

Measuring the Pulse of Firms in South Africa

Results from the COVID-19 Business Pulse Survey



Department of Small Business Development
The World Bank



How COVID-19 is affecting firms

COVID-19 shocks operate through many channels, but the magnitude and who is more affected is hard to predict.

The **COV-BPS survey** measures the impact of shocks on firms' sales and employment, their operations and their expectations.



Lockdown effects

Public health measures require non-essential businesses to close

Temporary shock, targeting non-essential businesses, mostly in **retail, hotels/restaurants** (tourism) and **personal services**.



Supply shocks

Decline in labor and intermediate inputs, global value chains disrupted

E.g., firms that **rely on imports** are affected.



Financial shocks

Opportunities for finance becoming further constrained

Deterioration in availability of credit while demand increases will affect access to finance



Demand shocks

Economic downturn drives down demand domestically and abroad

Broad-based shock. Will especially hit firms producing **durables, apparel/textiles** and those **reliant on export** (manufacturing & services – e.g. tourism).



Uncertainty

Uncertainty is driving down investment and innovation

Contents of this presentation

- Survey overview and approach
- Results
 - Impact of COVID-19 on firms
 - Use of digital solutions
 - Policies and government support
 - Outlook

Survey Sample

2,226 firms were surveyed, sampled from client lists of the DSBD (mostly micro, small and medium-sized firms).

Interviews were conducted over the email (1788) and phone (438), between 15 May and 1 June.

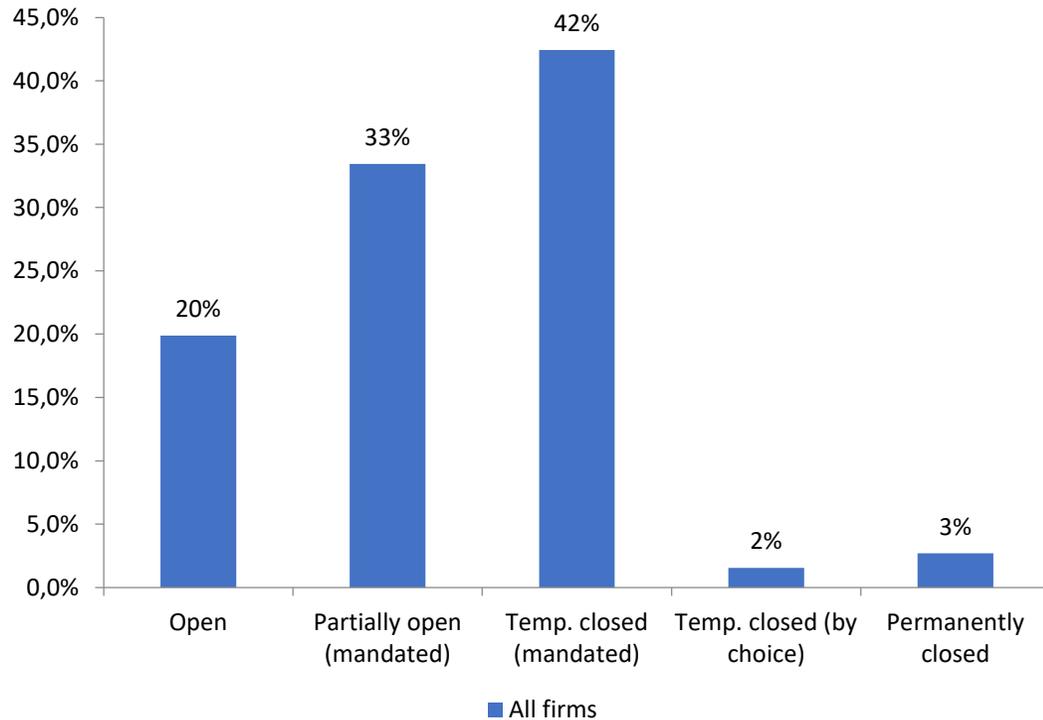
South Africa found itself in **Level 4 of the lockdown**, meaning that most non-essential businesses remained closed.

Impact of COVID-19 on firms

Only half of all firms are partially open or open

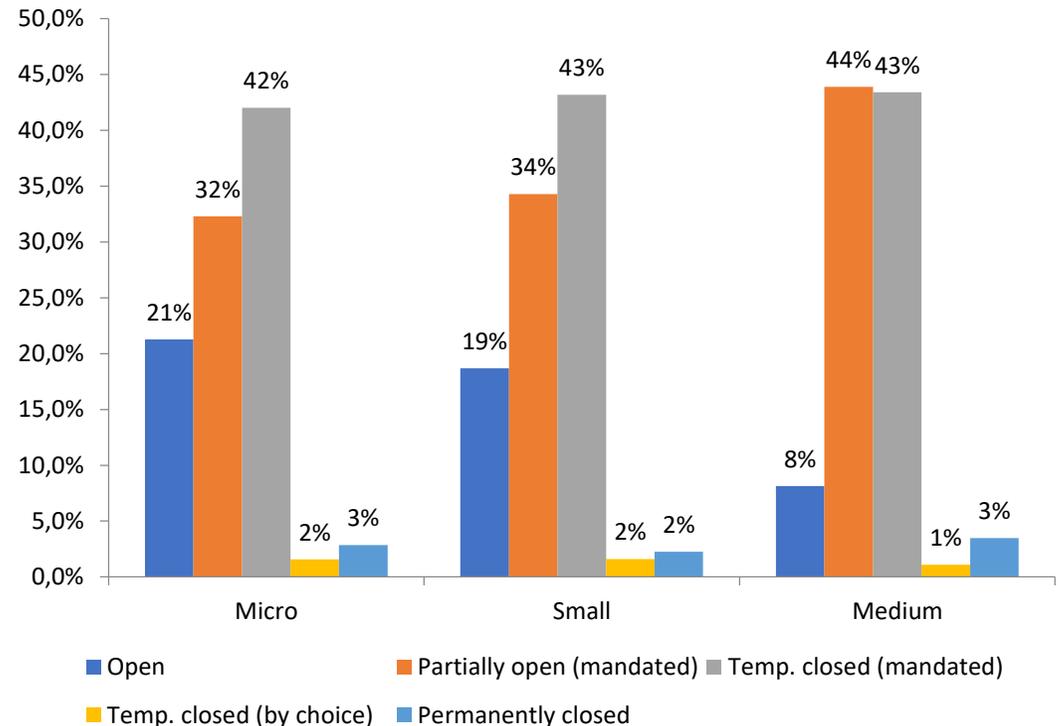
Approximately half of all firms surveyed were partially open or open.

Operating status of firms:

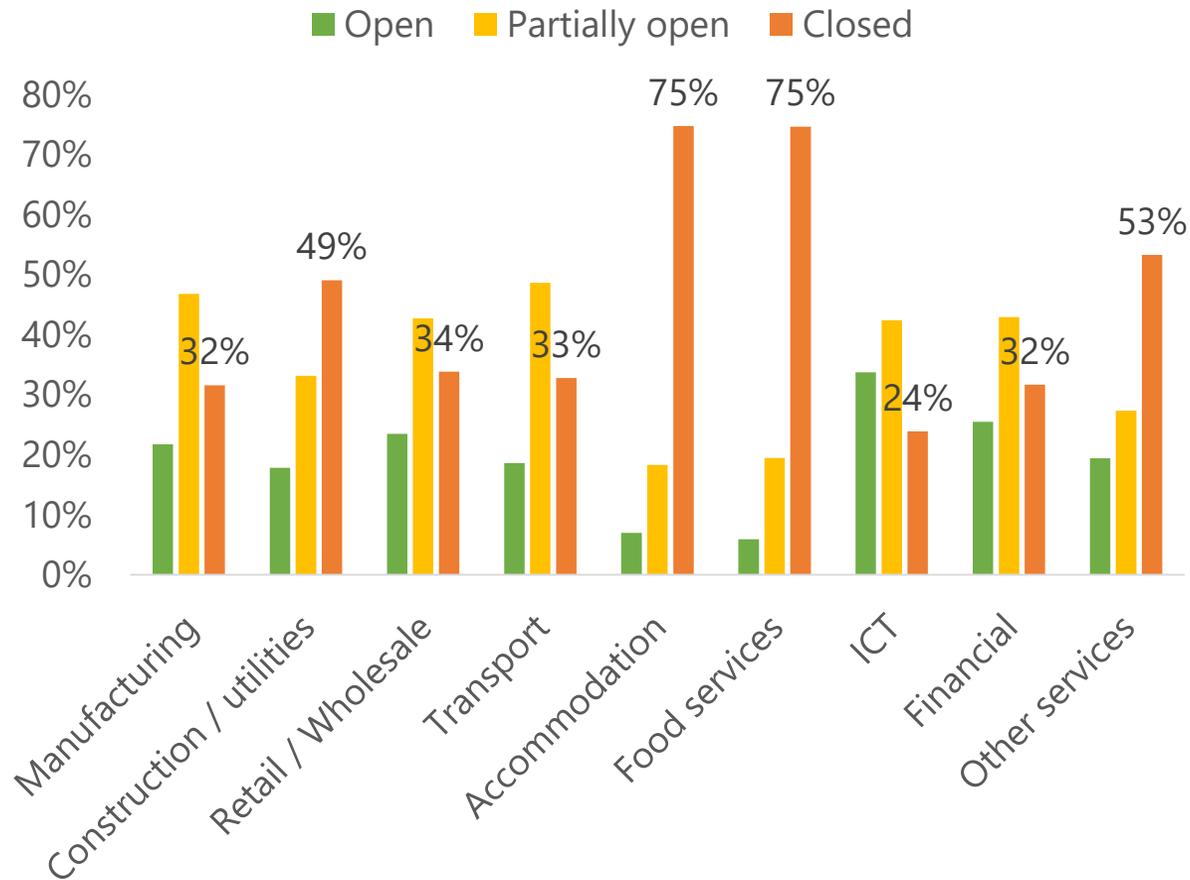


Firms of all sizes were affected by partial and temporary closures.

Operating status per category:



Accommodation, food services and other services saw the most closures



Consistent with the public health measures taken, many non-essential businesses remained closed.

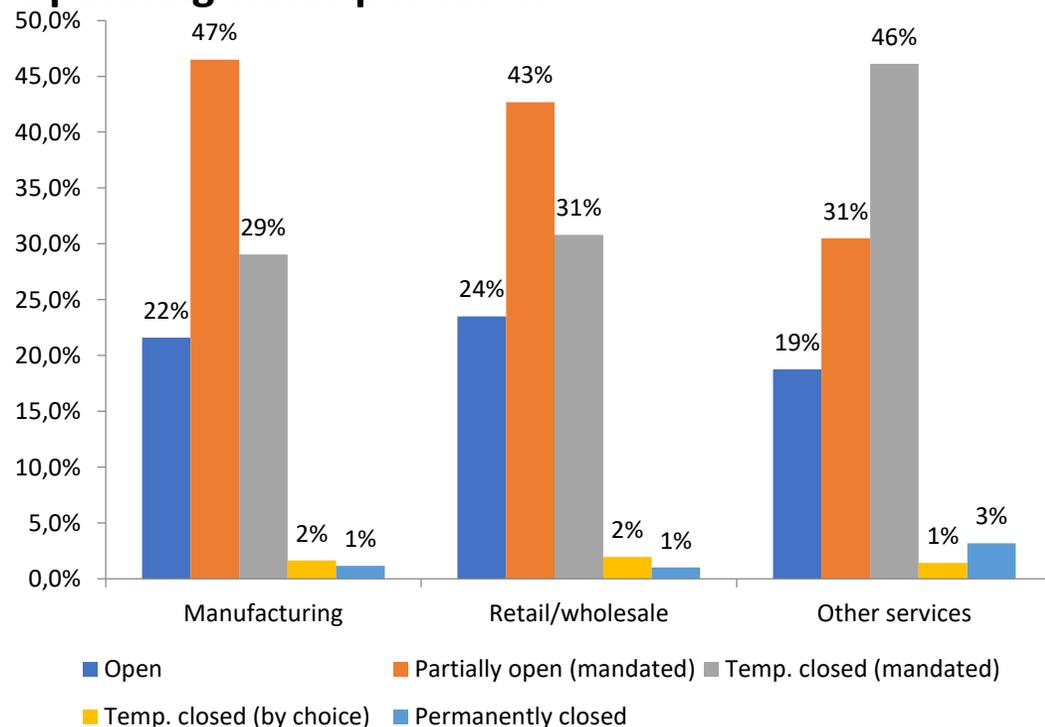
The highest rates of closures were reported by **accommodation** and **food services** (75 percent), **other services** (incl. personal services; 53 percent) and **construction** (49 percent)

Informal firms and services firms are more likely affected

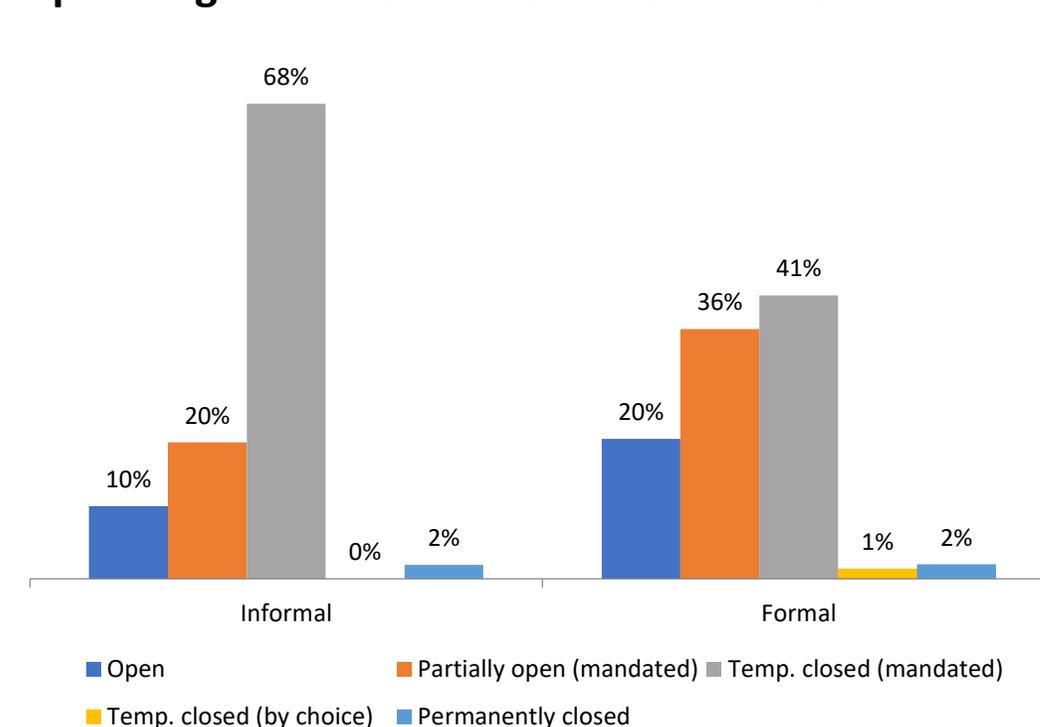
Firms in the services sector were more likely to be temporarily closed.

Informal firms temporarily closed at a higher rate, compared to formal firms.

Operating status per sector:

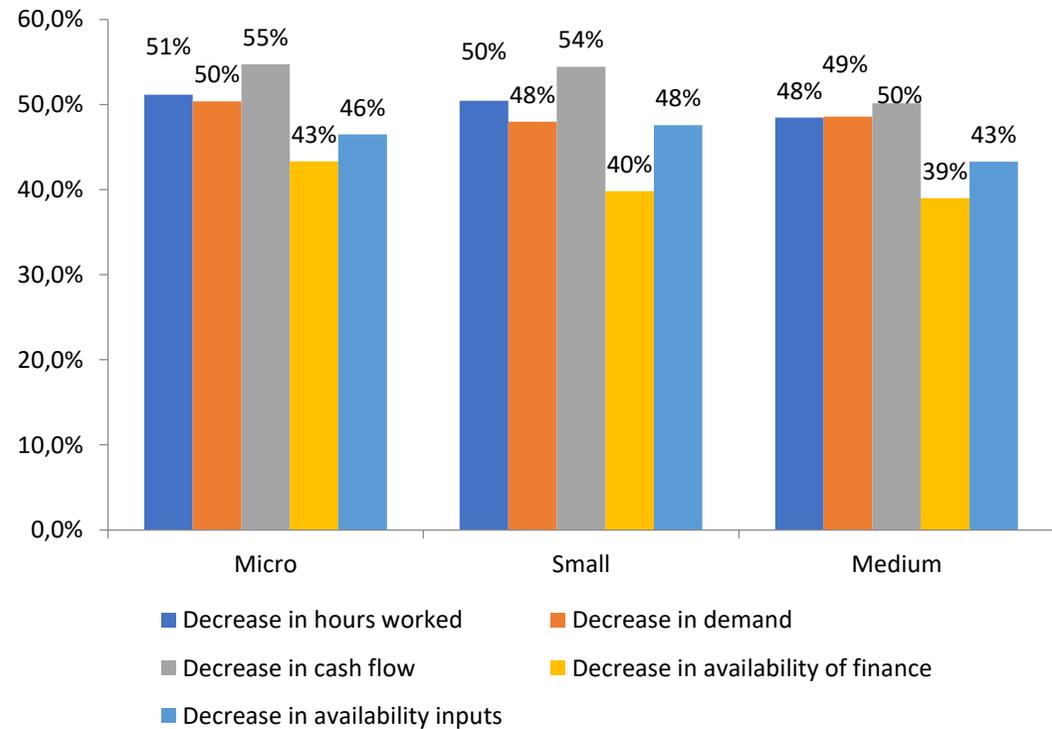
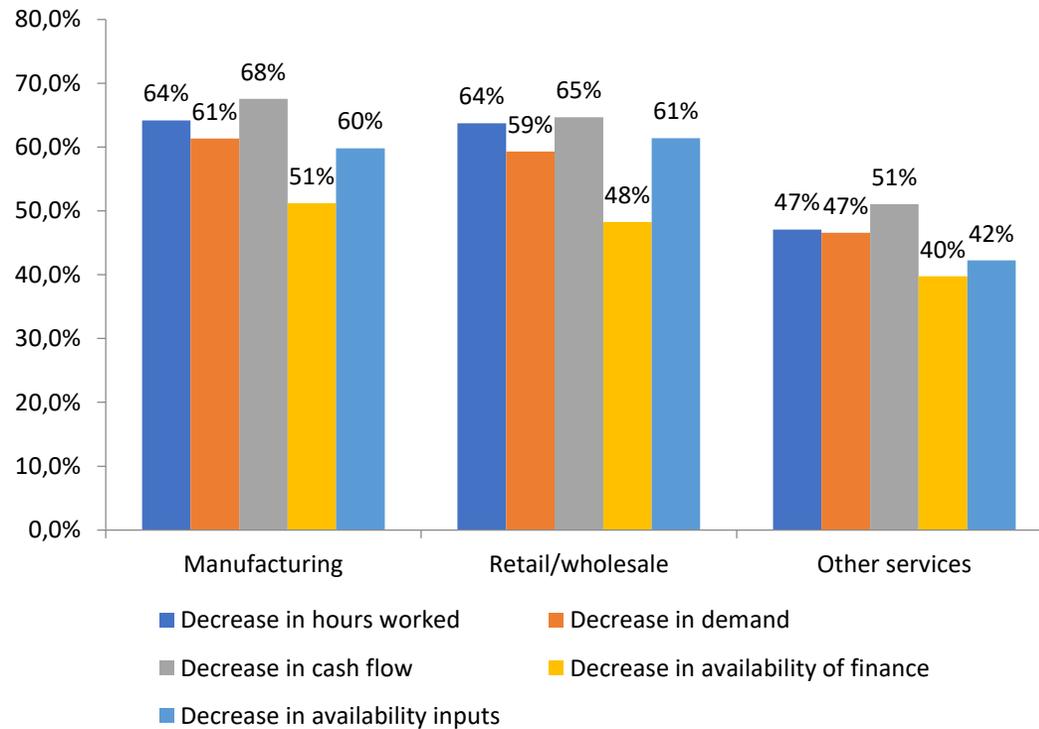


Operating status of formal and informal firms:



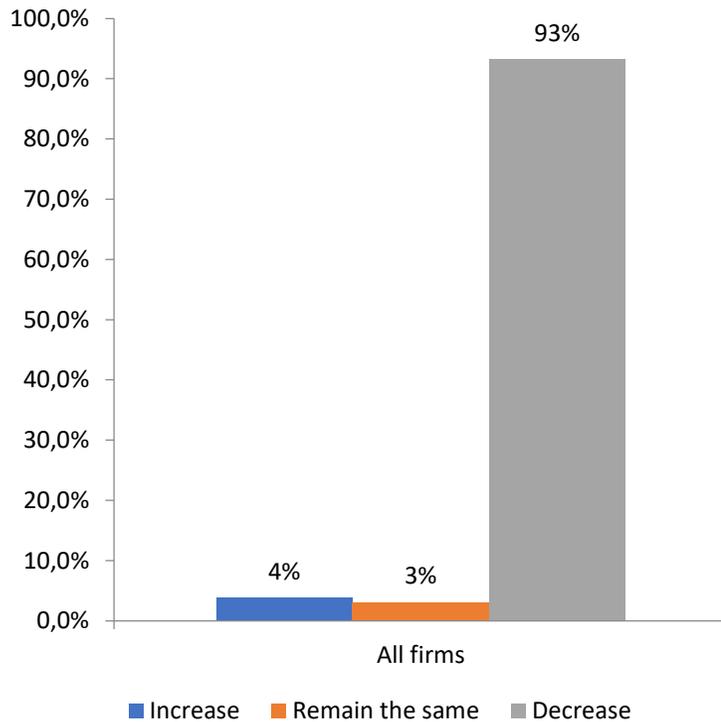
Firms affected by multiple channels at the same time

Firms in all sectors and of all sizes have been adversely affected through multiple channels, with a decrease in cash flow being the biggest challenge, followed by a decrease in hours worked and decrease in demand.

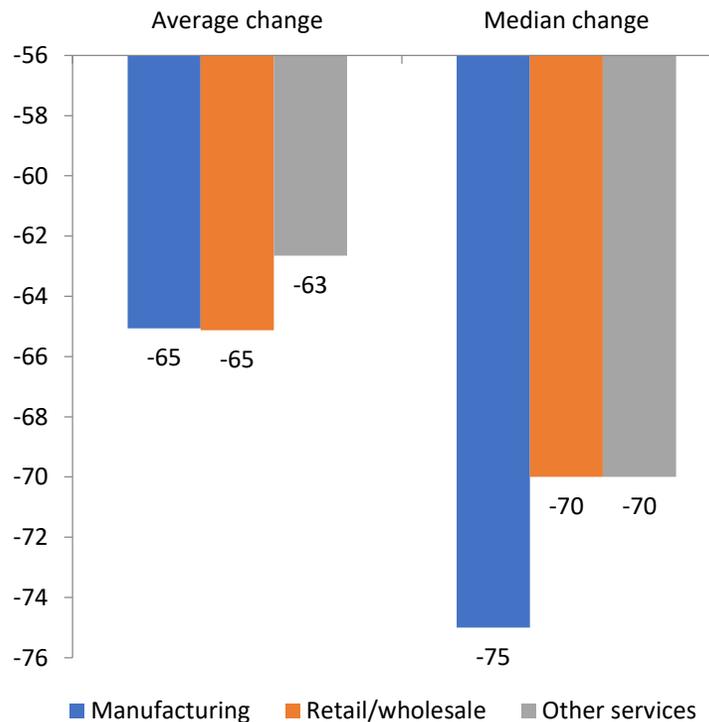


More than 90 percent of firms saw a decline in sales

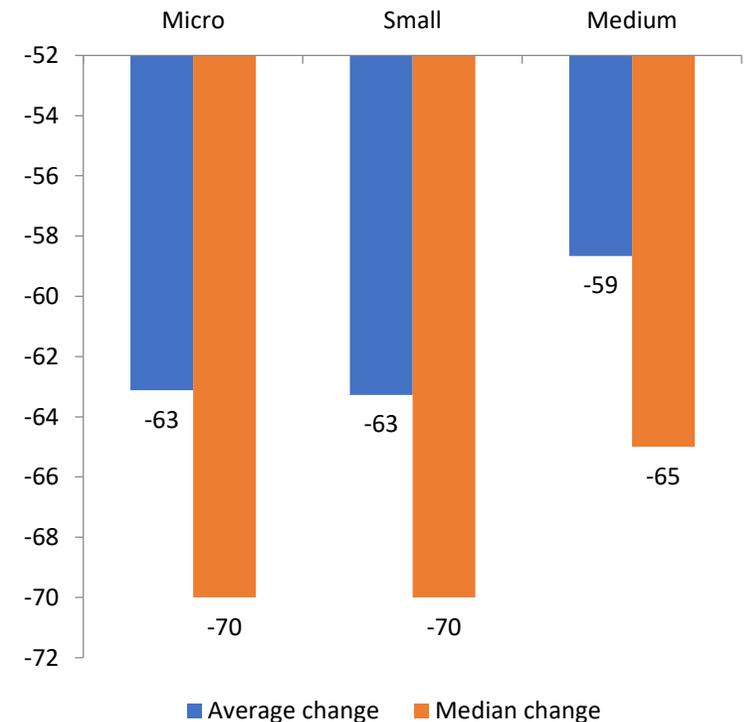
At the time of the survey, 93% of businesses saw a decrease in sales.
Change in sales, by firms (%)



Manufacturing, retail and other services saw a decline of 70-75%.
Change in sales (average and median)

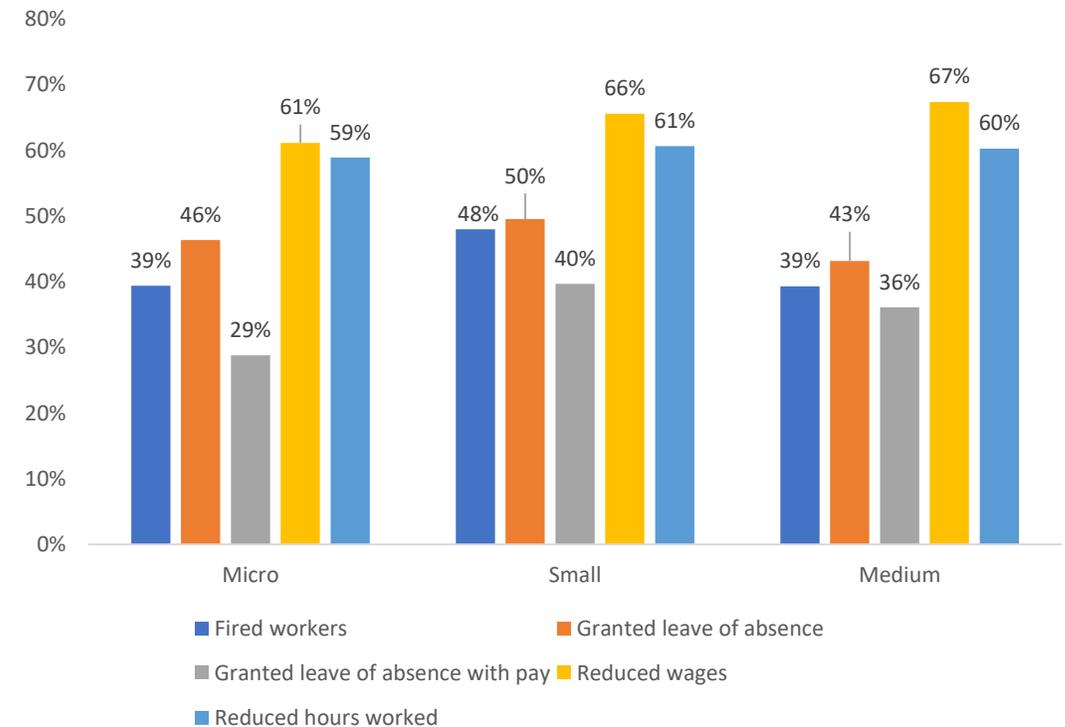
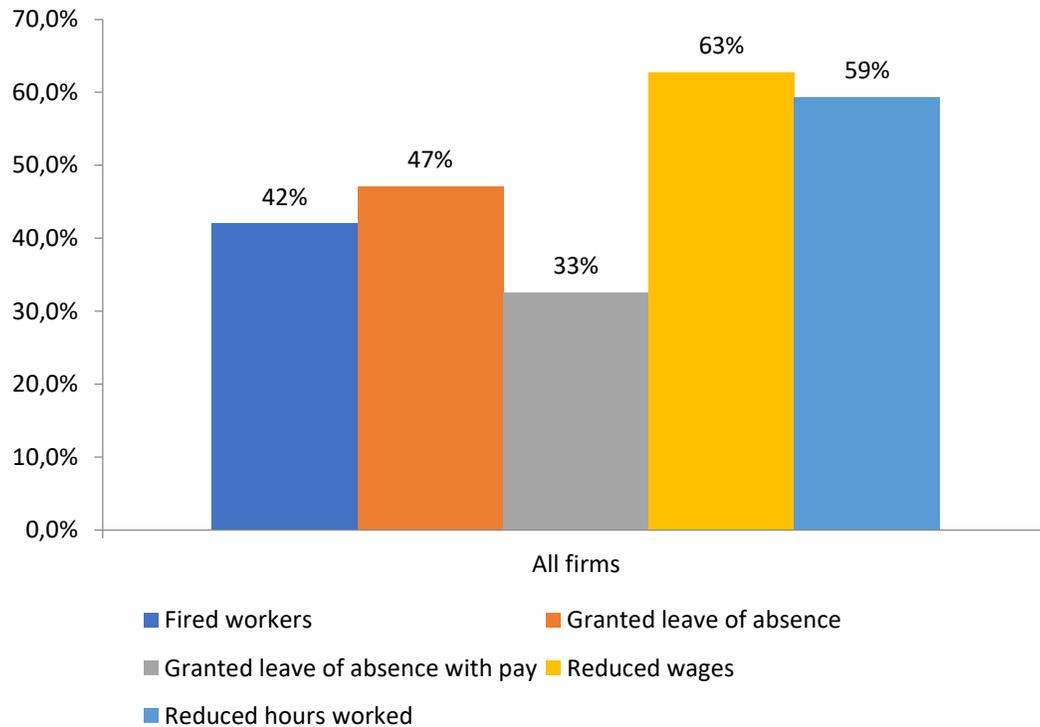


MSMEs had a larger decline in sales than large firms.
Change in sales (average and median)



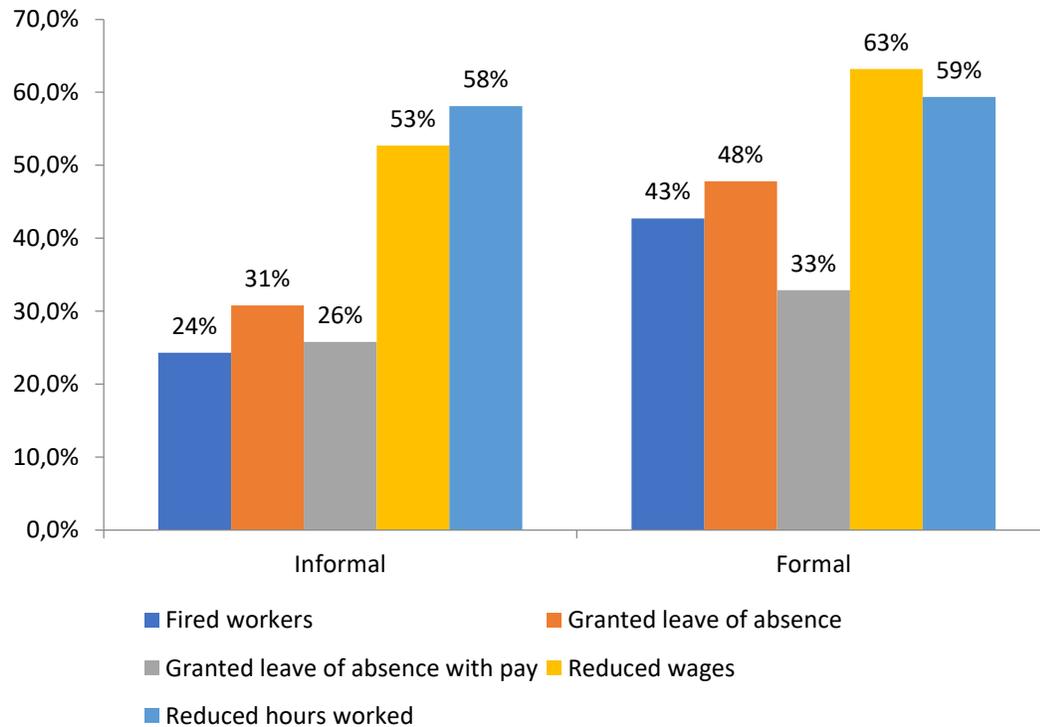
Firms responded by cutting wages and working hours and firing workers

Across firms of all sizes, the employment response to the pandemic has been dominated by a reduction in wages, followed by working hours.

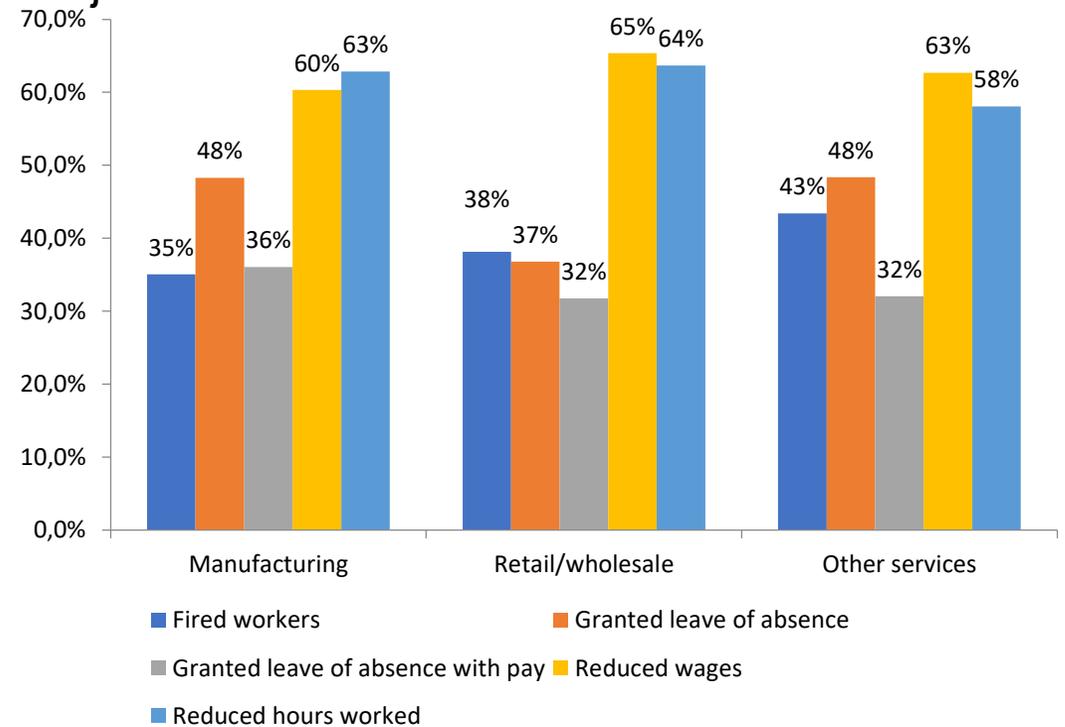


Firing workers has been more common in formal businesses

Formal businesses reported firing workers nearly twice as much than informal businesses.



Reduction of working hours and wages were the two most common labor adjustments across sectors.

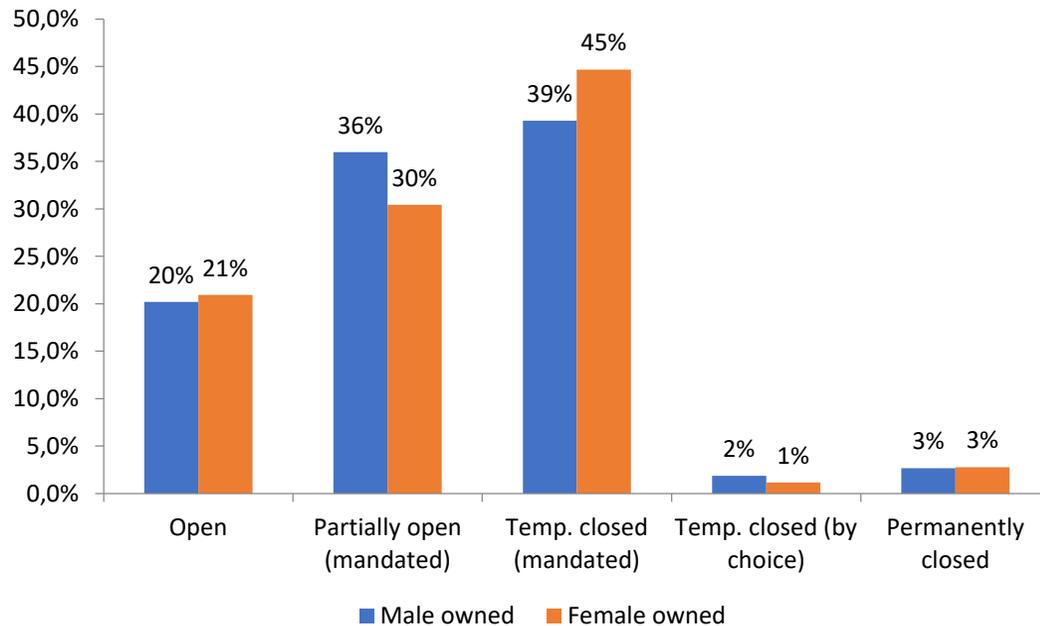


Impact on female-owned businesses

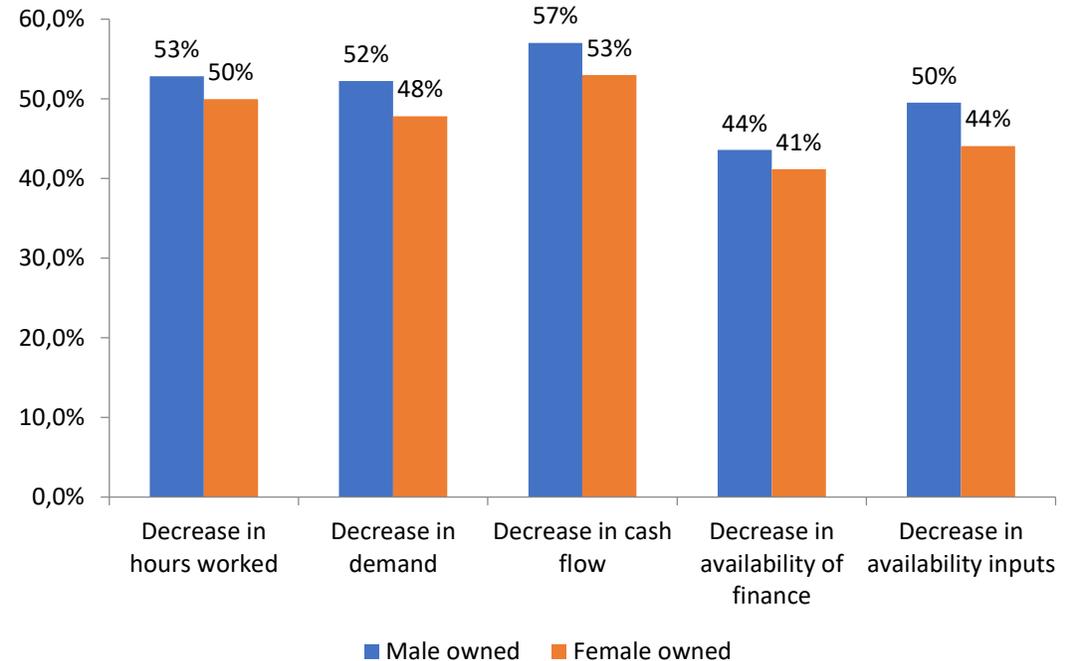
Female-owned businesses reported more closures than male owned businesses (even when controlling for other factors).

But of the businesses that are open, the differences between male-owned and female-owned businesses are small.

Operating Status



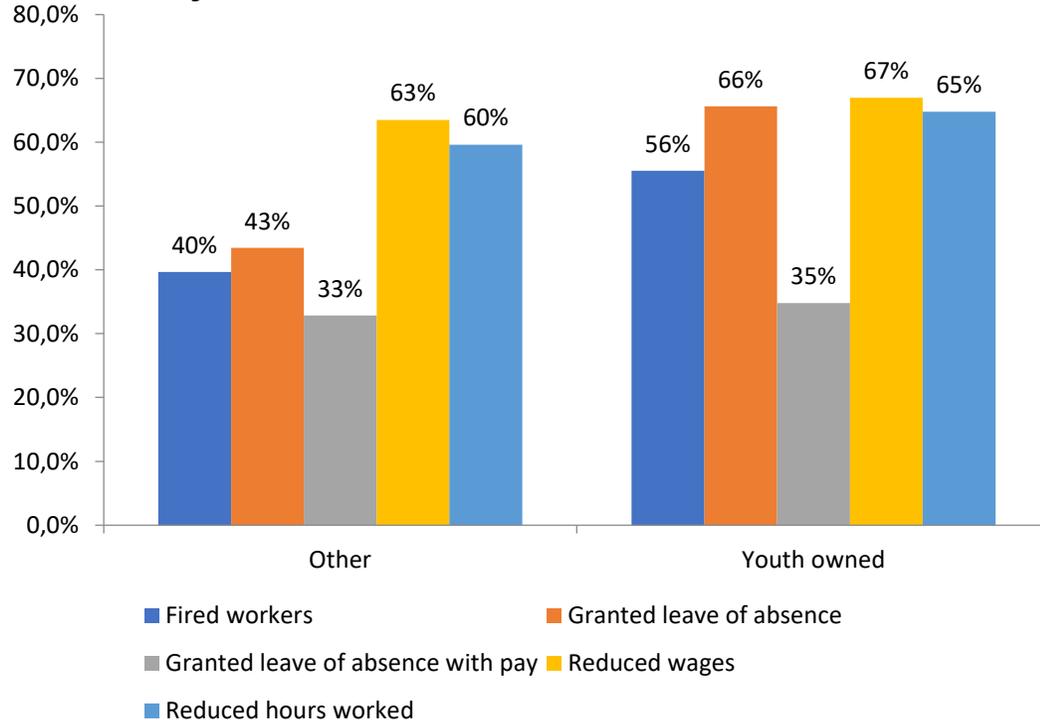
Channels affected



Impact on youth-owned businesses

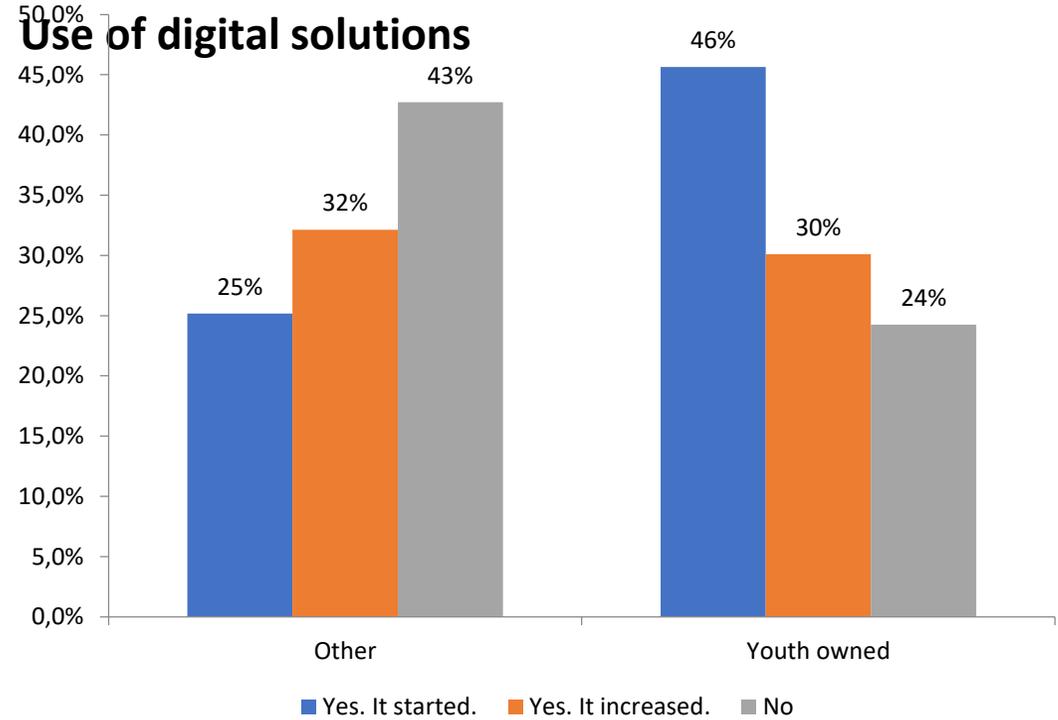
Youth-owned businesses reported higher rates of firing workers and granting unpaid leave of absences compared to other businesses.

Labor Adjustments



76% of youth owned businesses started or increased their usage of digital solutions during the pandemic, compared to 57% of other businesses

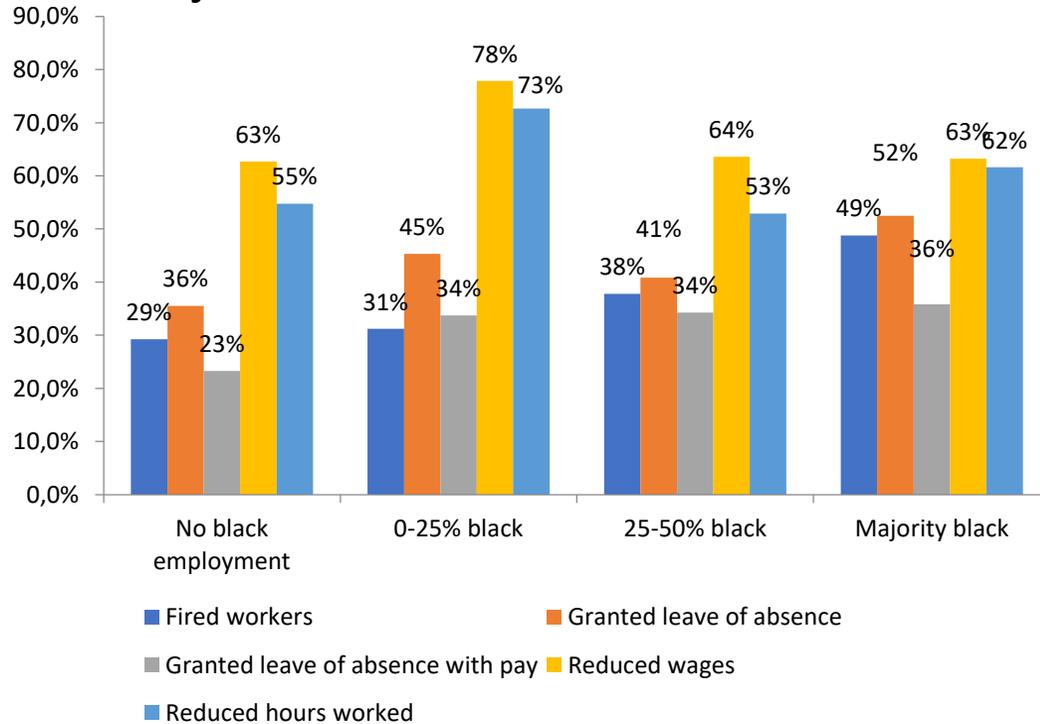
Use of digital solutions



Impact on business with majority black employees

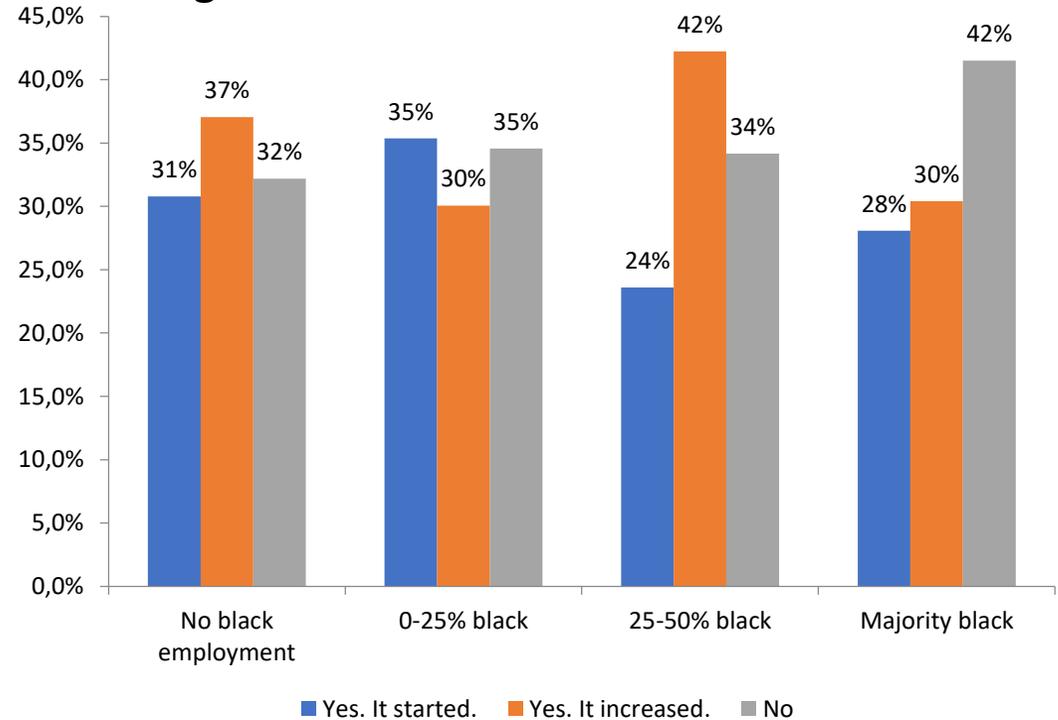
Firms with majority black workers reported firing workers at substantially higher rates.

Labor Adjustments



Firms with majority black employees were less likely to use digital solutions.

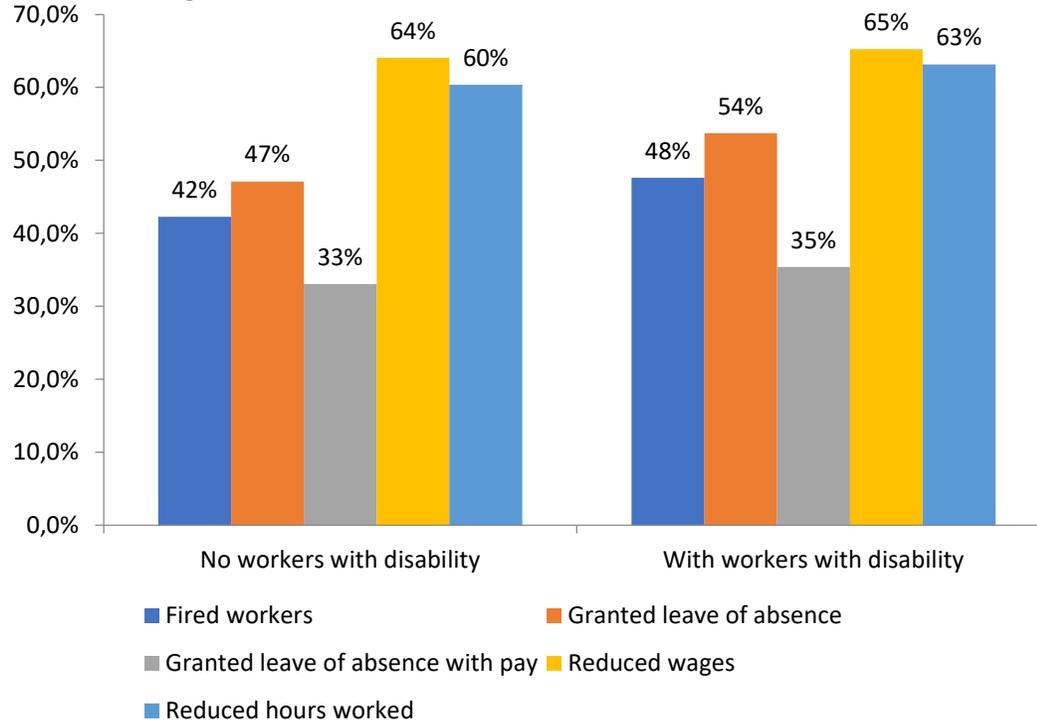
Use of digital solutions



Impact on businesses with disabled workers

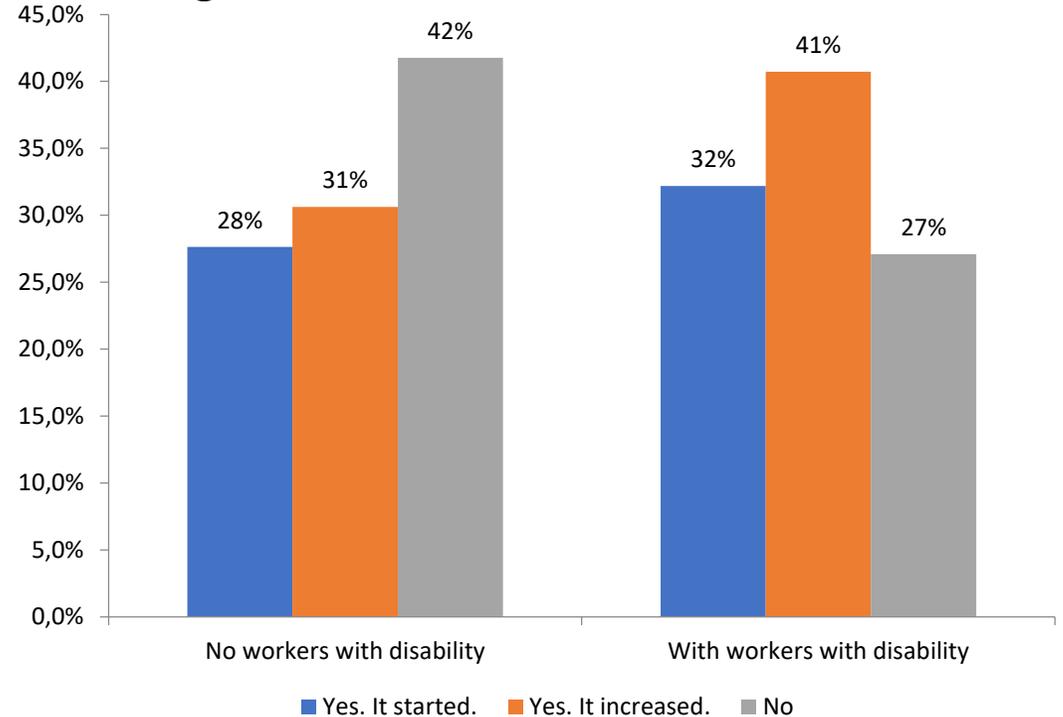
Firms with disabled workers reported slightly higher rates of firing workers than other firms.

Labor adjustments



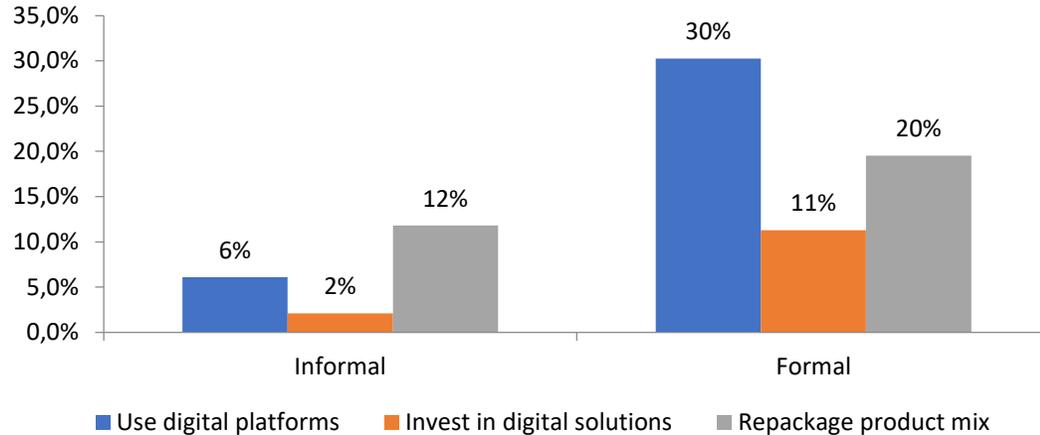
Firms with disabled workers reported higher rates of starting or increasing usage of digital solutions (73%) compared to other firms (59%).

Use of digital solutions

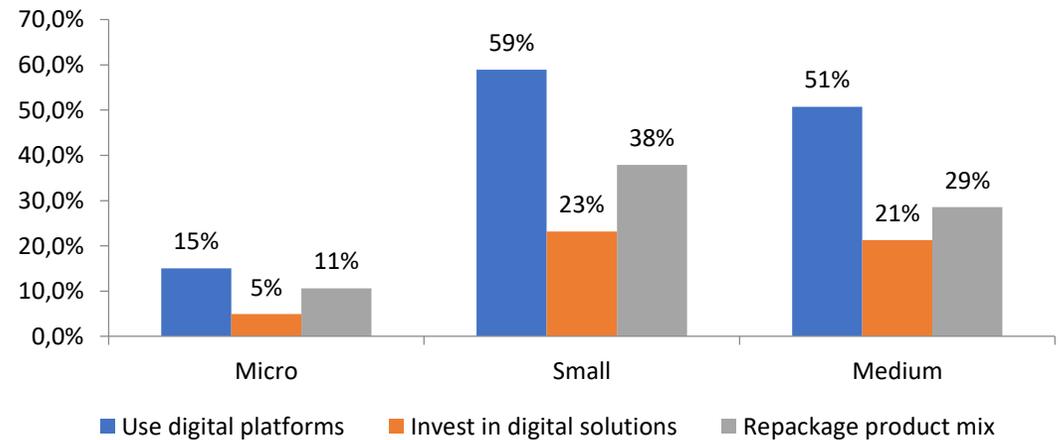
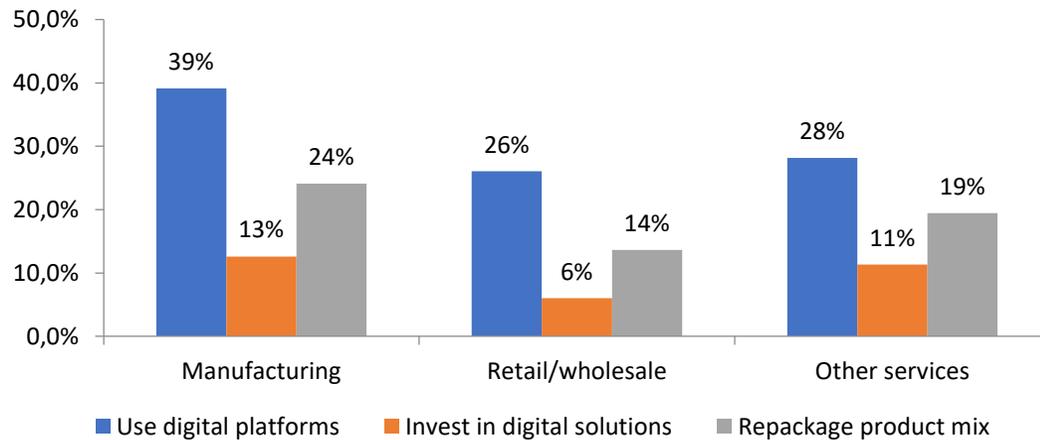


Use of digital solutions

Digital platforms and digital solutions are used in response to the crisis



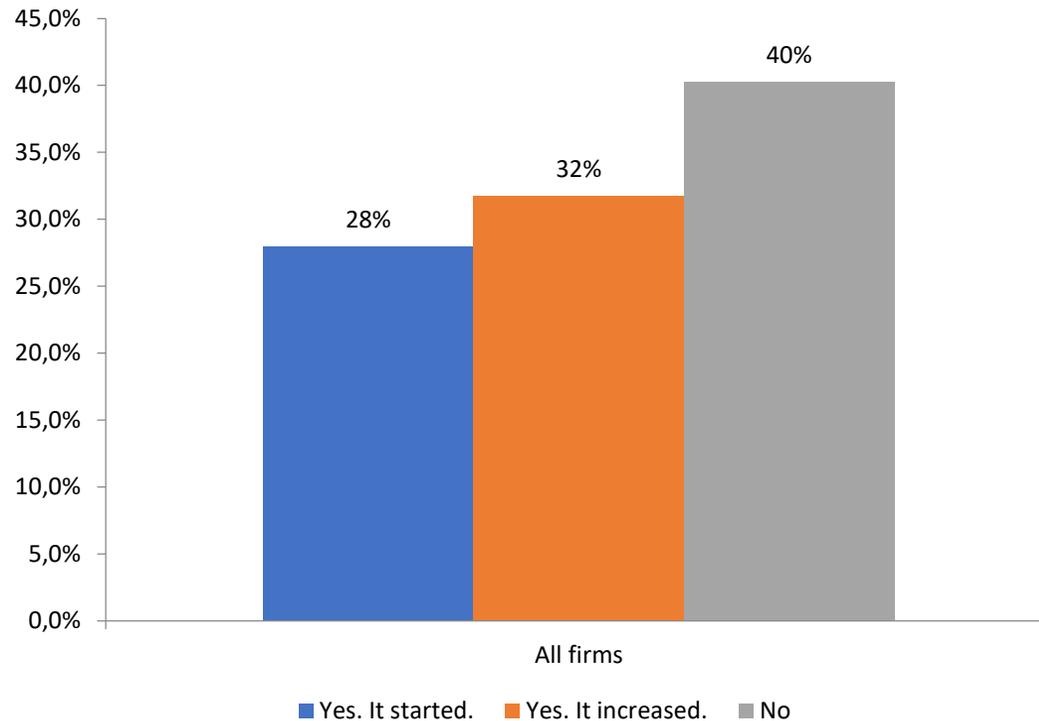
- Formal businesses were more likely to utilize digital and/or repackaging solutions.
- The manufacturing sector had the highest digital utilization.
- Firms of all sizes have been utilizing adjustment mechanisms.



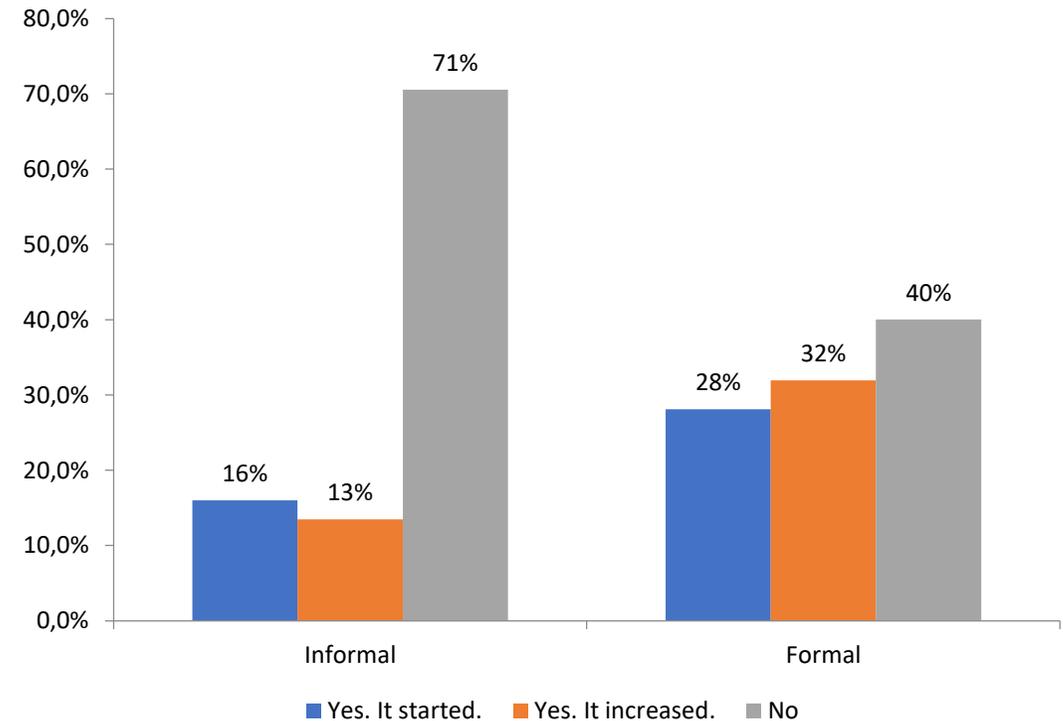
Note: these figures only cover firms with 5 or more employees.

Almost two-thirds of firms started or increased their use of digital solutions

60% of all firms (with 5 or more employees) either started or increased their usage of digital solutions during the pandemic.



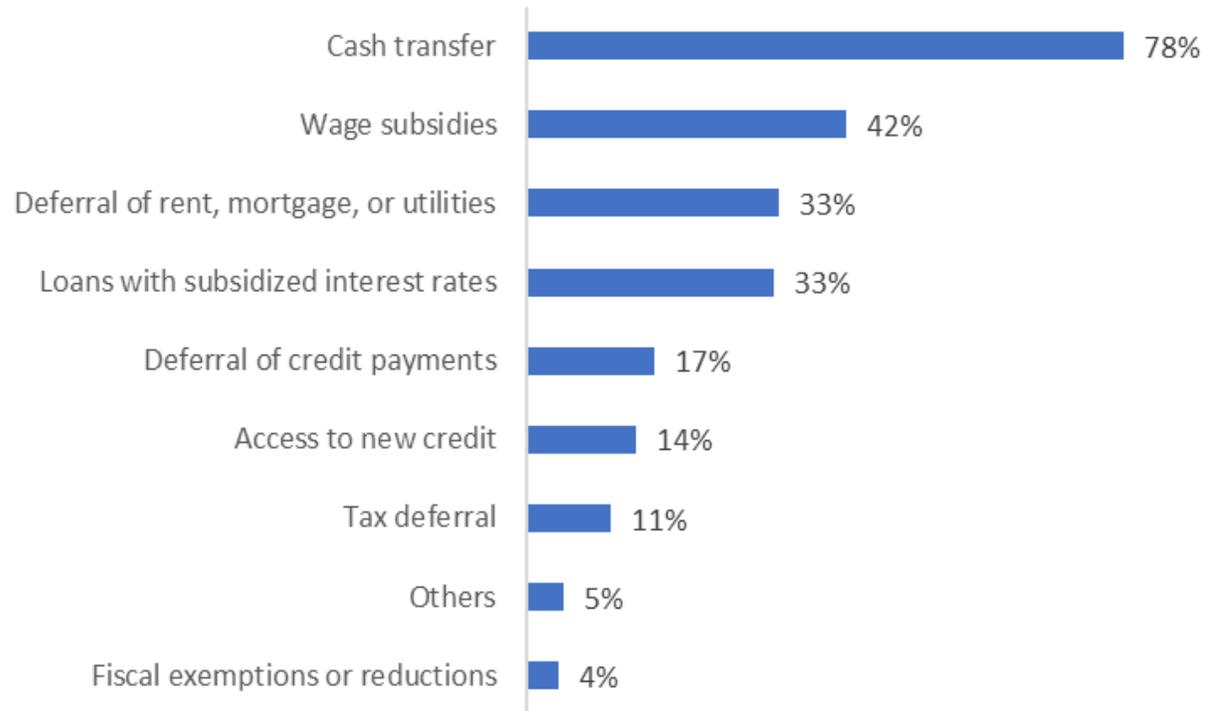
Informal firms were less likely to start or increase use of digital solutions during the lockdown period.



Note: these figures only cover firms with 5 or more employees.

Policies

Desired policies



Firms indicate that the top 4 most desired policies are:

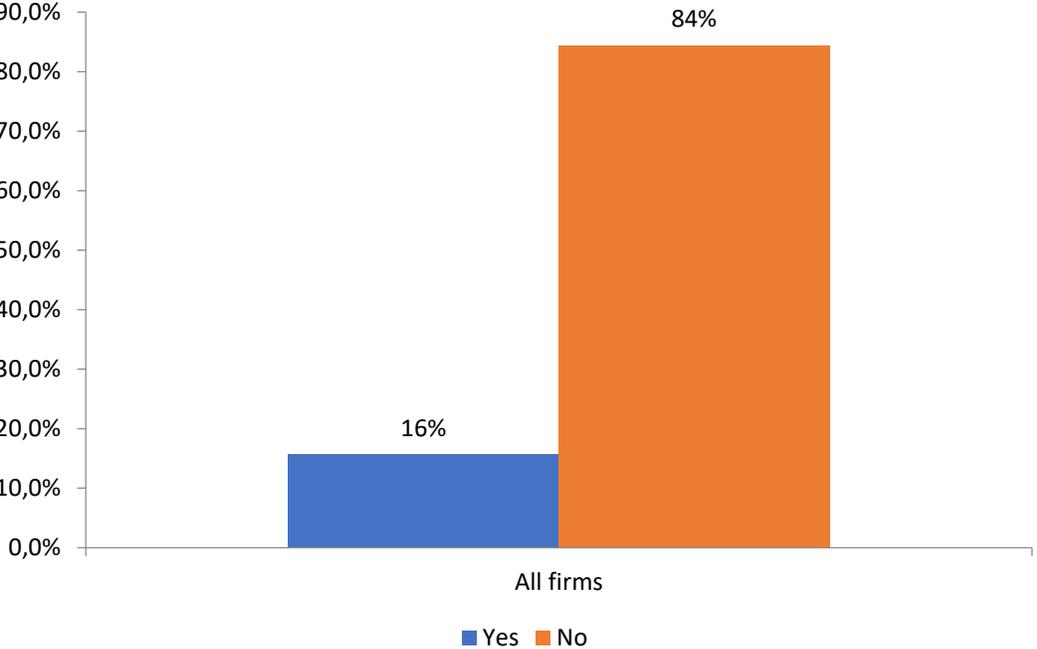
- **cash transfers** (78 percent),
- **wage subsidies** (42 percent),
- **deferral of rent, mortgage or utilities** (33 percent), and
- **loans with subsidized interest rates** (33 percent).

16 percent of firms received government support

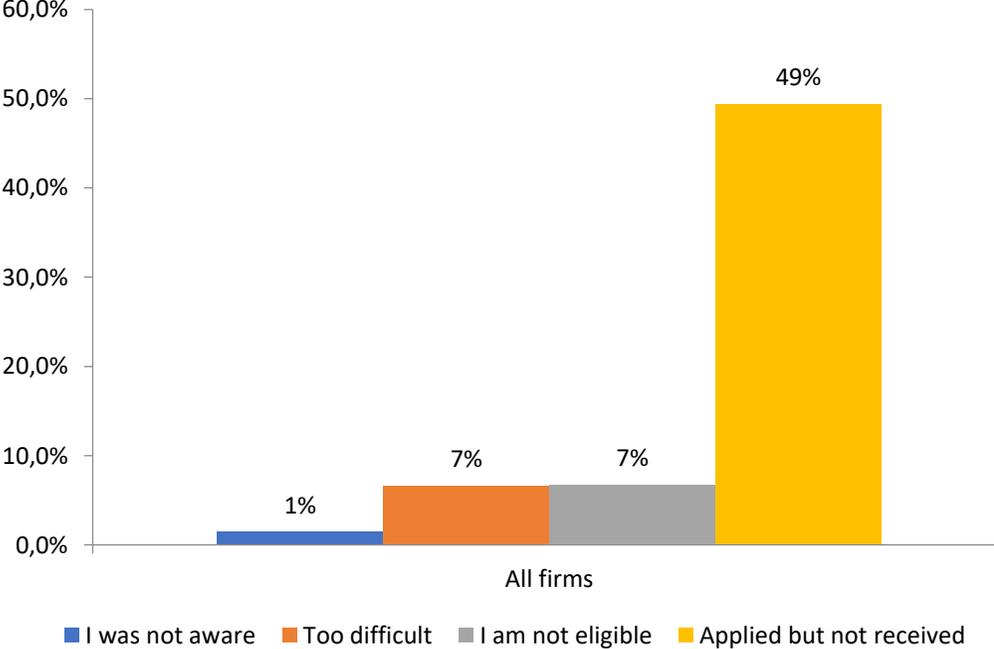
16 percent of firms responds that they received government support of any form (e.g., cash transfer, wage subsidy)

Half of the firms not receiving support applied but did not receive funds

Received government support:



Reasons for not receiving support

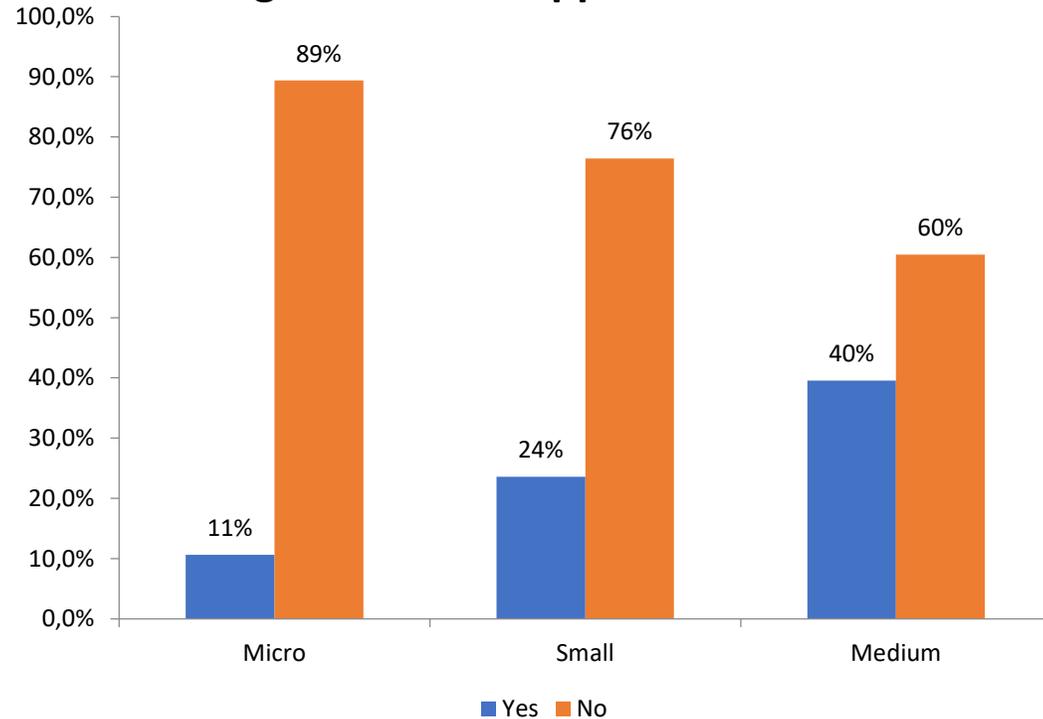


Micro firms received the least government support

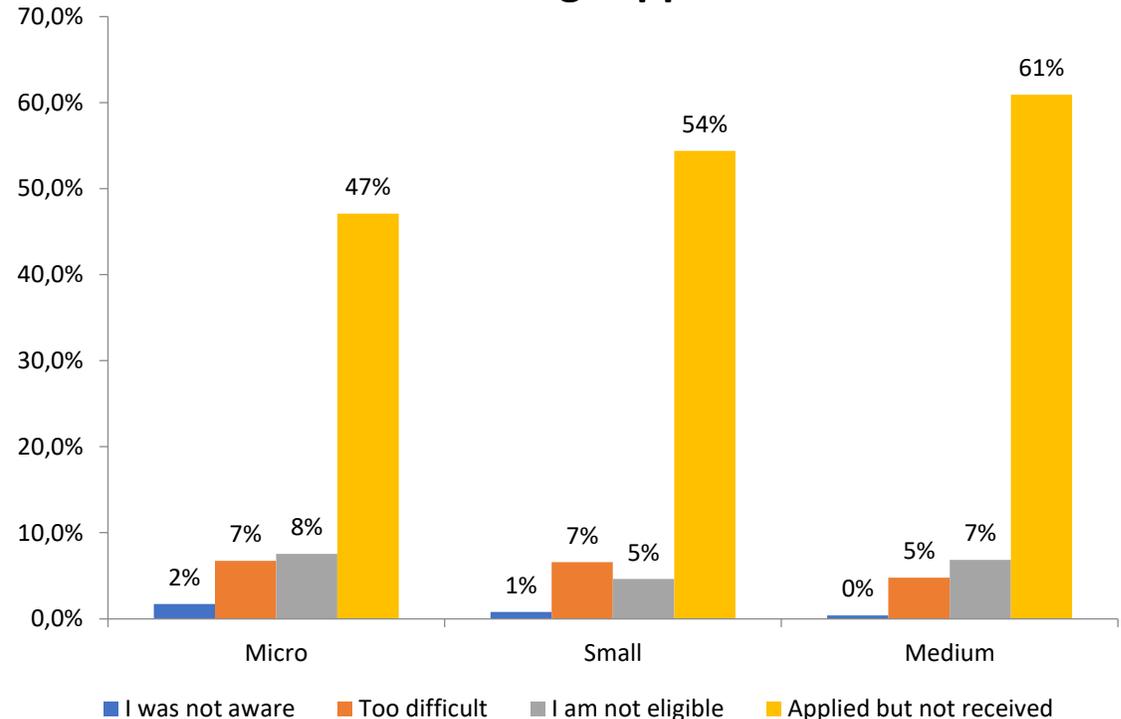
Micro firms reported receiving government support the least.

About half of micro firms applied, but did not receive it yet.

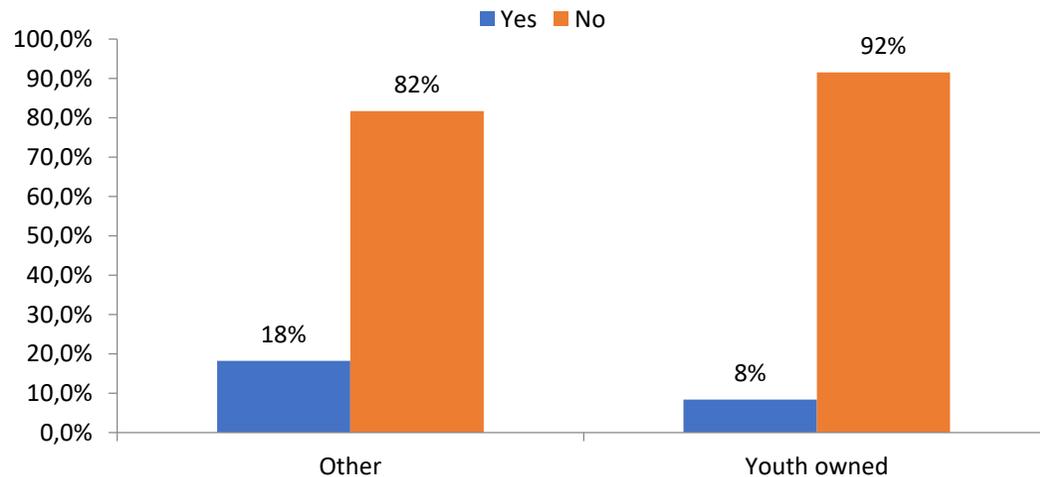
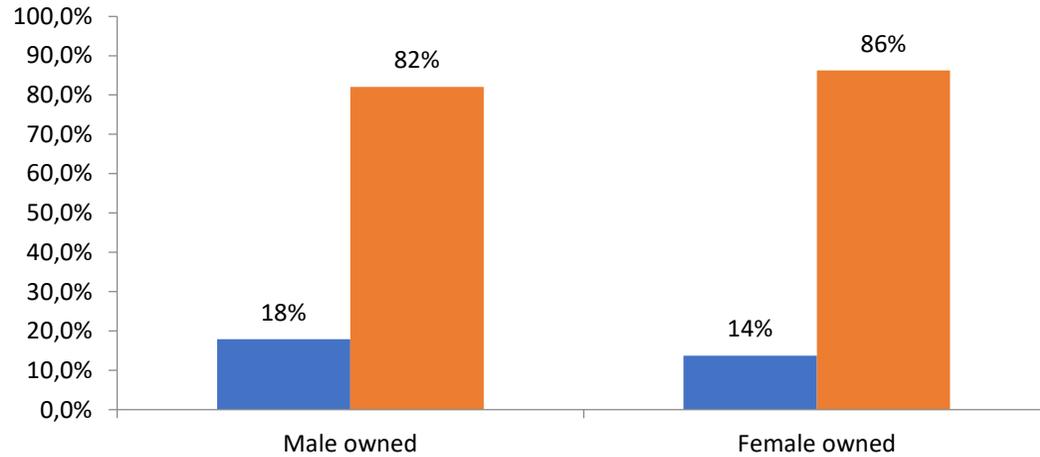
Received government support:



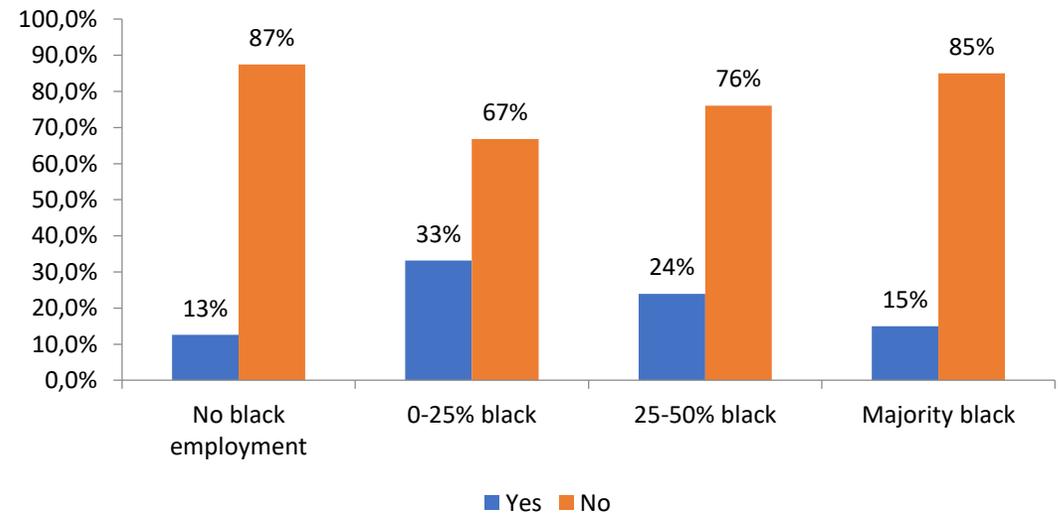
Reasons for not receiving support:



Government support by firm groups



- Female-owned and youth-owned businesses were less likely to receive government support.
- Firms with 0-25% black workers were more than twice as likely to receive government support than those whose workers were majority black or those with no black employment.



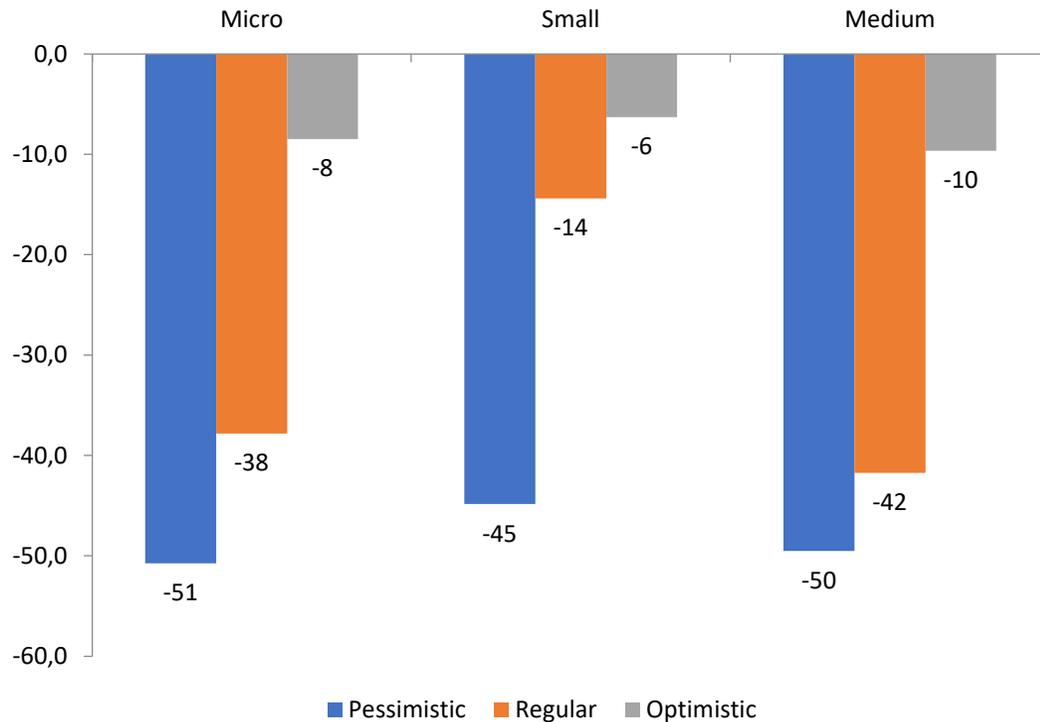
Outlook

Firms expect substantial declines in sales

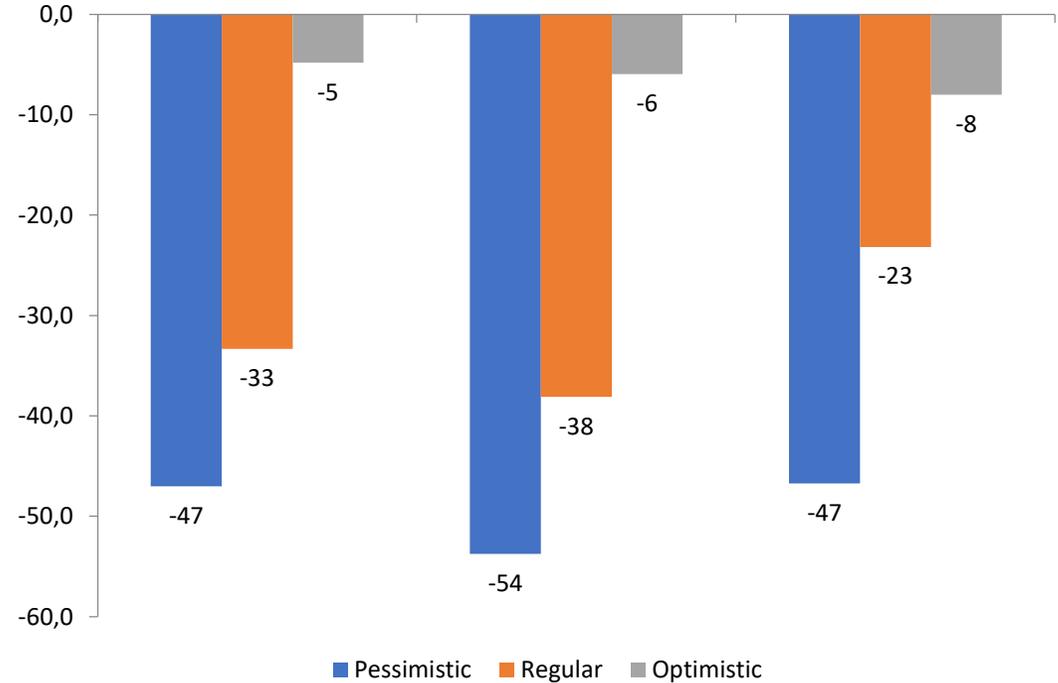
Firms of all sizes predict a substantial revenue loss in regular or pessimistic scenario.

The retail sector predicts the largest revenue loss.

Expectations about sales (revenue loss)

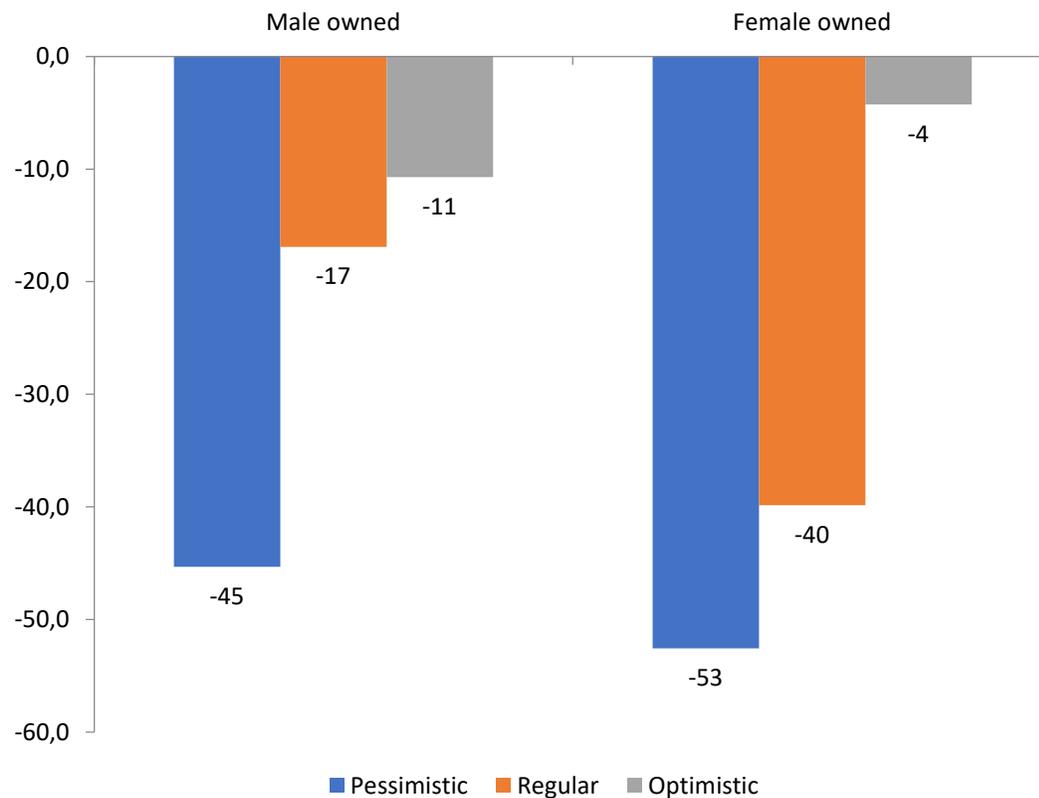


Expectations about sales (revenue loss)



Female-owned businesses reported higher expected revenue losses

Expectations about sales (revenue loss)



Looking ahead, in pessimistic and regular business scenarios, female-owned businesses reported higher expected revenue loss.

Recommendations

Short-run: improve and optimize support schemes

The survey indicates that many needs remain unmet. Only 16 percent of firms have surveyed received support and half of firms report that they applied but have not received support yet. Firms in vulnerable groups are less likely to receive support.

- 1. Optimize the delivery of current emergency support measures.** Clarity on eligibility criteria, processes and timeline is crucial. It is unclear whether the current gaps are a result of limited financial resources or capacity to disburse funds.
- 2. Target vulnerable groups.** Micro, informal, female-owned, youth-owned firms and firms with disabled workers or majority black workers are less likely to be supported under current schemes, but face pre-existing vulnerabilities.

Long-run: set foundations for longer term productivity growth

As the crisis continues, the emphasis on policy should be on how to regain much-needed productivity growth

- 1. Support re-establishment of demand, supply and financial channels.**
- 2. Help firms adjusting to the new “normal” to boost productivity.** Promote investments for worker training, management training, BDS, technology adoption.



Demand Channels

Demand might bounce back only slowly.

- Provide marketing support to boost customers and/or orders as sectors reopen.
- Targeted support to sectors that will remain vulnerable, e.g. tourism.
- Support for new export opportunities that could arise



Supply Channels

Broken links in the supply chain might be hard to re-establish.

- Facilitate trade through import-export credits to re-establish links and low import duties.
- Support for procuring inputs.
- Consider expansion of public procurement programs.



Financial Channels

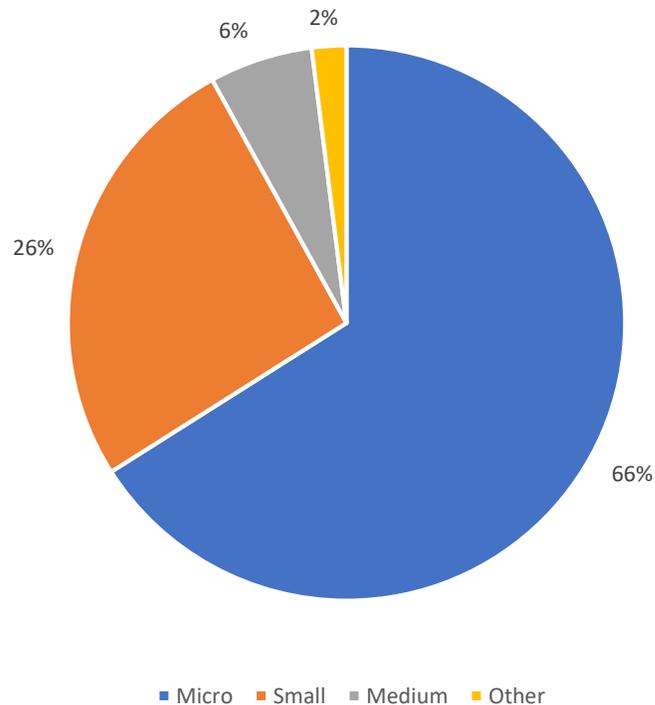
Continued uncertainty will continue to affect access to finance.

- Subsidized credit or credit guarantee schemes for SMEs can facilitate access.
- Increased use of digital solutions offers new possibilities (e.g. increased use of mobile money fintech).

Appendix

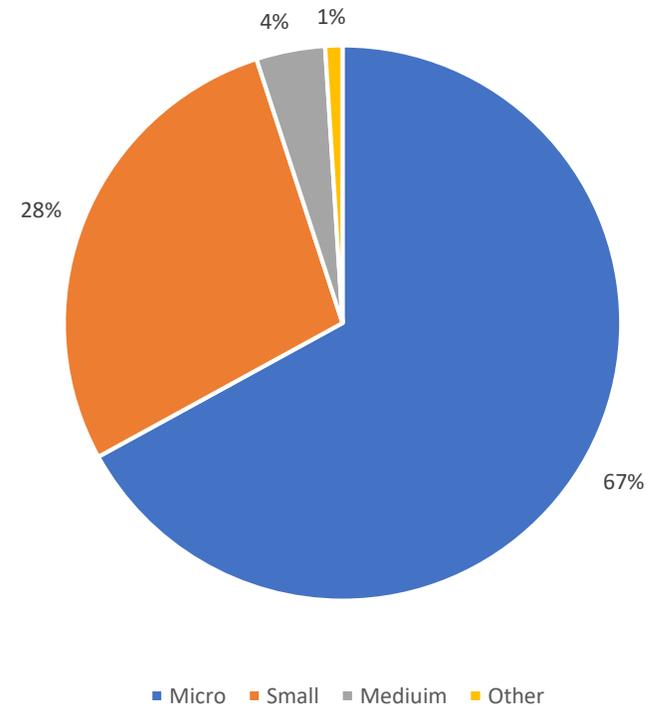
Firm Size

Proportion of firms in South Africa



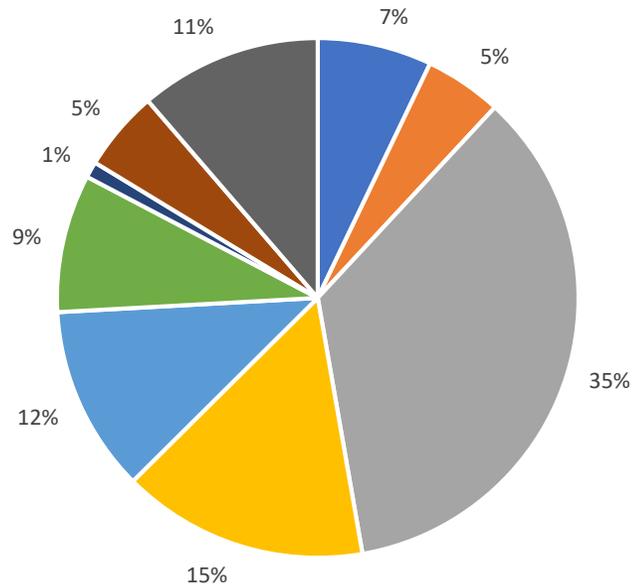
Source: SME Baseline Survey

Firms surveyed for Business Pulse Survey



Geographical Distribution

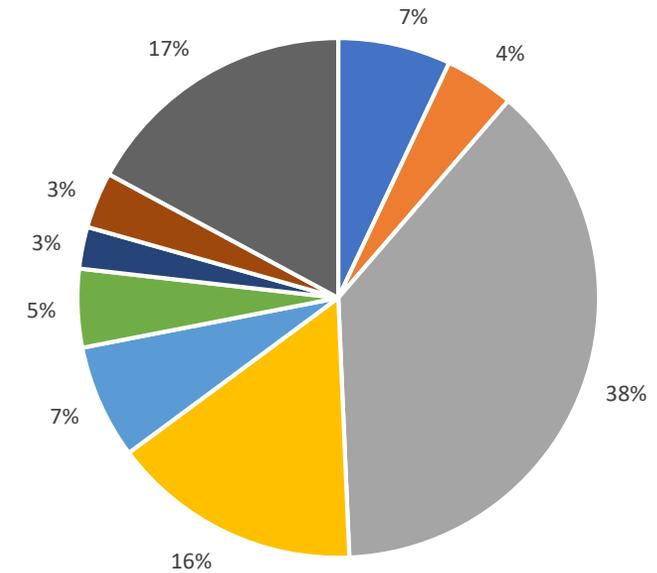
Proportion of firms in South Africa



■ Eastern Cape ■ Free State ■ Gauteng ■ KwaZulu-Natal ■ Limpopo
 ■ Mpumalanga ■ Northern Cape ■ North-West ■ Western Cape

Source: SMME Quarterly

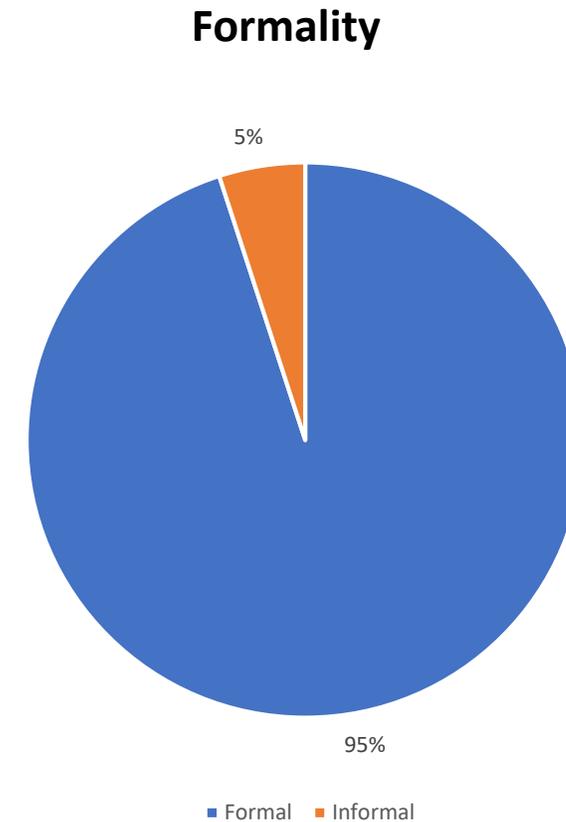
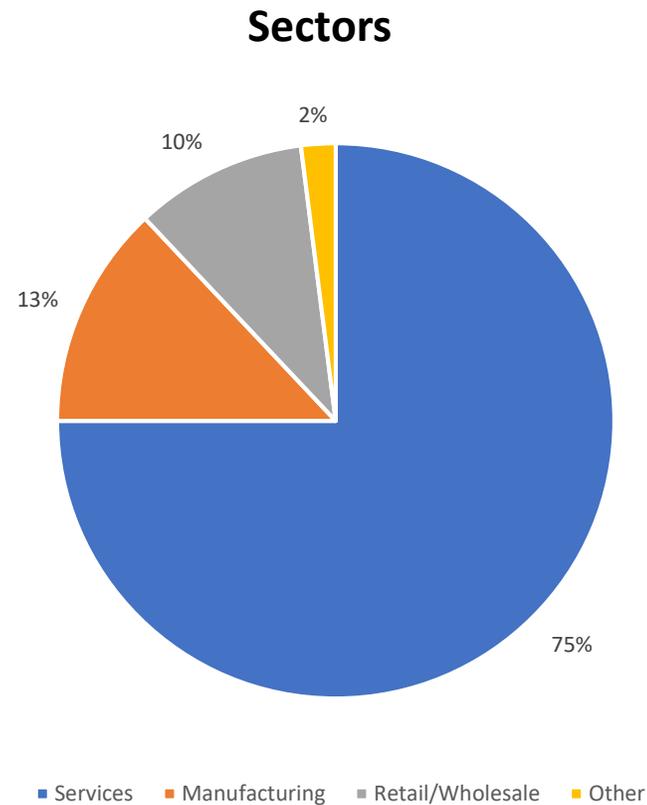
Firms surveyed for Business Pulse Survey



■ Eastern Cape ■ Free State ■ Gauteng ■ KwaZulu-Natal ■ Limpopo
 ■ Mpumalanga ■ Northern Cape ■ North-West ■ Western Cape

* Other includes the small number of firms (<2%) that were surveyed that were either (i) large or (ii) in the agriculture sector. However, these firms are not included in the breakdowns due to non-representativeness.

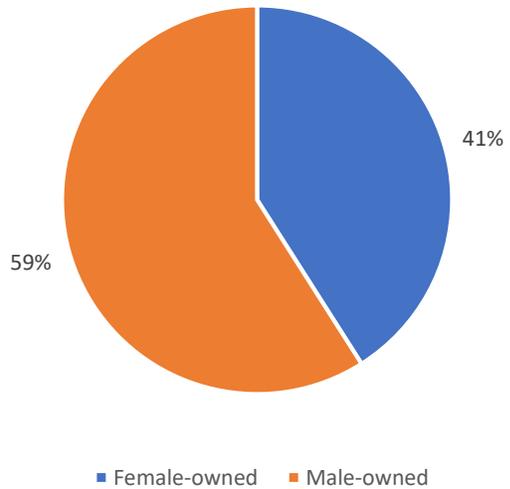
Sector and Formality



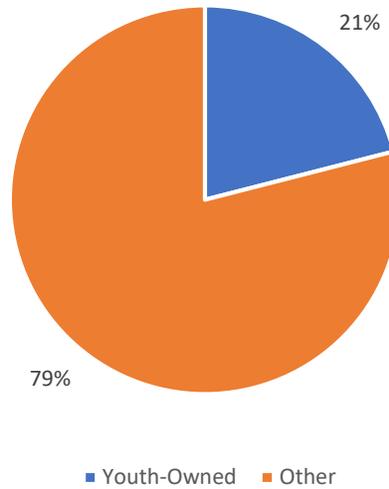
* Other includes the small number of firms (<2%) that were surveyed that were either (i) large or (ii) in the agriculture sector. However, these firms are not included in the breakdowns due to non-representativeness.

Ownership and Employment

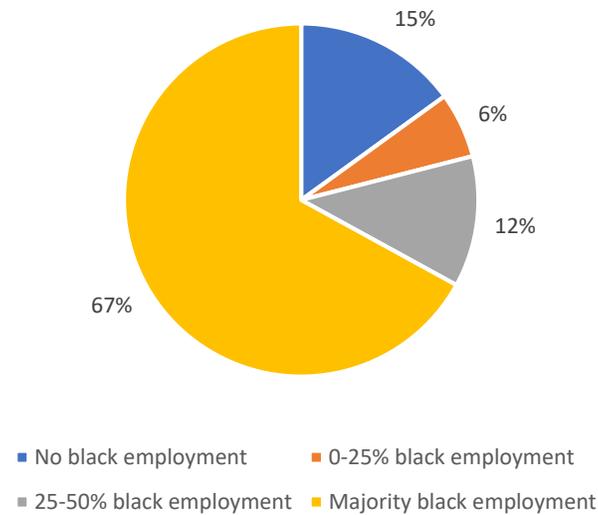
Female ownership



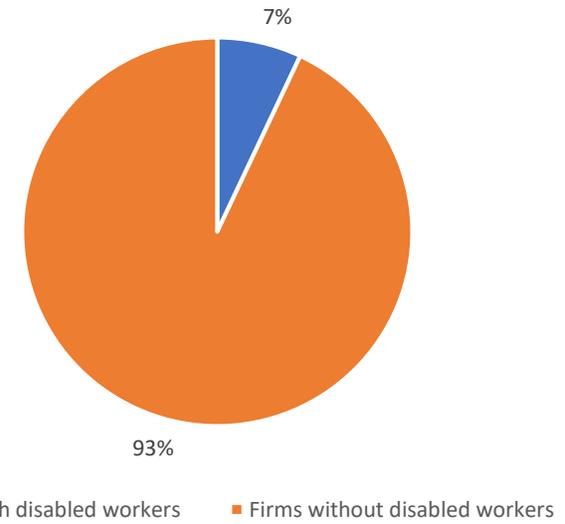
Youth Ownership



Black employment

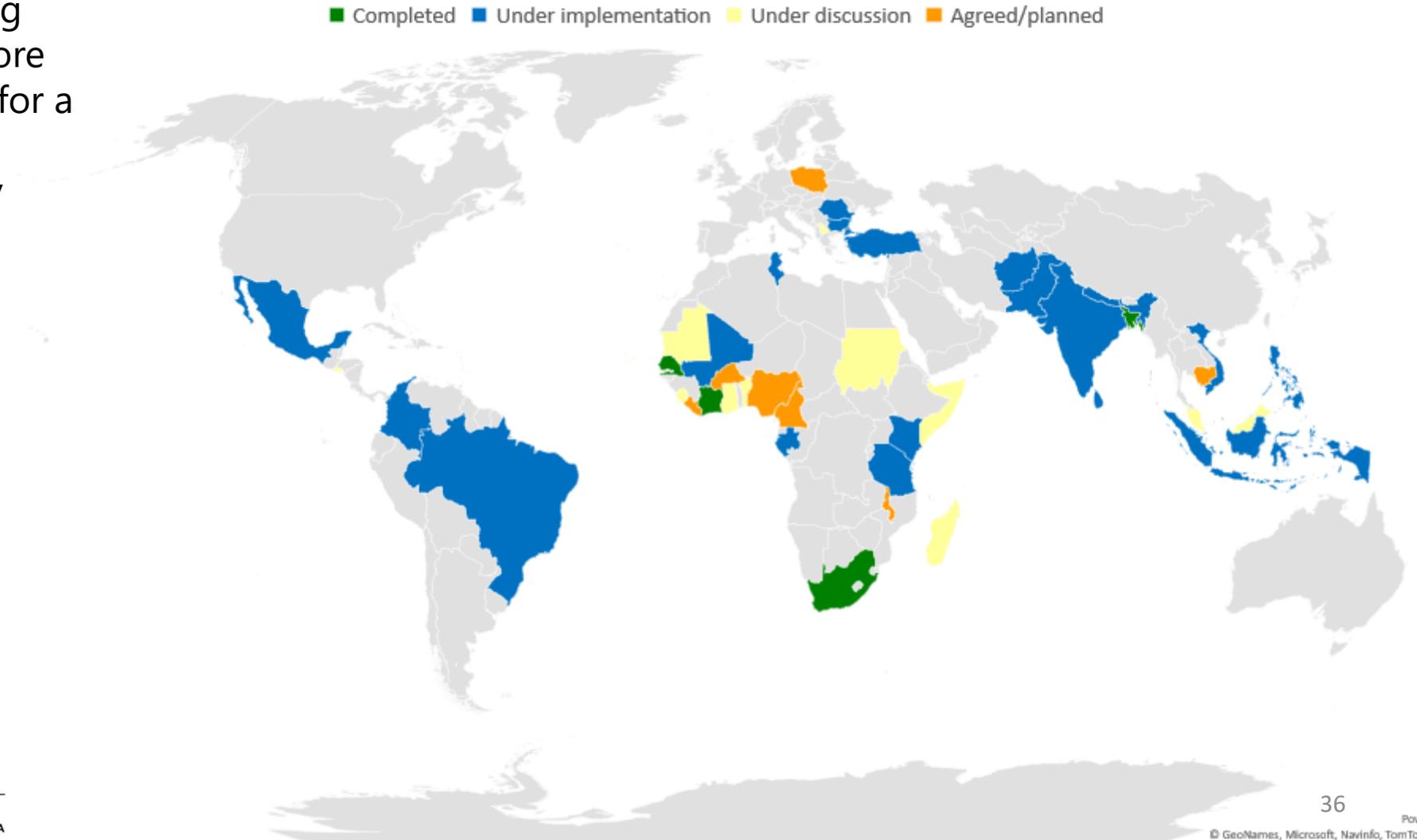


Disabled workers

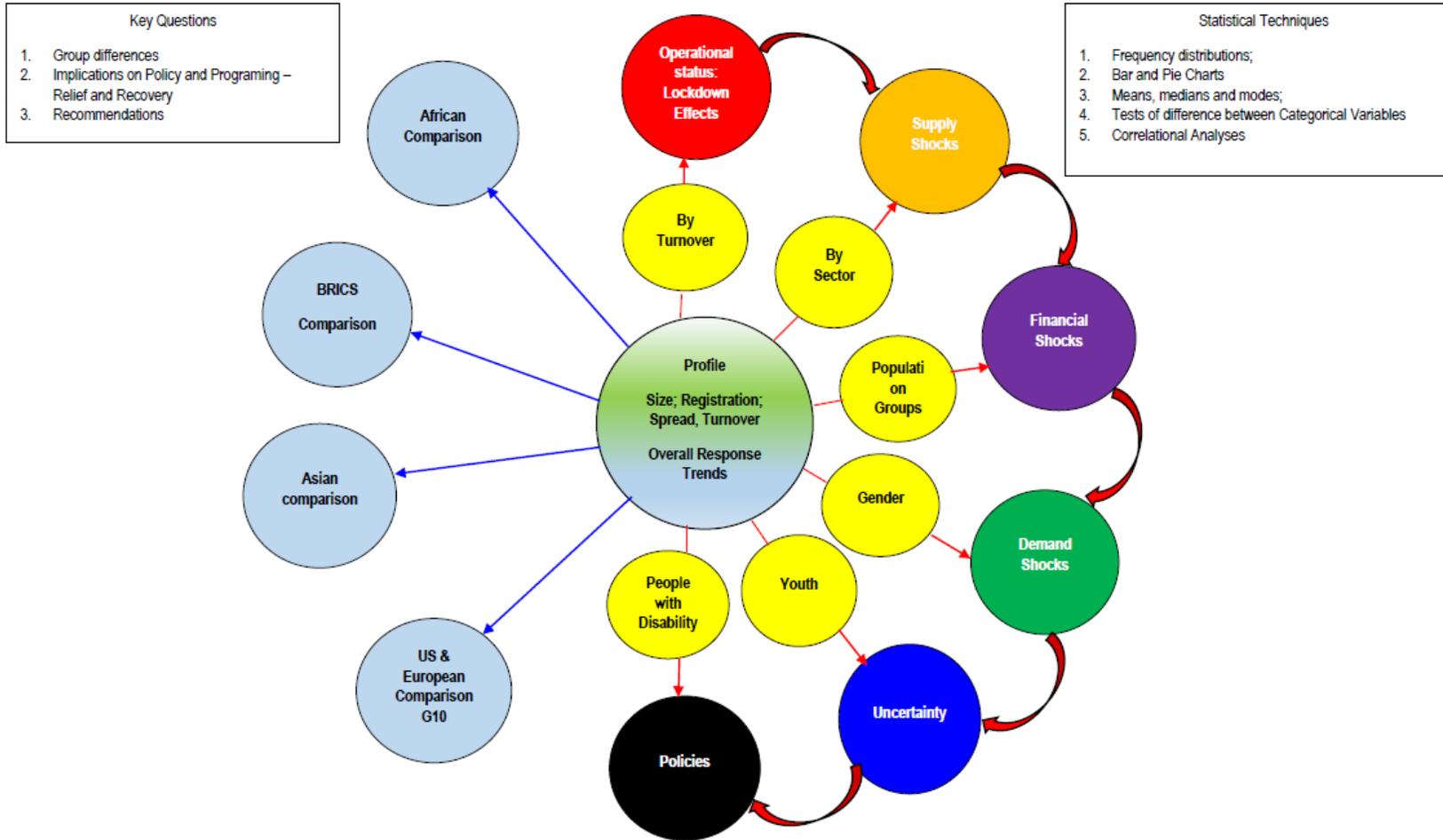


The COV-BPS survey around the world

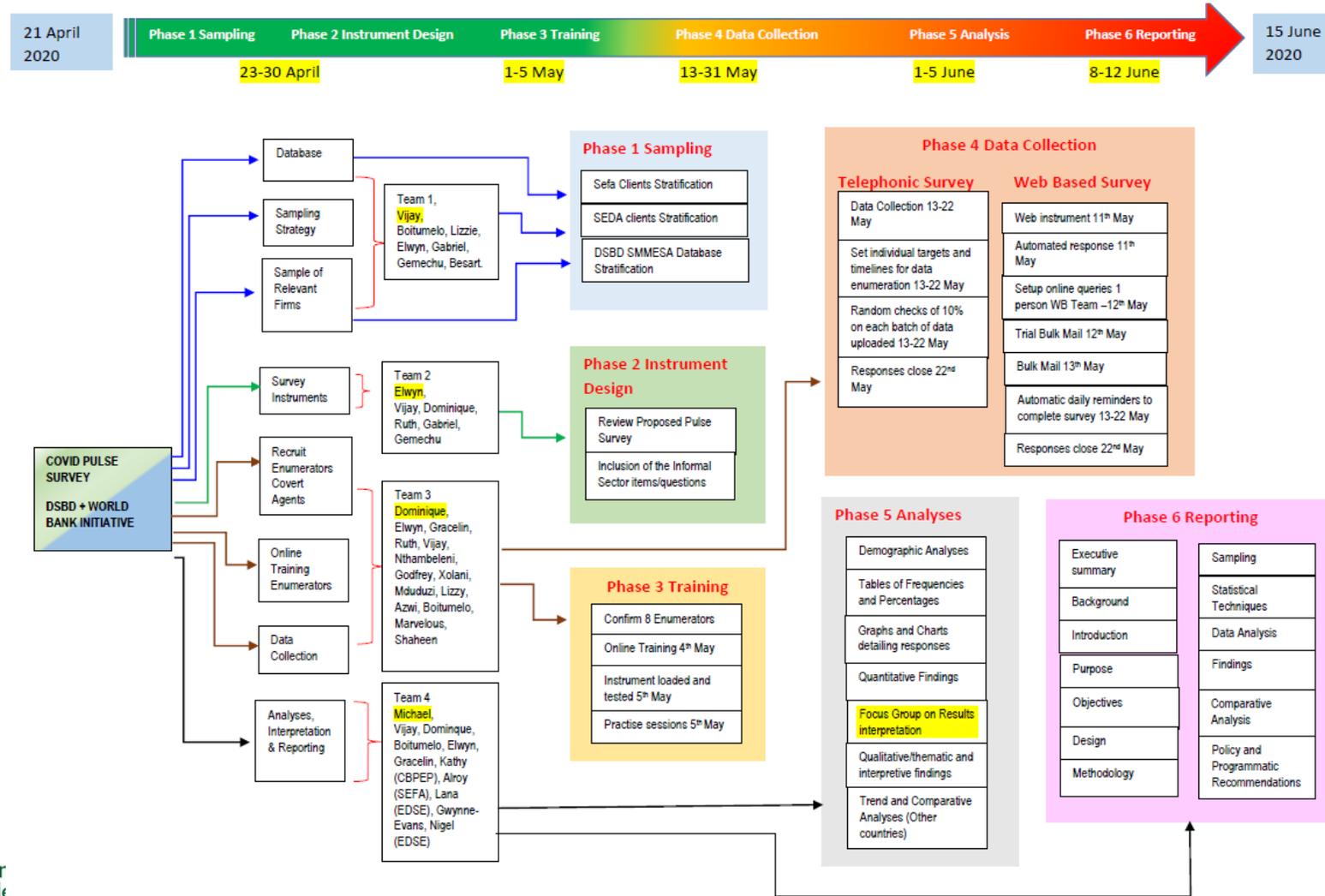
The COV-BPS survey is being conducted or planned in more than 40 countries, allowing for a consistent approach across countries and cross-country comparability.



Analytical Approach

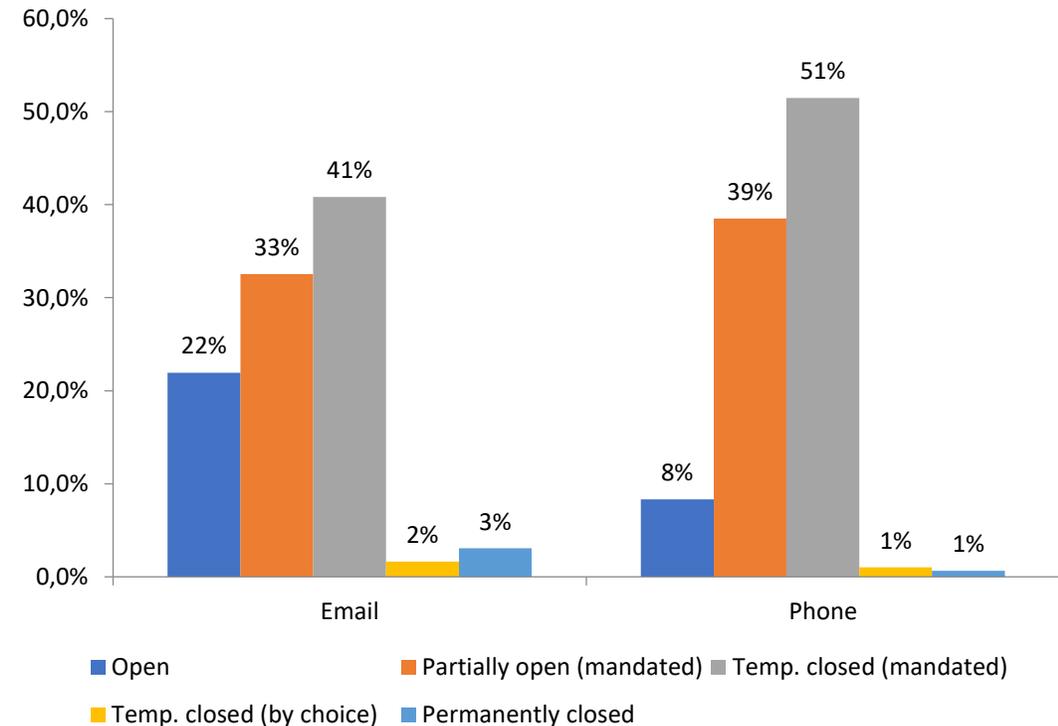
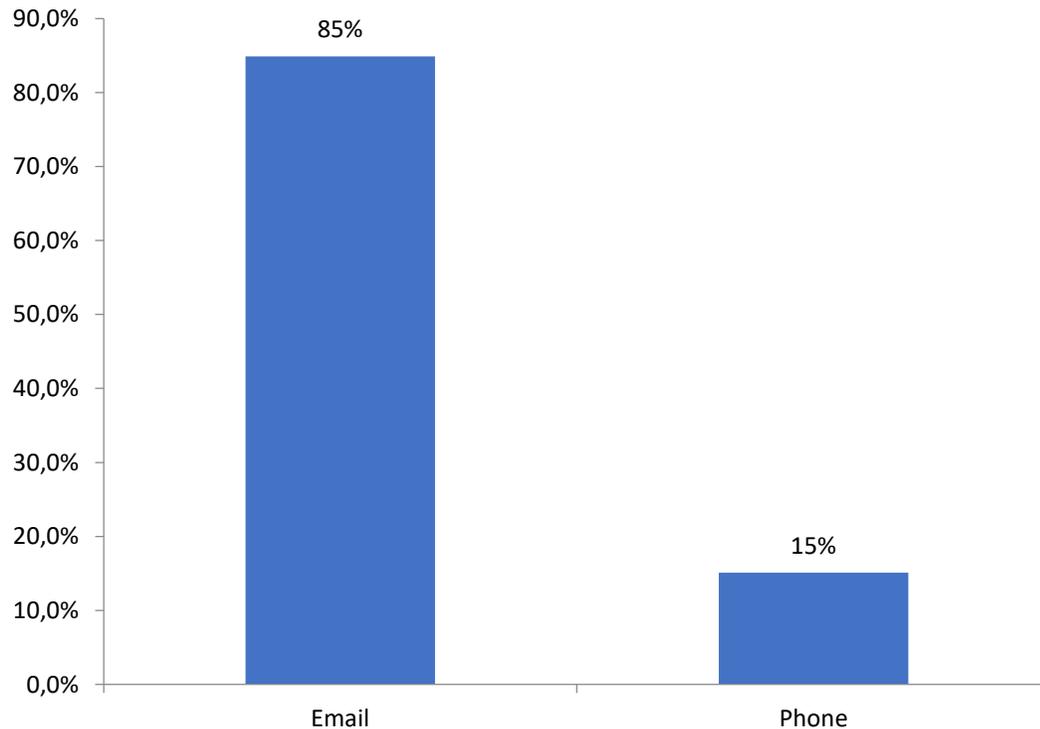


Survey Workflow



Methodological note – difference in survey methods

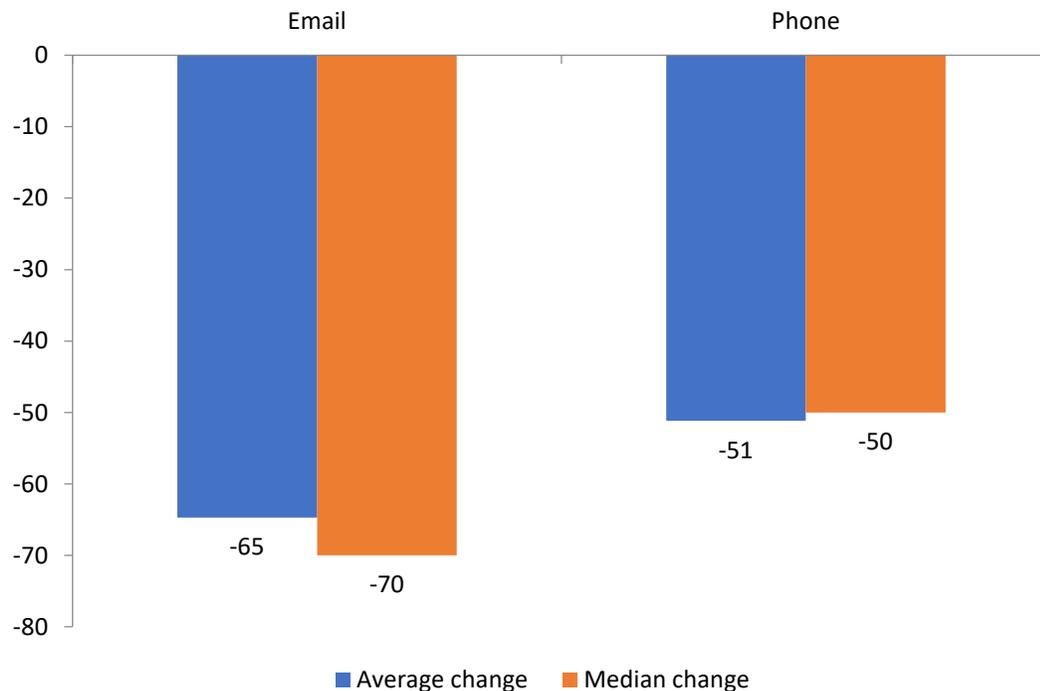
Approximately 85% of survey participants utilized email. Of those who used email, 22% reported being open, compared to 8% of those who responded by phone.



Methodological note – difference in survey methods

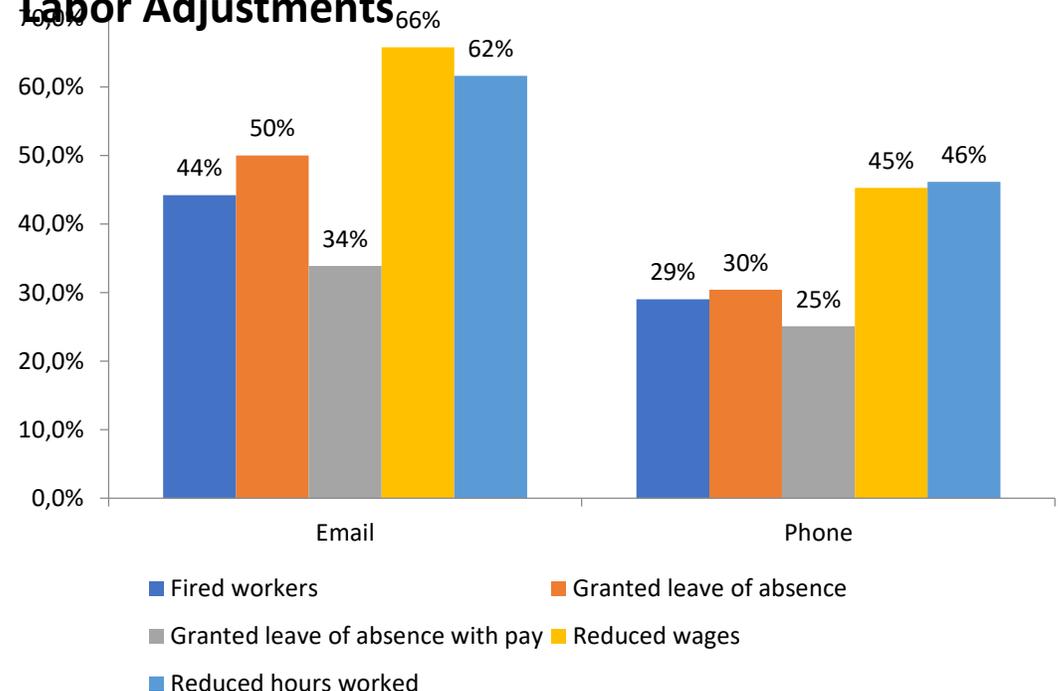
Firms who replied by email reported higher declines in sales.

Changes in sales



Firms who replied by email reported substantially higher rates of labor adjustments, including firing workers, unpaid leave of absence and wage and hour reductions.

Labor Adjustments

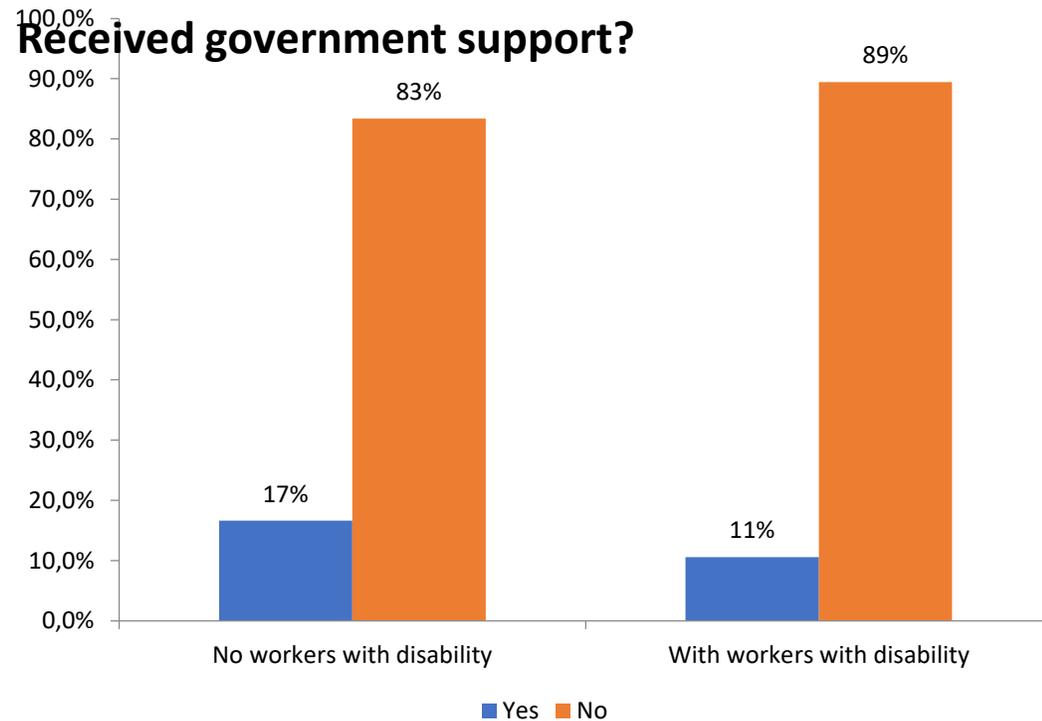


Firm Size Definitions (DSBD)

Sector	Size or class of enterprise	Total full-time equivalent of paid employees	Total Annual Turnover
Manufacturing	Micro	10	10 million
	Small	50	50 million
	Medium	250	170 million
Retail and motor trade and repair services	Micro	10	7.5 million
	Small	50	25 million
	Medium	250	80 million
Wholesale trade, commercial agents and allied services	Micro	10	20 million
	Small	50	80 million
	Medium	250	220 million
Finance and business services	Micro	10	7.5 million
	Small	50	35 million
	Medium	250	85 million
Community, social and personal services	Micro	10	5 million
	Small	50	22 million
	Medium	250	70 million

Are firms receiving government support?

Firms with disabled workers reported receiving government support at lower levels than other firms.



They reported higher rates of applying, but not receiving government support.

Reasons for not receiving support

