from TransUnion Consumer Hardship Study conducted 23<sup>rd</sup> of July ring many alarm bells. Of the consumers surveyed, 91% were concerned about how they were able to pay their household bills and 20% of them reported having lost their jobs. Most perturbing is that of the consumers most affected, 60% of them are employed in small and medium firms employing fewer than a 100 people. TransUnion also point out that, generally, there is a lag of three months between the time when a business falls into financial distress and when the business distress falls to the shoulders of the principal owner. The study predicts an uptick in the coming months in default debt, from a general rate of 4,08% to 6,4% with pain being felt most in small to medium businesses employing fewer than a 100 people.

A later study at the end of August from Trans Union added another important dimension to the impact of COVID-19, namely that young people are the most affected by salary reductions or loss. Some 81% of Millennial, 76% of Gen X and 75% of Gen Z consumers are having to borrow to increase their cash flow. Further, Gumtree surveyed 2,400 young people, finding that 64% had moved home. As the Q2 Stats SA Real Economy Bulletin points out, the withdrawal of both the Temporary Employee/Employer Relief Scheme (TERS) and the additional social grant distribution (some 4.5 million new grants, according to the NIDS-CRAM WAVE 2 study) will further reduce household disposable income. This after Southern Africa Towards Inclusive Economic Development (SA-TIED) affirmed that social grants had cushioned the impact of COVID-19 on the very poor, with most households continuing to receive 70% of their total income.

Several countries across the world have introduced policy measures to mitigate the impact of the pandemic on small business' liquidity and protect livelihoods. A survey by the Organisation of Economic Cooperation and Development (OECD) that tracks these measures regularly across 51 countries, including South Africa, listed the variety of policy responses introduced by governments. Many countries are providing wage and income support for temporary layoffs or for companies to safeguard employment. Some have introduced measures specifically focused on protecting the incomes of the self-employed. To ease liquidity constraints, measures towards deferral of tax, social security payments, debt payments, rent and utility payments have been introduced in most countries. Countries have also introduced, extended or simplified provision of loan guarantees to enable commercial banks to expand lending to SMEs. Most countries have stepped up direct lending to SMEs through public institutions and are also increasingly using non-banking financial support intermediaries in the policy mix. Several nations are putting in place structural policies to help SMEs adopt new working and digital technology to find new markets and sales channels, and some have introduced specific schemes to enhance the governance of SME policy related measures.

New Zealand has some of the most progressive policy related measures, including regulating credit card fees so businesses can keep a higher percentage of their sales; pushing out interest payments on the government's cashflow loan scheme from one to two years as well as investigating more permanent support schemes; and promoting e-invoicing and paying small suppliers in ten business days. Unfortunately, the UN Economic Commission for Africa surveyed 54 countries on the continent to find that businesses across Africa have been 'disappointed' by their governments' responses and would like to see them postpone tax payments and make more capital available, at the very least.

As a case in point, our government's loan relief support to South African small businesses failed miserably. Table 1 indicates the low uptake found in a number of surveys. According to media and parliamentary reports, only a fraction of small businesses received loan relief promised by government. Of the R200 billion set aside by government for business assistance only R13 billion had been lent by government, assisting approximately 10 000 businesses by August. The dismal performance has much to do with obligatory compliance measures to access government's loan relief. Qualifying businesses had to be South African owned and employing a 70% majority of South Africans. Many survey respondents said they did not apply for relief fearing they 'wouldn't qualify.' Informal traders and township businesses who were unable to trade for months in the hard lockdown stages, were required to obtain a licence to operate from the local municipality; register with the CIPC, the revenue authority SARS and Unemployment Insurance Fund (UIF). This is time consuming and difficult to do under normal circumstances, nearly impossible in a hard lockdown. In June, the Minister of Small Business Development - charged with dispensing government's loan relief - reported to parliament that her department had formalised over 2, 242 spaza shops during COVID-19, processing applications from another 4,406. These represent under 3% of the 150 000 FMCG retailers in township mapped by AfricaScope.

Seemingly, government's motivation has focused more on formalising informal businesses and collecting their data than providing financial aid to distressed businesses during COVID-19. A survey by the Small Enterprise Foundation (SEF), which has 216 000 informal sector entrepreneurs on its loan book found this to be case. Their survey revealed that only 12% of their clients had bothered to apply for business permits to access government's loan relief, stating that even fewer will likely have applied for loans from government. In an extended radio interview, Economist Xhanti Phayi exhorted government not to "register them or their businesses; let them work freely, be enterprising."

Fortunately for many small businesses, financial relief funds donated and managed by the NGO and private sector have compared better. Pro-poor developmental microfinance groups have collectively provided 184 000 loans since April, worth R733.6 million. About 97% of the loans were disbursed to rural based informal and micro enterprises, with the balance of 3% going to township entrepreneurs.

The Sukuma Relief Programme, with funds of R1 billion donated by Johan Rupert, is to be fully invested by the end of September. Reporting to parliament in August, the Sukuma Fund granted immediate non-repayable R25 000 survival grant to qualifying SMEs and soft loans ranging from R25 000 to R1 million. These soft loans bear no interest charge, nor require the repayment of capital for the first 12 months after which interest is charged at prime. Sukuma reported in mid-August, their mix of survival grants and soft loans to sole proprietors and SMEs have saved 31 000 jobs thus far. And giving new meaning to 'paying it forward', repayments from small businesses are structured over four years so that they will in turn provide funds for other SMEs in need of financing.

At the beginning of August, the Banking Association of South Africa (BASA) reported that banks had provided R45.56 billion in financial relief and loan guarantees – R12.96 billion to businesses and R19.34 billion to individuals. Loans extended by banks under the Covid-19 Loan Guarantee Scheme amounted to R13.26 billion (a far cry from the envisioned R100 million guaranteed by the National Treasury).

Commendable as they are, loan relief schemes to sustain small businesses through the COVID-19 crisis adopt debt financing instruments. As a consequence, SME debt might rise significantly, which poses a future



challenge to business solvency. It can be said that loan relief provided to businesses in a crisis is an artificial, short-term solution. What small businesses need immediately to recover is improved cash flow and a diversifying customer base.

The high percentile drops in revenue (80% to 90%) reported by SME business owners in surveys shown in Table 1 are concerning. They indicate the fragility of small business and their vulnerability to shocks, pushing them into loss-making territory; many do not have sufficient cash reserves to survive between one to three months. Low survival rates will place the lack of buoyancy of our economy's small business segment harshly in the spotlight. Even before the advent of the novel coronavirus pandemic, the number of actively producing small businesses in our economy has been stagnant since 2004. Findings from our initial study conducted in 2018, fundamentally changed the assumptions of what we know of South Africa's small businesses. They showed that micro, small and medium enterprises constituted the majority of the business community in the economy in terms of numbers (98,5%). We found by analysing the Corporate Income Tax (CIT) and employment pay-as-you-earn (PAYE) tax filings that there were 267 959 formal businesses that formally employ people. Using these earlier findings, the GEN 22 on Sloane survey now estimates 55 000 SMEs will not survive extended lockdown and the COVID-19 pandemic. They also calculate that there could be 423 000 potential job losses in the small business segment.

South Africa's economy shrank by an annualized 51% in the second quarter, which according to analysts is its worst quarterly decline in at least a century and one of the steepest contractions recorded by any major economy during the coronavirus pandemic.

Research house Intellidex has warned that South Africa's economic contraction may become permanent, and job losses in the region of 1.7 million have been estimated. Official statistics released in the Quarterly Labour Force Survey (QLFS) on 29 September by Statistics SA report 2,2 million jobs were shed in Quarter 2 of 2020. And Enomix has cautioned that South Africa is on the precipice of becoming a failed state. They have given SA's development ranking a 75% chance of falling near the bottom of over 180 countries in respect of governance, prosperity, security, welfare and fragility.

This paints a picture of a very unlikely recovery in the medium term. Even with an up-tick in transactions as life stirs again in many, if not most sectors, businesses may never make up the losses they incurred in lockdown. And even if their customers start finding ways to pay what they owe; it may very well be too late. Their employees may never recover from what has happened to their credit records. The loss to the fiscus in VAT and income and PAYE and corporate tax will hamper infrastructure and other projects envisioned to kick-start the economy.

### **Some good news**

While it is indisputable the novel coronavirus has brought devastating social and economic consequences to the world, the disruption has positively accelerated the adoption of technology and countless new digital innovations. Long-term changes in consumer and work behaviours brought about by the pandemic will shape new business models in the decades to come.

During lockdown, because consumers reduced their frequency of visiting physical stores, 37% of South African consumers increased their online shopping activity, according to Nielsen. DisChem alone reported a 344% rise in online sales. Uptake of digital shopping would surely have been higher had we avoided regulations prohibiting the sales of certain items and e-commerce specifically. But in the rest of the world, Microsoft suggested that two years of digital migration happened in two months and McKinsey believes that ten years of e-commerce penetration growth happened in three. Locally, Rand Merchant Bank (RMB) estimates there are now around 5,000 businesses online in South Africa with a turnover of R100,000 or more and expects e-commerce to grow by 150% and be worth R225 billion in South Africa by 2025. And the UN's digital marketplace explorer ranks South Africa number one in digital marketplaces on the continent with over 100. Some 652 million people visit the shopping platforms a year.

A global study of 20 countries by consulting company Accenture is showing that home is now the new frontier; it's become the workplace, the schoolroom, the place to try new hobbies, the space for entertainment and the place to socialise.

The "buy local" trend is also accelerating around the world, consumers are consciously sourcing locally produced products; the Accenture study found 56% of consumers buying more locally sourced products, with 84% of those saying they plan to continue to do so in the long-term. It will be worth watching this trend as more regional supply chains, which can be bolstered by the nascent African Continental Free Trade Area, will be able to support this impulse and protect South Africa businesses from import/export disruption. Market research studies are also showing a move away by consumers from conspicuous consumption to more conscious consumption; consumers are becoming more mindful of what and how they buy. Businesses must account for this new reality; they will need to move away from traditional tactics to becoming more creative and innovative using technology available to us and in engaging consumers.

We're already seeing this in many examples. Vodacom, MTN, Telkom, Facebook and UBU – among others – have all launched B2B and B2C tech platforms where small businesses are invited to sell their products and services, with many offering digital microloans. In April, a blockchain collaboration between government, academia, business and civil society was announced. The South African National Blockchain Alliance (SANBA) will look at blockchain-related research, adoption, development and innovation.

But even more exciting are some of the new or expanding businesses either precipitated, or boosted, by COVID-1. Others found the ability to adapt to the new environment by cleverly using the technology already available to anyone with a smart phone. For example: Whatsapp, Instagram, Facebook and other platforms designed to foster networks became marketplaces; a company launched to rent mobile and hardware devices. Other ideas brought to life that we found include apps facilitating township deliveries and mapping; a company providing both lighting (solar) and internet access (WiFi) in rural areas and townships; the sharing economy extending into an 'uber' for tractors; and we have a new recruitment platform that matches jobs anywhere in the world with African data scientists.

The pandemic has also caused government bureaucracies to spin into action quicker than ever before from approving medical devices and testing methods to the use of smartphone technology to trace infected people. Hospitals in China and care facilities elsewhere popped up in record time and here at home, many of our government's databases were centralised to disburse food parcels to South Africa's most vulnerable.

The greater use of technology is expected to drive governments to adopt more and more e-government practices across the world, making them more efficient, less bureaucratic and citizen-centric.

And let's not forget how technology can boost our economy and job prospects for so many people. Genesis, in a discussion document for an ICT and digital masterplan for South Africa, cites research from PWC that claims digital economy contributed approximately 15% to global GDP, or \$11.5 trillion and is expected to hit a 25% contribution in five years. Further, global ICT-related employment grew by five million jobs between 2010 and 2015. Accenture believes that South Africa's digital economy could add 3% to GDP, or \$12 billion.

What we need to get right

As the world shifts gears to match an accelerating digital world brought about by the pandemic that will critically define how people behave and do business in the decades to come, South Africa remains mired in policy uncertainty and institutional failures that continue to hold back our country's ability to advance technologically. Despite announcements made over the years of the broadcast digital migration and release of high-demand spectrum, these remain empty promises and are just two examples of the policy, regulatory and administrative failures by government. Amy Musgrave, writing for New Frame puts it succinctly: "There is still no policy to lead the country to the promised land of 4IR...Nothing better illustrates the mismanagement of the process to allocate spectrum and the resulting policy uncertainty, than that 11 communications ministers have presided over it since 2009." Into the mix, add the state of our power utility and ongoing power outages – use of technology and digital advancements are fundamentally dependent on a stable power supply.

The disruptive effects of the pandemic will usher in a new, global wave of technology innovations and start-ups. South Africa will be left far behind unless government acts speedily and with creativity to resolve the logjam brought about by its lack of political will to execute hard decisions, and to cease introducing more layers of uncertainty into an already toxic regulatory mix brought about by policy indecision. Better regulations, avers the OECD, would "crowd-in business investment, technology adoption and human capital accumulation, leading to multiplicative effects". Without change, South Africa will not be able to embrace new digital methodologies emerging across the world – reliving the ghost of our wasted commodity boom years and scoring, yet again, our own goals.

South Africa requires a reboot based on a new paradigm of thinking that is focused on reality and not fixated in dogma; that presents a clear-eyed vision for people to creatively - and freely - engage in economic opportunities in a world of new realities.

This reflective note has focused on impacts of the COVID-19 pandemic on our small businesses; already it shows emerging lessons for policy makers. As we continue with our research, we will be focusing on four key areas of importance as potential priorities for policy makers and for big business to constructively engage. The principles of localism and government's new district-based planning model offer considerable opportunities for a "bottom up" approach to economic development and recovery. We will be exploring, through a new lens, the concept of "formalisation" of businesses and what this means in a new world. Our investigations into the macro environment will present recommendations to government to resolve the

regulatory systemic hurdles that have impeded our small businesses to start, run and grow and finally, we will delve deeper into the digitalisation of our economy and opportunities for small businesses.