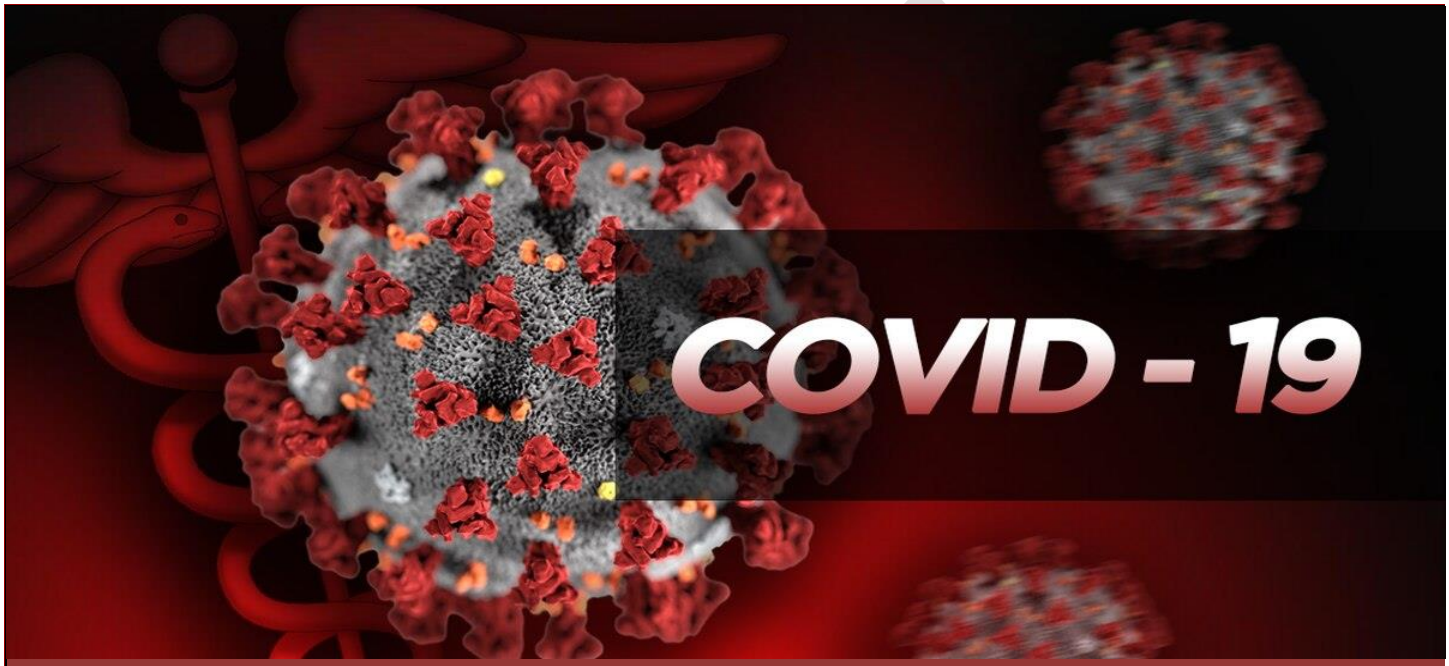
small business development

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA



COVID-19 SMME Scenarios

Scenario planning to determine the Impact of Covid-19 on SMMEs

Draft A

CSIR
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1 PROJECT OVERVIEW

Scenario analysis facilitates a better understanding of future South African socio-economic, environmental change and identifies the support required for the sustainability, development and growth of SMMEs during the COVID-19 epidemic. The scenarios developed in this report will is used to understand the consequences of COVID in the future.

The scenarios describe a range of plausible futures that might result from COVID-19 in South Africa in an integrated manner, considering the most important driving forces of the socio economic-environmental.

Scenarios can either be qualitative, which is an approach to derived the scenario from narratives (storylines) or quantitative, which is based on data obtained using a quantifiable measurement process or mathematical modelling. The Department of Small Business Covid-19 scenarios is using a combine qualitative and quantitative approach. Section 3 defines the qualitative scenarios and the key assumptions developed during a scenario planning workshop with key experts in the field of SMMEs. Section 4 describes the quantitative scenarios developed using a Computable General Equilibrium (CGE) model to provide clear evidence-based guidance to the government.

2 SA SMME SECTOR PRE-COVID

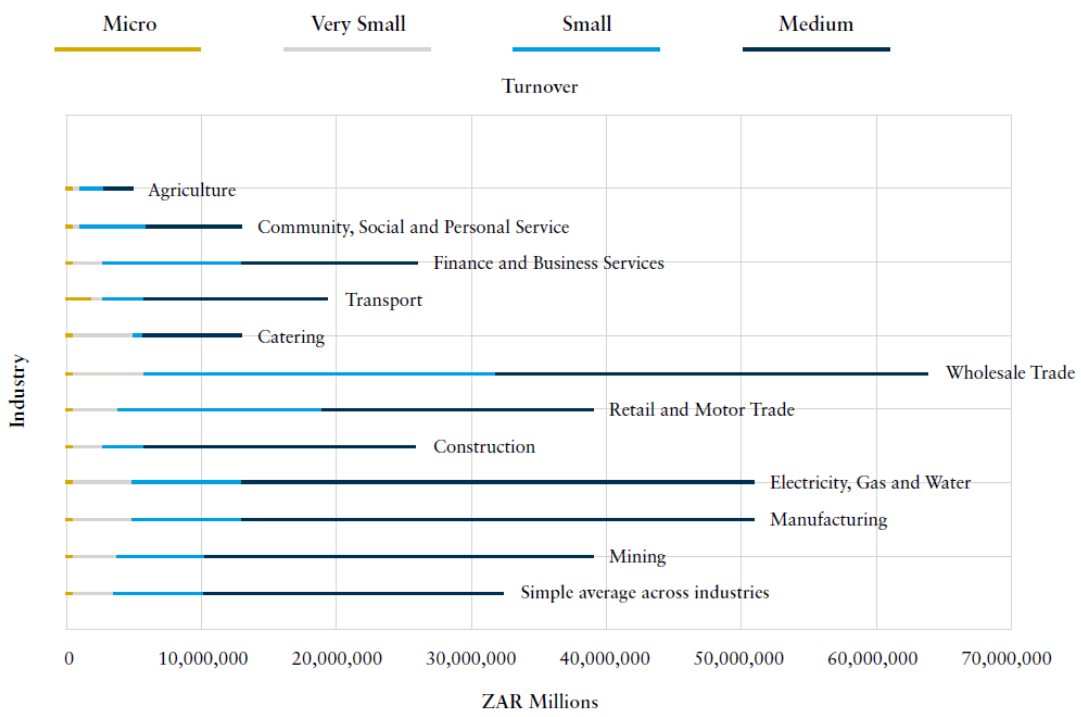
Small businesses are an important part of South Africa's economy. The number of Small, Medium and Micro Enterprises (SMMEs) in South Africa are estimated at 5.78 million (when including survivalists) of which only 14% is formalised. SMMEs employ more than half (50-60%) of South Africa's workforce and contribute ±34% of the gross domestic product (GDP). (IFC, 2019) This contribution is low compared to other low and middle-income countries where SMME sectors typically contribute between 60-70% to GDP. (DSBD, N.D.). South Africa's small business sector is characterised by a high level of informality, limited employment opportunities for youth and only a few sources of finance. (IFC, 2020).

The economic contribution of small businesses:

Figure 1 shows the SMMEs value to the economy in various sectors. Key sectors ranked according to total SMME turnover (IFC, 2019) are as follows:

- **Highest:** Wholesale trade; Electricity, gas and water; and Manufacturing
- **Midrange:** Retail and motor trade; Mining; Finance and business services; and Construction
- **Lowest:** Transport; Catering; Community, Social and Personal Service; and Agriculture.

Figure 1: SMME turnover by sector compiled by business size



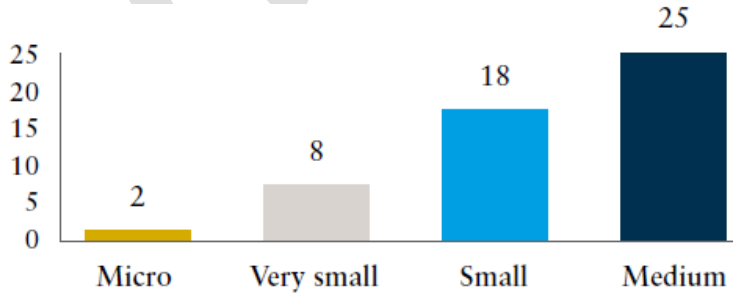
Source: National Small Business Amendment Act, 2003

SMME employment creation:

SMMEs make the largest contribution to employment in South Africa. A 2015 TIPS report on the small business sector estimated that formal small business owners employed a total of 4.3 million people in 2015, compared to larger firms (hiring 50 or more people) who employed 3.6 million people. (IFC, 2019)

Figure 2 shows the average number of SMME employees across firm size. As expected, the employee count rises sharply as firm size increases. (IFC, 2019):

Figure 2: Average SMME employee count by firm size using turnover



Source: FinMark Trust, 2010, FinScope Small Business Survey 2010

The SMMEs employment creation by industry is presented in Table 1. The data indicates (IFC, 2019):

- The **mining** and **energy** sectors have the highest distribution of SMMEs with significant employment creation,

- **Agriculture** and **construction** sectors have most SMMEs employing at least one additional employee beyond the owner.
- The zero category indicates there are no employees beyond the business owner. This makes up the bulk of SMMEs, particularly in the **manufacturing**, **wholesale trade**, and **domestic services** sectors.

Table 1: SMME employment creation by industry

MSME employment	Agriculture	Mining	Manufacturing	Electricity and gas	Construction	Wholesale trade	Transport	Finance	Domestic services and other
0	23%	30%	66%	50%	35%	78%	58%	59%	69%
1	7%	0%	9%	0%	12%	4%	7%	4%	6%
2 to 4	23%	0%	14%	25%	32%	11%	21%	14%	15%
5 to 9	21%	10%	5%	0%	11%	4%	8%	9%	6%
10 to 19	12%	30%	3%	0%	7%	2%	4%	7%	3%
20 to 49	11%	10%	2%	25%	3%	1%	1%	3%	1%
50+	4%	20%	1%	0%	1%	0%	2%	2%	0%

	0-2.5%	2.5-5%	5-20%	20-40%	40-60%	60-100%

Source: (IFC, 2019)

Labour regulation remains the largest constraint for hiring employees when considering firms overall, and especially among firms in the manufacturing and tourism sectors. Firms in the business services sector reported skills as the greatest constraint, particularly the shortage of skilled labour. (IFC, 2019)

The main factors driving small business development are possession of necessary skills, independence and education levels (DSBD, N.D.)

Unfortunately, the SMME sector has been relatively stagnant with limited growth in SMME numbers over the last decade. (Based on StatsSA research, there were 2.309 million SMMEs in 2017 compared to 2.019 million in 2008 – these numbers exclude survivalists.) (IFC, 2019)

Low rate of established entrepreneurship compared to other African countries

South Africa's rate of established entrepreneurship is extremely low compared to other African countries. Developing economies rely on small enterprises to drive growth and employment opportunities. Given its GDP per capita, South Africa should have a rate of early-stage entrepreneurship three times greater than the current rate. With fewer start-ups and a low rate of survival, there is a thin pipeline of businesses with a high chance of attrition. (IFC, 2019)

SMME distribution across industrial groupings can be ranked as follows (IFC, 2019):

(See Figure 3 below)

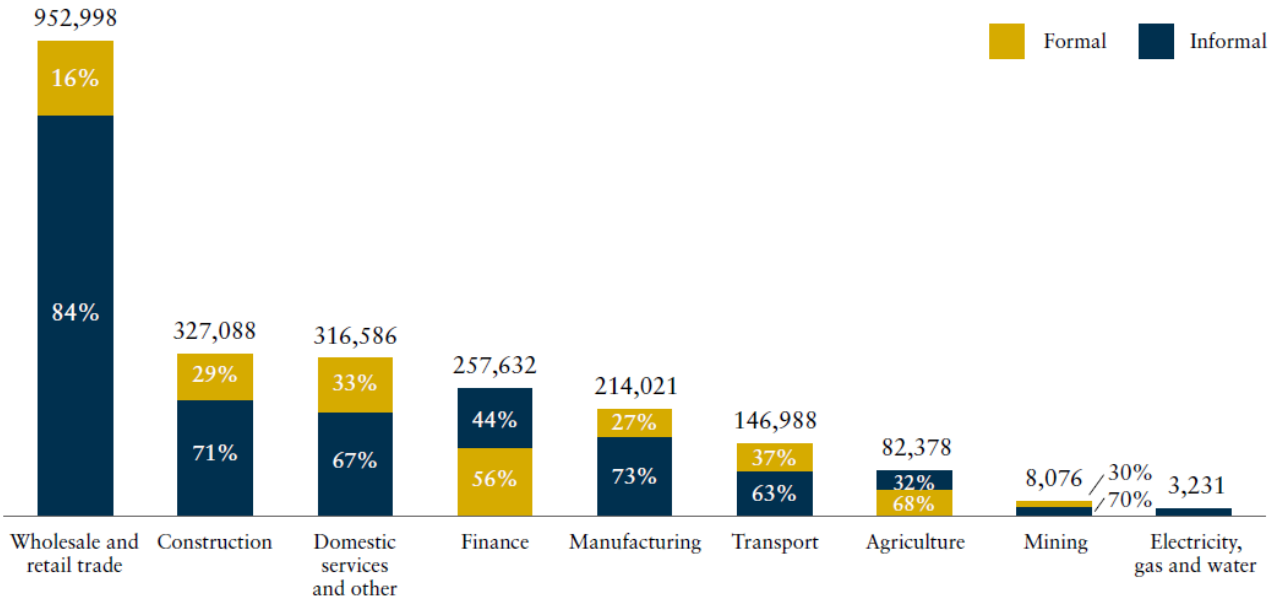
- **High SMME concentration:** Wholesale and retail trade (incl. repair of motor vehicles, motorcycles, and personal household goods) with a high percentage of informal enterprises
- **Medium high concentration**: Construction; Domestic services and other; Financial intermediation, insurance, real estate and business services; and Manufacturing

- **Medium low concentration:** Transport, storage and communication; and Agriculture hunting, forestry and fishing
- **Low concentration:** Mining and quarrying; Electricity gas and water supply

Figure 3 also filters the industrial groupings by formality:

- **Sectors** with a **majority of formal SMME's** are: Financial intermediation, insurance, real estate and business services; and Agriculture hunting, forestry and fishing.
- **Sectors** with a **majority of informal SMME's** are: Wholesale and retail trade (incl. repair of motor vehicles, motorcycles, and personal household goods); Construction; Domestic services and other; Manufacturing; Transport, storage and communication; Mining and quarrying; Electricity gas and water supply

Figure 3: SMME distribution across industrial groupings filtered by formality



Source: StatsSA PALMS database, 2017

Markets:

The general public was the main client of formal and informal businesses, with low level of selling to large businesses; Government and public sector markets were important, and 19% of SMMEs surveyed in the Annual Review of Small Business and Cooperatives had supplied to a branch of government or the public sector in 2017/18. (DSBD, N.D.)

Formal SMMEs downsizing

Formal businesses are struggling to manage macroeconomic weakness. High unemployment and low GDP growth is leading to lower spending by customers and shrinking markets. Many formal small businesses indicated that they are downsizing and as a result, employing fewer people and investing fewer resources in the growth of their businesses. (IFC, 2018)

Most small business owners struggle with cash flow. This prevents them from accepting new contracts that demand upfront working capital.

Limited financing available

Total funding provided to the SMME sector is currently R230 billion (IFC, 2020):

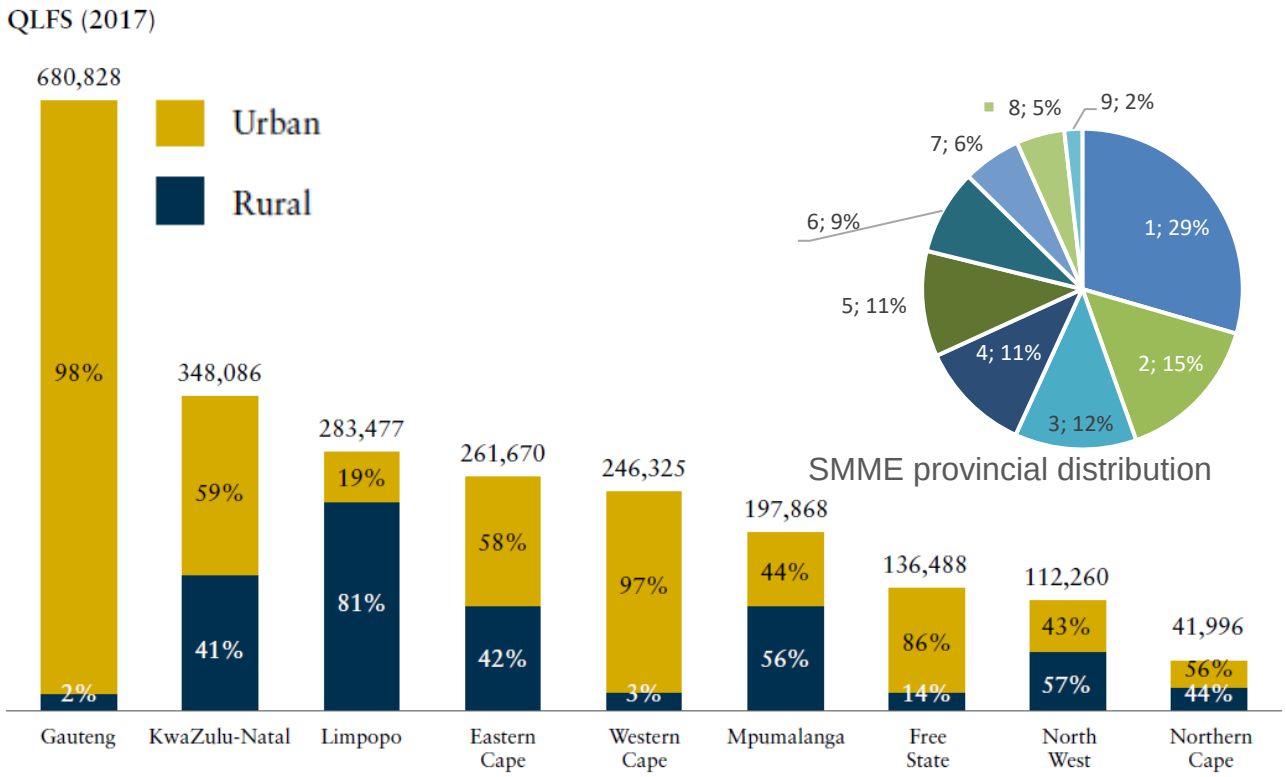
- **Commercial banks** account for 68.9%, or R160 billion of funding supply to **formal** SMMEs, with funding biased toward longer-term (vehicle or property) financing as opposed to short-term (working capital) financing. However, as informal businesses account for the vast majority of SMMEs, most have limited access to these funds.
- **Government** and **microfinance institutions** account for the bulk of finance extended to the informal sector.

The IFC estimates that there is a R435 billion gap between supply and demand for SMME financing, of which 80% is wanting for the informal sector and 20% for the formal sector.

Uneven geographical distribution

SA's SMME sector presents an uneven geographical distribution among the nine provinces and between rural and urban areas. Commercial hubs like Gauteng naturally attract a higher frequency of business activity relative to the population. (When including survivalists, Gauteng accounts for more than half of SA's SMMEs). However, the low frequency of SMMEs in other provinces (such as Northern Cape) represents a limited opportunity for formal work and is symptomatic of poor economic development within these areas. The urban/rural split shows a high level of diversity at the provincial level. Gauteng SMMEs are almost entirely urban, while Limpopo SMMEs are mostly rural. The proportion of SMMEs in urban areas increased to 69% in 2017 from 62% in 2008. IFC, 2019)

Figure 4: SMME count by province and urban/rural split



Source: (IFC, 2019)

Survivalist driven

Half of South Africa's entrepreneurial activity is driven by necessity by individuals with limited alternative sources of income. (IFC, 2018)

Ownership inequality

Ownership of SMMEs reflects patterns of racial and gender-based inequality in the broader South African society. Black ownership of SMMEs declined between 2008 and 2017, from 79 percent to 76 percent. Female ownership, meanwhile, declined from 48 percent to 38 percent in the same period. Additionally, black and female ownership was concentrated in the micro, and small business segment of the SMME sector and, as the size of businesses grew, rates of black and female ownership declined. Furthermore, the sector is not significantly reducing South Africa's high rates of youth unemployment. (IFC, 2018)

Challenges and Recommendations

SMMEs face many challenges including: difficulty in attracting customers; inability to increase revenue and maintaining profitability; uncertainty over economic conditions; late payment by debtors; unaffordability of skilled labour and the scarcity of funding, which is hurting business continuance.[1]

Some of the SMME responses to these challenges include increase of prices (especially informal businesses), reduction of staff, absorption of losses/acceptance of reduced income (especially formal businesses). (DSBD, N.D.)

Various surveys[2] (covering from 36 to 18 000 SMMEs and experts across South Africa) identified pervasive key challenges within the maturity stages of the small enterprises. The challenges are listed in Table 2.

Table 2: Survey evidence on the main challenges faced by SMMEs

Start-up issues	Growth issues
Sourcing/raising funds	Lack of funding / Access to or cost of finance
Finding customers	Poor sales or inadequate technology
Competition from other firms	Competition from large businesses
Internal market burdens	Local economic conditions
Wearing too many hats	
Lack of guidance	
Government policies: tax and bureaucracy	Burdensome regulations
Entrepreneurship education: primary and secondary level, as well as government entrepreneurship programs	Lack of adequate skills
	Cost of labour
Inadequate equipment	Growth and scale to meet client needs Space to operate Crime and theft

Source: (IFC, 2019)

[1] (https://www.thesouthafrican.com/news/finance/coronavirus-debt-relief-fund-how-to-apply, 2017) and (https://businesstech.co.za/.../top-5-challenges-for-small-businesses-in-south-africa, 2017)

[2] Surveys include:

- Start-up Survey 2016 (Seed Academy)
- Small Business Survey 2016 (NSBC)
- SA Small Business Survey 2010 (FinScope)
- SME Growth Index 2015 (SBP)
- National Expert Survey 2016 (GEM)

Business owners consider issues of **competition** and **market demand** foremost amongst challenges. Whilst these are real issues constraining the growth potential of SMMEs, they are a function of broader macroeconomic and market dynamics and hence beyond the control of the small business. Academic literature mostly excludes these challenges, focusing on challenges in the enabling environment that can be addressed through a combination of:

- **Public sector interventions** in policy, regulation or law to improve the business environment, infrastructure or education prospects of small businesses, and
- **Private sector interventions** that improve the supply of financial or non-financial support available to small businesses. Source: (IFC, 2019):

From a review of this literature, the most frequently cited enabling environment challenges affecting the small business sector include:

- **Legal and regulatory barriers:** Challenges relating to property rights, personal and business insolvency regime and restrictive labour law requirements.
- **Business environment:** Challenges relating to onerous business registration and tax compliance requirements.
- **Entrepreneurial competency:** Challenges relating to inadequate business capability and limited training programing for enterprise development.
- **Access to infrastructure:** Challenges relating to physical infrastructure bottlenecks like electrical supply, but also relating to access to and cost of ICT infrastructure.
- **Access to markets:** Challenges relating to compliance standards for government procurement and also the ability to participate upstream or downstream in large commercial value chains.
- **Access to finance:** Challenges relating to accessing credit and/or risk capital. Source: (IFC, 2019)

The same key challenges to small business development were reflected in the Department of Small Business Development's (DSBD) Annual Review of Small Business and Cooperatives in SA (2018/19). These are (DSBD, N.D.):

- access to funding, access to markets, red tape and burdensome regulations, unfavourable labour laws, technology adoption, lack of business management skills and development, low levels of research and development, and crime.

The section below expands on a few key challenges to SMME start-up, growth, and sustainability and recommendations that are prevalent from various sources. (DSBD, N.D.) (IFC, 2019):

- **Doing business** became increasingly harder due to cost of operations and inputs, and business and compliance costs
    - **SMME competitiveness will likely decrease due to inadequate infrastructure, equipment and technology**. Recommendations include:
        - Improved awareness of the Shared Economic Infrastructure Facility (SEIF) and support by DSBD for implementation
        - Improved accommodation for SMMEs in spatial planning by municipalities
        - Small industry hubs to provide equipment and raw materials

- Collaboration with organisations with network access distant from major centres, development of innovative approaches e.g. through enabling SMMES to benefit from Township Digital Hubs; Establishing free Wi-Fi data access points where high numbers of SMMEs operate, lobbying cellular network providers for low-cost data and voice packages
- An expanded incubation system, co-operation with private sector on incubation and digital hubs at disused government premises

- **Formal businesses:** Lack of finance, increasing operating costs, inconsistent cash flow (DSBD, N.D.)
- **Informal businesses:** Most SMMEs form part of the informal sector – they face:
  Lack of finance (many are unable to produce the necessary documentation required by financial institutions to assess bankability and approve applications), excessive competition, lack of adequate premises and equipment ;
  - Informal businesses recommendations:
    - 'Smart formalisation' is recommended, and a 'tax holiday' system to encourage informal businesses to formalise
    - Review and development of generic by-laws for municipalities to create a conducive business environment for SMMEs and informal traders
- **Increase Formalisation**
  85% of the SMME sector is informal and survivalist businesses. Enterprises struggle to grow and formalise particularly due to regulatory red tape and uncoordinated support for SMME development.
  SMME sustainability can be facilitated by developing **one-stop-shops** and **technology-enabled business registration**, **reducing red tape** for SMMEs and **minimising** the **tax burden** on small businesses.
  - Compliance cost in time and money and labour laws may handicap small business flexibility and cost competitiveness. Recommendations include:
    - DSBD research and analysis on the impacts of regulations, and advocacy; Review of standard documentation for simplification, and training
    - Involvement of DSBD in minimum wage setting and inputs into bargaining council wage decisions; advocacy around freedom in hiring, downsizing and discipline; publicity around labour web tool
    - Guidelines for assessing the effects of regulations and consulting with representative organisations and trade unions.

  Facilitate formalisation – improve the business registration process to enable simple formalisation of small business

- Low awareness of support services (financial and non-financial)
  - **There is a lack of awareness on how to start a business and on development services available.** A dedicated information drive is needed to ensure public awareness on services

available from all departments, agencies and institutions relevant to small business development

- **Provision of support services suffers from a lack of integration.** Collaboration with public and private sector bodies is recommended, e.g. creation of a system for sharing of information, tracking of referrals, collaborative funding and allocation of mentors and advisors

- **Small business funding remains a challenge.**
  Unlock SMME funding by consolidating and promoting information on funding access and requirements; and reducing complexities or simplifying application for financial assistance
  A holistic view that supports all possible funding sources such as private investments and crowd-funding is needed.
  Banking sector funding could be unlocked by measures such as sharing positive credit information on borrowers, a funding model based on risk sharing by private and public institutions, etc. Financial institutions can help small businesses understand and navigate market fluctuations and proactively design financing for the changing economic environment.
  A lower-value, rapid-turnaround grant under a graduated performance-based funding system is recommended, as well as a funding pool from ESD contributions etc.
  Other measures include the resolution of prohibition on cessions of payment, a Small Enterprises Ombud Service Bill, and adoption of a standard business plan template for financial support applications.

- **Access to markets:** To alleviate SMMEs' continued market access challenges requires improvement in **public** and **corporate procurement**. Government assistance is required, e.g. facilitation of participation in value chains, tax incentives to large firms to partner with new entrepreneurs, etc. Marketing skills training and support services could be developed, and a campaign to drive export growth. Executing government commitment to allocate a percentage of all contracts to SMMEs: a list of goods and services for exclusive procurement from SMMEs, briefing sessions to prepare SMMEs for involvement in new local projects and review of tenders awarded to detect and address problems.
  On-time government payments to SMME contractors. The Competition Commission should eliminate uncompetitive behaviour against SMMEs;

- **Skills challenges at the start-up and growth stages**
  - **Education, training and skills development (especially mentoring) are key to increased entrepreneurship and higher SMME performance**. Provide public with opportunities to finish schooling and achieve higher levels of education, e.g. through DSBD awareness campaigns, outreaches to schools, universities and TVET colleges, and expansion of Seda's Informal and Micro Enterprise Support Programme.
  - **Build better business management capacity** – through access to knowledge. Small businesses not only need financial tools, they also want support for growing their financial knowledge to make better business decisions. Transfer financial recording skills: financial readiness hinders the development of the SMME sector. Small businesses need help

navigating macroeconomic fluctuations and both the public and private sector have a role to play.

- **Tracking and monitoring is needed to manage the development of SMMEs.** This could be addressed partly by a comprehensive SMME database by DSBD, linked to a One Stop SMME platform for support.

Summary recommendations from the IFC (IFC, 2019) that aim to address the range of challenges spanning legal and regulatory barriers; business environment; entrepreneurial competency; access to infrastructure, markets and finance, are summarised in Table 3 below.

Table 3: Summary recommendations

Better data on the SMME sector	Sharpened policy focus	Increased formalisation	Improved financing and support
An accurate view of the SMME sector and its evolution is critical for the design and monitoring of public policy and private products and services.	Better data and monitoring of public interventions facilitate a sharpened policy focus and improved SMME operating environment.	Reduction in regulatory red tape and improved opportunities to access government and corporate supply chains improves the rate of formalization.	Financial and nonfinancial support services are better designed for different SMME segments and access improves as SMMEs formalize.
• Gain consensus on SMME definitions, led by clear public policy definition captured in legislation. • Public data on SMMEs captured electronically to improve efficiency and coverage. • Conduct a regular and up-to-date nationally representative survey on SMME owners.	• DSBD could play a coordinating role between SEFA and SEDA and other government stakeholders. • Recommend that DSBD convene public and private stakeholders to drive consensus and coordination. • Improve public procurement tools by clamping down on late payment to SMMEs, government departments not making use of SMME suppliers, and encouraging corporates to include SMMEs	• Intensify work to reduce regulatory red tape and improve SMME operating environment. • Improve the roll-out of one-stop-shops and electronic business registration. • Adopt Davis Tax Committee recommendations to reduce the tax burden on SMMEs.	• Banks should shift to credit scorecard lending, consider integrating personal and business banking, and embrace product and channel innovations. • Credit bureau coverage should be extended and include payment profile data. • Introduction of a movable collateral registry. • Make regulatory reforms on FICA/KYC, NCR regulation of MFIs, and implementation of innovation facilitation tools

Cooperatives

Key findings on cooperatives from the Annual Review of Small Business and Cooperatives were as follows (DSBD, N.D.):

- **Sector involvement**: The most common sector was Agriculture due to more accessible markets

- **Developmental contribution**: The survival rate is still low at 14%, but cooperatives contribute to economic inclusion in rural areas and the representation of women and late youth; formal businesses represented more people with disabilities than informal.
- **Markets**: The general public is the biggest client for the majority of cooperatives, followed by municipalities and medium to large business; only 4% considered government as a major client; in rural areas, small towns and metropolitan areas, medium to large businesses were important clients; cooperatives were not as successful in receiving government and public sector tenders as other formal SMMEs
- **Challenges**:
  - Funding, marketing, lack of suitable equipment, premises and land, and internal governance difficulties
  - Lack of understanding in dealing with cooperative income, inactivity of members in the business, difficulties in dealing with disagreements
- **Recommendations**:
  - Measures to overcome discrimination in markets, and assistance to identify markets and undergo marketing training prior to receiving support; increased training on marketing among commercially active Seda and DSBD client cooperatives, and assessment of current markets
  - Cooperation across support services and departments relevant to cooperatives
  - Promoting the benefits of cooperative activity to informal and micro-enterprises, and increased awareness of non-financial support for cooperatives
  - Publicity for innovation support measures such as Seda Technology Programme, and premises provided through SEIF to incorporate broadband connectivity
  - Governance and conflict management training before the provision of support, and in general
  - Consideration and development of cooperative structures for value chain participation, and assignation of cooperatives in need of development, to a designated advisor.

SA MSME SECTOR - COVID-19 IMPACT: KEY FACTOR IDENTIFICATION & ANALYSIS

The coronavirus pandemic is the largest public health crisis in living memory, causing large-scale loss of life and severe human suffering globally. It has also generated a major economic crisis, with a halt in production in affected countries, a collapse in consumption and confidence, and stock exchanges responding negatively to heightened uncertainties. (OECD, 2020)

This environmental scan follows a PESTEL structure – investigating the Political, Economic, Social, Technical, Environmental and Legal aspects – as defined below:

- **Political**. Political decisions affect all businesses. Government attitudes towards private and state-owned enterprises, international politics, and the impact of conflicts and variations in the price of oil and raw material supplies are among the many factors that can alter the future performance of an organisation.

- **Economic**. Economic factors are closely related to political influences. Interest rates and currency exchange rates will affect the home and international markets. Consumer expenditure is related to inflation and the amount of disposable income present within the different economic groups within a society. This, too, affects long-term planning. The profitability of the organisation, its market share and the predictions about these will also influence the planning process.

- **Social**. Social aspects may include demographic changes and the changing perceptions of the population, lifestyle changes, and changes in working conditions. Education, transport and family responsibilities are all examples of social issues that can impact on an organisation. An ageing population offers an opportunity to the healthcare sector yet threatens the capability of an economy's welfare structures.

- **Technology**. Technological factors include the availability of new ways of delivering service through the use of technology, the use of technology to obtain and exploit marketing information, and the ability to extend choice and communicate readily with suppliers, customers and other agencies through the use of internetworking technology.

- **Environmental**. Climate change and the impact of pollution come under the environmental heading. Sustainability of raw material supplies, the use of energy, regional variations of climate, and the impact of the environment on the individual's lifestyle will also affect the way the organisation plans its growth.

- **Legal**. Legal issues link closely with the political, social and environmental aspects of the PESTEL analysis, as the constraints that occur under these headings are enforced through law. Anti-trust and monopoly legislation can be viewed as a political issue or as a legal issue, and similar laws aimed at the reduction of pollution may be cited as environmental issues or may appear under the legal heading. Specific legislation may impact upon an organisation on account of its location. Planning restrictions may apply to organisations in greenbelt areas, and specific taxation legislation and controls may be applied to financial institutions.

This PESTEL analysis is based on a review of available literature on the impact of COVID-19 on the South African MSME sector. It highlights political, economic, social environmental, technological and legal issues that may affect MSMEs as a result of the COVID-19 outbreak and its impact.

2.1 Political

This section records political factors that affect MSMEs as a result of the COVID-19 outbreak and its impact. Political factors include government policy response to mitigate the severity of the pandemic impact, the lock-down and associated trade restrictions, labour relief measure and the government disaster fund. In providing policy assistance government is attempting to mitigate and balance the negative effects of the pandemic on the SA people, health services and economy, including MSMEs. The duration of the lock-down and associated trade restrictions have a severe impact on MSMEs and the people they employ.

a. Government policy

The COVID-19 pandemic has caused governments around the world to promptly respond to its impact using various measures. APPENDIX A - provides an overview of policy responses by various countries categorised labour, deferral, financial instruments and structural policies. Across countries, the most widely used instruments in response to the outbreak are income and profit tax deferrals, loan guarantees and direct lending to MSMEs, and wage subsidies.[3] Structural policies have been used modestly, with a focus on teleworking and digitalisation, although over time the number of countries setting up such policies has increased. The use of grants, debt moratorium and specific measures for the self-employed differs across countries (OECD, 2020).

South Africa, along with other governments, have proposed economic responses that include:

- Fiscal stimulus packages with spending focused on helping out businesses directly
- Monetary stimulus to strengthen liquidity, as well as cuts in interest rates
- Measures to assist those who cannot work during lock-downs through unemployment insurance and tax incentives to limit retrenchments, and
- Increased budgets for public health systems and disaster relief spending (Policy Brief: 3, 2020).

Also, the South African government recognises the opportunity to position the economy for stronger growth post the COVID-19 pandemic. It has devised a three-phase approach to dealing with economic challenges resulting from the pandemic (National Treasury, 2020):

- Phase 1 – Preserve the economy
- Phase 2 – Recover from the crisis
- Phase 3 – Position the economy for faster growth

An implementation plan was to be set out in the special adjustments budget and the 2020 Medium Term Budget Policy Statement.

b. Lock-down and trade restrictions

[3] This is in line with findings from the World Bank SME Support Measures dashboard, which suggests that out of 845 MSME policy instruments used worldwide, 328 relate to debt finance and 205 to employment support. https://dataviz.worldbank.org/views/SME

As a result of the pandemic, the SA government has implemented lock-down measures and regulations. The lock-down was divided into five levels. These regulations were established to regulate trade, as shown in Table 4.

Table 4: Risk-adjusted strategy for economic activity - An alert system with levels of restriction

Level	Sectors permitted	Transport restrictions	Movement restrictions
Level 5: High virus spread, and/or low health system readiness	Only essential services	Bus services, taxi services, e-hailing and private motor vehicles may operate at restricted times, with limitations on vehicle capacity and stringent hygiene requirements	No inter-provincial movement of people, except for transportation of goods and exceptional circumstances (e.g. funerals)
Level 4: Moderate to high virus spread, with moderate readiness	All essential services, plus: Food retail stores already permitted to be open permitted may sell full line ofproducts within existing stock All agriculture (horticulture, export agriculture including wool and wine, floriculture and horticulture, and related processing) Forestry, pulp and paper Mining (open cast mines at 100% capacity, all other mines at 50%) All financial and professional services Global business services for export markets Postal and telecommunications services Fibre optic and IT services Formal waste recycling (glass, plastic, paper and metal)	Bus services, taxi services, e-hailing and private motor vehicles may operate at all times of the day, with limitations on vehicle capacity and stringent hygiene requirements	No inter-provincial movement of people, except for transportation of goods and exceptional circumstances (e.g. funerals)
Level 3: Moderate virus spread, with moderate readiness	Licensing and permitting services, deeds offices and other government services designated by the Minister of Public Service and Administration Take-away restaurants and online food delivery Liquor retail within restricted hours Clothing retail Hardware stores Stationery, personal electronics and office equipment production and retail Books and educational products E-commerce and delivery services Clothing and textiles manufacturing (at 50% capacity)	Bus services, taxi services, e-hailing and private motor vehicles may operate at all times of the day, with limitations on vehicle capacity and stringent hygiene requirements Limited passenger rail restored, with stringent hygiene conditions in place Limited domestic air travel, with a restriction on the number of flights per day and authorisation based on the reason for travel	No inter-provincial movement of people, except for transportation of goods and exceptional circumstances (e.g. funerals)

Level	Sectors permitted	Transport restrictions	Movement restrictions
	Automotive manufacturing Chemicals Bottling Cement and steel Machinery and equipment Global Business Services SANRAL construction and maintenance Transnet at 100%		
Level 2: Moderate virus spread, with high readiness	Construction All other retail All other manufacturing Mining (all mines at 100% capacity) All government services Installation, repairs and maintenance Domestic work and cleaning services Informal waste-pickers	Domestic air travel restored Car rental services restored	Movement between provinces at Level 1 and 2 restrictions
Level 1: Low virus spread, high health system readiness	All sectors	All modes of transport, with stringent hygiene conditions in place	Interprovincial movement allowed, with restrictions on international travel

(Source: South African Parliament)

As the lock-down eased, i.e. moved from one level to the lower, more economic activities were permitted. Level 5 started on 27 March 2020 to 30 April 2010. Level 4 started on 1 May 2020 to 31 May 2020. Level 3 started on 1 June 2020.

c. *Labour relief*

The Unemployment Insurance Fund (UIF) and the Department of Employment and Labour launched a Covid-19 temporary employee relief scheme, which provided funds to distressed companies unable to pay the full salaries of workers that could not work or were laid off due to Covid-19 and the lock-down (Nxesi, 2020).

Though the undertaking was to process the application however the process has taken far longer than expected, this has exacerbated the desperate need MSMEs employees had.

d. *Disaster fund*

The SA government established a disaster relief fund, of R 500 billion to play a crucial role in helping businesses to survive the pandemic (Stats SA, 2020), assist the sustenance of jobs, recovery of the economy, help the most vulnerable to deal with hunger, preventing unrest and violation of the lock-down. A large part of the relief fund, R 130 billion, comes from budget reprioritisation. An amount of R 2 billion was set aside for MSMEs. These measures needed to be implemented timeously

promoted widely and the application process made simple and transparent, to be effective. The government COVID-19 relief fund intended breakdown is:

- R 200 billion credit guarantee scheme
- R 100 billion for job creation and support for small business
- R 70 billion for income support
- R 50 billion for those affected by COVID-19, relief of hunger and social distress
- R 40 billion for wage protection
- R 20 billion for health and frontline activities
- R 20 billion to municipalities (National Treasury, 2020).

Other government initiatives aimed at providing relief from the impact and effects of COVID-19 include:

- Mobilisation of very large private sector funding to assist small business, the Solidarity Fund , the Rupert and Oppenheimer families have each donated R1 billion to interest-free loans to MSMEs
- Temporary Employment Relief Scheme – R30 billion of the UIF's total R160 billion financial investments to expand support for workers and businesses facing layoffs
- Department of Tourism provided R200 million for MSMEs in the tourism sector
- Tax-compliant enterprises with a turnover of less than R50 million will be able to delay 20% of their pay-as-you-earn liabilities over the next four months
- Employment tax incentive that provides tax write-offs for young workers earning under R6 500 a month will be increased to allow an additional R500 a month per employee for four months
- Banks agreed to explore deferring payments; limiting repossessions and extending credit lines.
- The government also asked malls to limit evictions and provide relief on rentals for retailers that were closed by the lock-down, especially restaurants, clothing shops and personal-care services (Policy Brief: 3, 2020).

Funding sources for the fiscal response package include R95 billion borrowings. There will be a shortfall in 2020/21 revenue, but the size is difficult to estimate. (National Treasury, 2020):

e. Summary

From an MSME perspective, the South African government's key policy responses have been the fiscal stimulus package to help out MSMEs directly, extending unemployment insurance, and providing tax incentives for employees who earn R 6 500 or less. Government allocated R 2 billion in specialised MSME relief funding to assist small businesses to cope with imposed trade restrictions and stay afloat until economic activities could resume again. Other tax measures include deferral of 20% of tax owed, to a later period to bring some relief to MSMEs and other businesses. The associated lock-down trade restrictions meant that some sectors, such as tourism and recreation sectors were more adversely affected than others and therefore more relief measures need to be considered for those particular sectors. APPENDIX B - lists a summary of South Africa's COVID-19 relief schemes.

2.2 Economic

This section lists economic issues that may affect MSMEs as a result of the COVID-19 outbreak and its impact. These include the exchange rate, interest rate, economic growth, supply chains, places of work, unemployment and affected sectors.

The sheer magnitude of the pandemic makes it challenging to forecast economic impact and a global recession has become likely. The OECD forecast (end March 2020) indicated that the initial direct impact of the lock-downs could result in a decline in the level of output of between 20% to 25% in many economies, with consumers' expenditure potentially dropping by around one-third. The ILO estimates the impact of COVID-19 to result in annual GDP growth decline of up to 2% for each month that strict containment measures continue, although this impact will depend on many factors, including:

- the duration and magnitude of national shutdowns,
- the extent of reduced demand for goods and services in other parts of the economy, and
- the speed at which significant fiscal and monetary policy support takes effect. (OECD, 2020)

MSMEs are at the centre of the economic crisis brought on by the COVID-19 pandemic. A widespread collapse of MSMEs could have a strong impact on national economies and global growth prospects (OECD, 2020).

a. Exchange rate

Figure 5 tracks the exchange rate from the beginning of March 2020 to end of May 2020 showing the impact of the pandemic on the South African Rand versus the United States Dollar.

Point 1 on the graph shows the date, 23 March 2020, when the South African President, Mr Cyril Ramaphosa, announced the planned lock-down of 3 weeks. The lock-down started on 27 March 2020, shown on Point 2. Point 3 illustrated the date when the 3 week lock-down was extended by another 2 weeks and the Risk-Adjusted Strategy for Economic Activity. Point 4 displayed the date when the Level 4 lock-down started. From Point 4, more economic activities were allowed to operate, equivalent to 3 million workers versus essential workers during Level 5 lock-down (Patel, 2020).

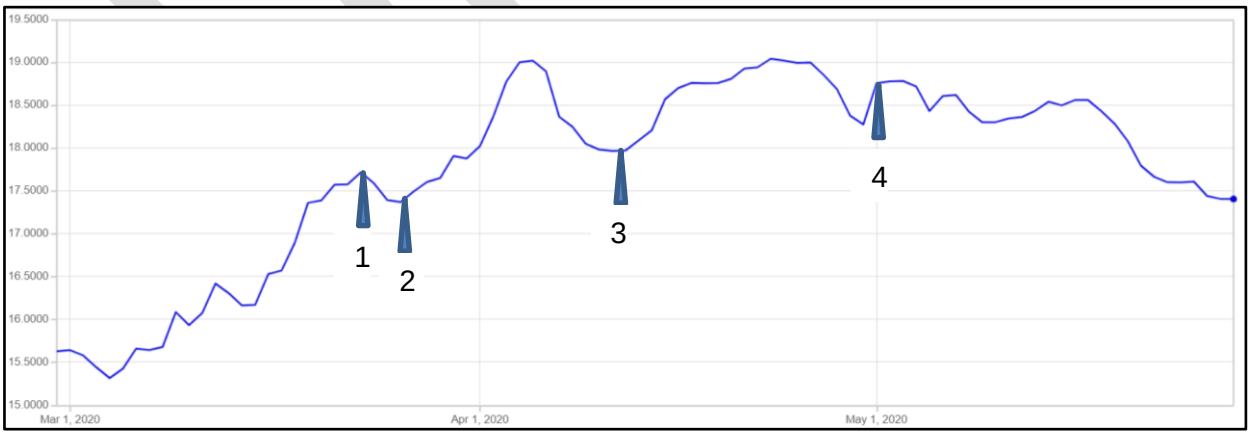


Figure 5: ZAR to USD exchange rate
(Source: https://www1.oanda.com)

The exporting MSMEs could not export their products during the lock-down and therefore lost opportunity costs of getting more revenue on their sale. By end of May 2020, the exchange rate had returned to pre lock-down levels though still higher (about 13%) than the beginning of March 2020.

For MSMEs that are importing, it will mean that the products they procure will cost more than what it was about 3 months ago. This does not factor other issues such as supply disruption that could lead to increased prices of products. This however does present an opportunity for import substitution.

b. Interest rate

The South African Reserve Bank (SARB) responded swiftly to the impact the pandemic had on the people whose income was reduced and jobs lost. Figure 6 shows the rapid reduction of the REPO rate from 6.25% in early March 2020 to 3.75% in May 2020.

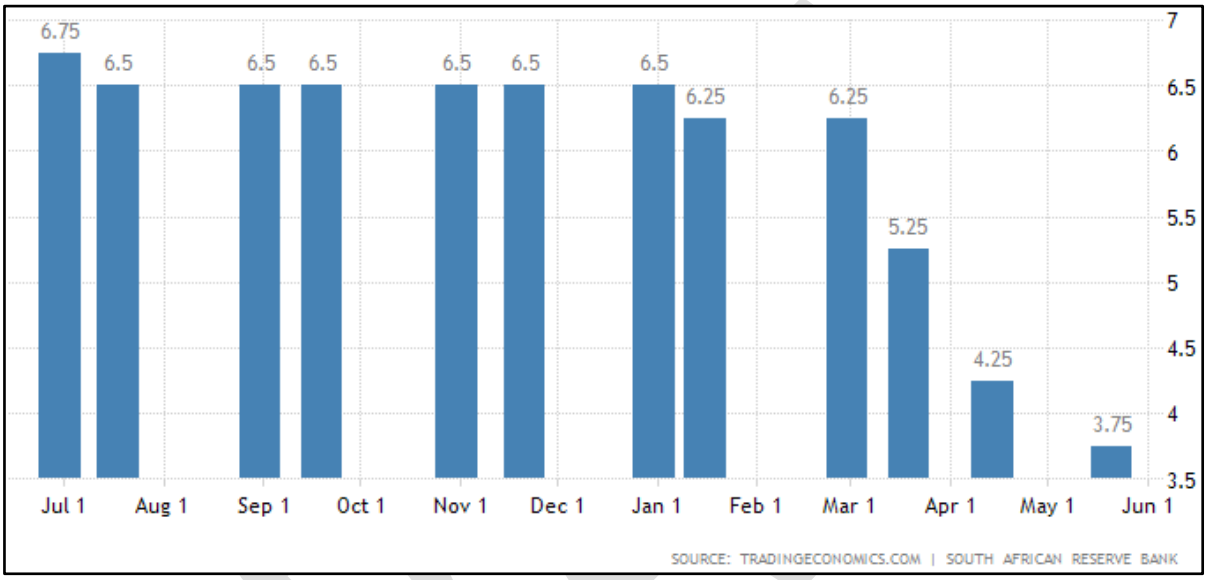


Figure 6: South Africa - interest rate

It is envisaged that this could bring some relief to MSMEs and businesses who hold bank loans. This will mean that the debt service has been reduced by 2.5%.

c. Economic growth

The South African economy had already weakened before the global COVID-19 crisis, due to rising government debt, weak economic growth, high levels of expenditure and funding support to state-owned companies. Rating downgrades and currency weakness further increased the cost of government borrowing. Consequently, the South African economic growth rate had been low and decreasing over the past few years, 1.4% in 2017, 0.8% in 2018 and 0.7% in 2019 (The World Bank, 2020). Figure 7 shows that the last two economic quarters of 2019 shrunk by -0.8% in Q3 and -1.4% in Q4.

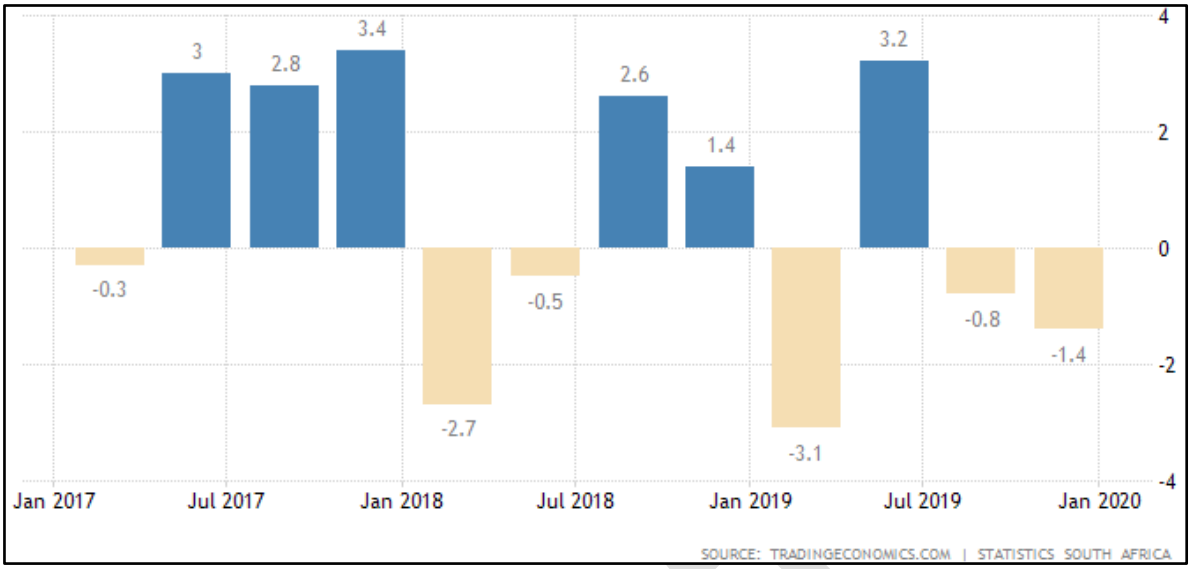


Figure 7: South Africa economic growth

It was therefore expected that the pandemic impact would make the situation worse and in April 2020, International Monetary Fund and World Bank, reduced South Africa's GDP growth prospects for 2020 to -5.8% and to 4.0% in 2021. Similarly, the South African Reserve Bank, in its Monetary Policy Statement released in April 2020 revised its economic growth projections down to -6.1% in 2020 and 2.2% in 2021 as a result of COVID-19 pandemic impact (Department of Trade, Industry and Competition (the dtic), May 2020).

This could spell even greater danger for MSMEs as larger businesses increase efficiency measures that may cut spending on non-core business activities. MSMEs may need to reinvent themselves and their offerings to adapt to the changed circumstances. The government could provide special assistance to MSMEs that are venturing into new sectors and fourth industrial revolution (4IR) related industries.

d. Supply chains

The global economy was highly dependent on China. China's share of global trade in some industries exceeds 50%, such as in the global trade of telecommunications equipment, China's share (by volume) was 59% in 2018. Globalised and regional supply chains have been exposed by COVID-19. It is likely that this period of globalisation will not only come to a halt, it may reverse as countries look to alternative suppliers locally or within their region endure (The Economist Intelligence Unit, 2020).

For the SA government, this presents an opportunity for import substitution measures to be put in place. MSMEs and available labour could be redirected to start local production of products that were previously imported for the local consumption.

e. Workplaces

Some aspects identified as likely to change in workplaces post-pandemic include:

- Telecommuting and online learning will increase, thus disrupting offerings in many sectors

- More businesses will opt for co-working spaces and virtual working, changing how we interact with physical infrastructure, such as office space
- There will be increased confidence in technology as an enabler to most of daily activities, namely improved FinTech and EdTech solutions
- Innovative start-ups will be on the rise as they seek to leverage the disruption created by the pandemic, such as non-contact deliveries, telemedicine, Artificial Intelligence and big data analytics
- A lot of businesses, mostly MSMEs, will close their doors due to the nature of products and services they offer
- The informal sector will start formalising
- More private and public sector institutions will invest in healthcare, resulting in better quality and access for citizens and improving telecoms infrastructure, basic services and making hygiene practices part of our everyday lives (Business for South Africa, 2020).

It is anticipated that the COVID-19 crisis will sow seeds for the development of the workplaces of the future. For MSMEs, it is envisioned that many will make means to work from home if possible and those that were in the informal may likely start complying with government requirement of formalising to be able access government offered relief aid and incentives. It is likely that most MSMEs will establish some form of digital presence to increase their reach and expose their products and services to both their local and larger audiences.

f. Unemployment rate and disposable income

Stats SA's second survey, conducted during the latter part of the Level 5 lock-down (14-30 April 2020) assessed the COVID-19 business impact. The survey had 2 182 respondents and asked the formal sector how the pandemic was affecting their operations. The survey results showed that:

- Turnover – 90% of businesses' turnover was lower than their normal expected range, over the state of disaster period
- Workforce – 36% of firms indicated that they were laying off staff in the short term as a measure to cope with the COVID-19 pandemic. 25% of businesses indicated that they were decreasing working hours
- Trading activity – almost half (48%) of businesses reported a pause in trading in the period 14 April 2020–30 April 2020, while 9% of businesses indicated that they had ceased operations permanently. The industries with the highest percentage of firms permanently closing their doors include construction (14%); community, social and personal services (12%); and agriculture, hunting, forestry and fishing (12%).
- Business survival without turnover – only 7% can survive for a period longer than 3 months (Stats SA, 2020).

It is anticipated that as more and more people are without jobs, it will result in an increased unemployment rate leading to reduced household disposable income. The unemployment rate is estimated to surpass 50%. (Business for South Africa, 2020).

This picture shows the position of mostly well established formal businesses, it is therefore expected that MSMEs would experience a bleaker outcome than their larger counterparts. Government could therefore consider expanding the R 2 billion relief package to cater for the severity of MSMEs.

g. Sectoral impact

It is well understood that COVID-19 induced economic disruption is globally affecting various sector differently. The Heat Map (Moody's, 2020) shown in Figure 8 classifies industry sectors in terms of how COVID-19 induced economic disruption will affect them.

Figure 8: COVID-19 Heat Map

Source: (Moody's, 2020)

- **High exposure (Red)** – 9 sectors have a high exposure to the negative effects of the pandemic and these include apparel, automotive, leisure and tourism, passenger airlines and others.
- **Moderate exposure (Orange)** – 11 sectors have moderate exposure to the negative effects of the pandemic and these include chemicals, agriculture, steel producers, beverages, oil and gas, and others.
- **Low exposure (Green)** – 10 sectors have low exposure to the negative effects of the pandemic, including rental, defence, telecoms, construction / materials, food and food retail. The pandemic could have a positive impact on companies in the internet service, online retail and gold mining industry sectors.

From Government's Risk-Adjusted Strategy for Economic Activity, Table 5 categorises the prevalence of MSMEs within industries from high to low (South African Parliament, 2020).

Table 5: MSME Intensity by sector

High	Medium	Low
• Radio, TV, communication equipment & apparatus • Recreation, cultural & sporting • Wholesale & retail (incl. home deliveries)	• Agriculture & food services • Chemicals • Construction (incl. electrical & plumbing services) • Forestry • Health & social work • Hotels & restaurants • Other manufacturing • Pharmaceuticals • Post & telecommunications • Professional services • Real estate • Sewerage & waste disposal • Transport	• Automotive • Electricity • Financial Intermediation • Fishing • Insurance • Mining • Petroleum refineries • Water

(SA Parliament, 2020)

Interventions aimed at sectors with a high prevalence of MSMEs (such as Wholesale and retail, Sport, culture and recreation, and Broadcasting and communication) will have a higher demand and potential for a broader impact.

According to DSBD's Annual Review on Small Business (2018-19) most employment in Micro, Very Small and Small enterprises were in:

- The Wholesale and Retail Trade (2.6 million),
- Community, Social and Personal Services (2 million) and
- Financial Intermediation, Insurance, Real Estate and Business Services (1.4 million).

Based on their contribution to job creation, it would also be important to support the sustainability of MSMEs in these sectors.

In prioritising relief interventions to counter the economic impact of COVID-19 on MSME's, consider that not all MSMEs are affected the same. Table 6 categorises the percentage of MSMEs likely to close due to COVID-19 and lockdown impacts in the various industries.

Table 6: Percentage of MSMEs likely to close due to COVID-19 and lock-down impacts in various industries

Sectors	% of MSMEs likely to close
Tourism	75%
Creative – arts, music Transport (aviation)	65%
Retail (clothing)	55%
Chemicals Fibre optic Mining	45%
Agriculture and food supply Construction Renewable energy Retail (takeaways)	35%
Defence industry / Aerospace Forestry Global business services ICT and digital	25%

Sectors	% of MSMEs likely to close
Long term insurance Online retail	
Manufacturing Oceans Pharmaceutical Professional services Retail (food)	15%
Automotive Creative – film Gas and oil Short term insurance	5%

Source: (SA Parliament, 2020)

Tourism, aviation and clothing retail were the most affected sectors. Tourism was the most affected sector due to COVID-19 imposed travel restrictions, closing of borders and social distancing. These MSMEs would be in more dire need of relief and stimulus than less vulnerable counterparts would.

A narrower and presumably more accurate version of the impact of lock-down and trade restrictions on the various sectors is suggested in Table 7 (South Africa- Towards Inclusive Economic Development, 2020) It shows the severity experienced by sectors ranging from mild to severe expressed in terms of percentage decline.

Sectors that will experience a mild decline include primary sectors such as agriculture, forestry and fishing and basic services such as health, telecommunications, electricity, water, hygiene and financial services.

Petroleum, business services, and plastic and glass will suffer moderate decline, while retail and transport, (also mentioned in other studies), are set to suffer a large decline.

Sectors that will experience a severe decline include recreation, accommodation, catering, construction, machinery, tyres and rubber products, tobacco and alcoholic products, non-metallic minerals and metal products. These sectors will be in dire need of transformative interventions.

Table 7: Implications by sector

	Mild decline (0 to -10%)	Moderate decline (-10% to -30%)	Large decline (-30% to -60%)	Severe decline (Larger than -60%)
	• Agriculture, forestry, fishing		• Mining and quarrying	
Manufacturing	• Pharmaceuticals, hygiene and cleaning	• Food and non-alcoholic beverages • Petroleum • Plastic, glass	• Textiles, clothing, leather and footwear • Paper, paper products • Basic chemicals, fertilizer, paint, other	• Alcoholic beverages and tobacco • Wood, wood products • Tyres, rubber products • Non-metallic minerals and products (cement, concrete, etc.) • Iron, steel, metal products • Machinery and equipment

Mild decline (0 to -10%)	Moderate decline (-10% to -30%)	Large decline (-30% to -60%)	Severe decline (Larger than -60%)
• Electricity, gas, water • Communication • Finance and insurance, computing services • Health services	• Real estate, legal and accounting, other support services	• Wholesale, retail trade • Transport and storage • Rentals, research, manufacturing services, other business services • Education services	• Construction • Accommodation, catering • Recreation, other community services

Source: (South Africa- Towards Inclusive Economic Development, 2020)

In prioritising relief interventions to counter the economic impact of COVID-19 on MSMEs, tourism, retail, transport, and all manufacturing activities will experience severe decline and will be in dire need of transformative interventions to maintain their ability to pay the next salary bill and avoid the increased likelihood of retrenchments and closure.

COVID-19 was estimated to severely affect manufacturing production in developing countries due to:

- Low demand from high-income countries for manufacturing goods and raw materials
- Disruption of value chains due to delays in the delivery of necessary components and supplies from more technologically advanced countries
- Other factors, including policies (e.g. restriction of movement of goods and people), inability of employees to reach the workplace or financial constraints, which affect the normal production process.

While economic measures are intended to support the formal sector, it is critical to be conscious of the fact that the informal sector in developing countries contributes significantly to GDP and the labour force. It is therefore also important that the informal sector is considered for interventions since it is also affected by COVID-19 (AU, 2020).

The South African auto industry established that:

- Second tier automotive component manufacturers appear to be the most affected, mainly because of their lower operating margins, and limited access to lines of credit
- UIF and relief funds were considered essential for continued existence and the length of the lock-down was a major concern
- Liquidity – Government assistance would determine whether some companies exists after lock-down or not
- Social distancing restrictions in factories will impact productivity
- Vehicle demand is expected to be low for the next 6 months (Policy Brief: 6, 2020).

The South African steel industry will also be impacted by COVID-19. The steel price is most likely to plummet to US$330 per tonne (free-on-board at the port of export), versus the US$505 per tonne at the beginning of 2020. Domestic steel consumption is expected to fall by 26%. The local industry was already weak and shrinking. International steel mills are holding a lot if inventory and this will lead to further cuts in price. The industry is facing liquidity challenges and is likely to see retrenchments (Policy Brief: 7, 2020).

h. MSME surveys

In South Africa a number of surveys were carried out to determine the impact of COVID-19 pandemic on small businesses. A few mentioned here below.

SEDA Survey: MSME Recovery Plan
SEDA undertook a survey of 1 869 respondents to understand the effect of COVID-19 on MSMEs. To assist the DSBD with drafting its Recovery Plan. The results indicated that:

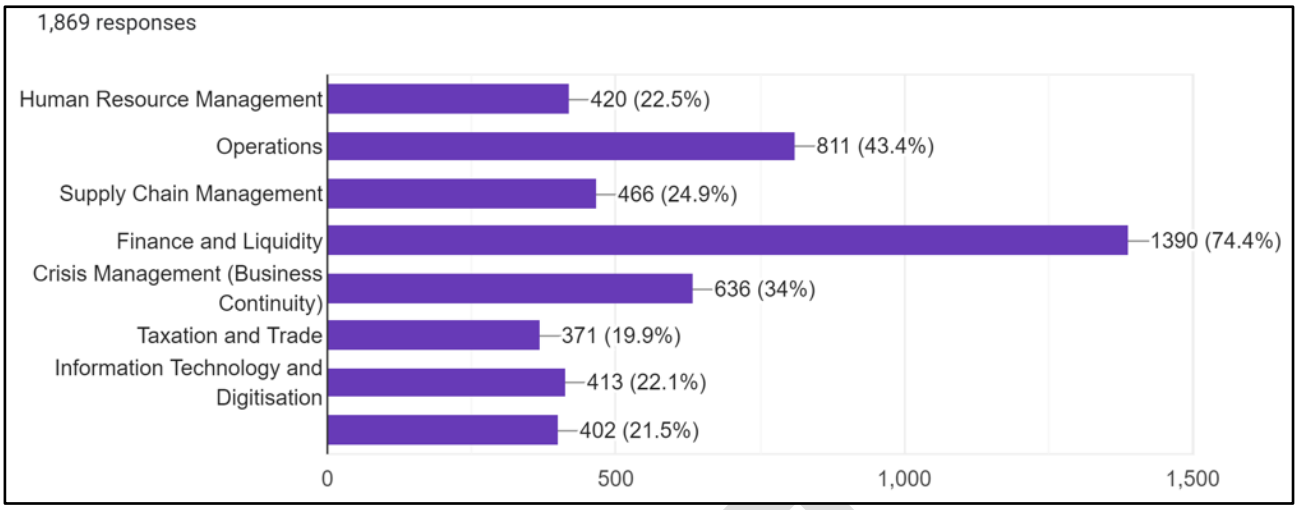
- Finance and liquidity is the biggest issue for most MSMEs
  - Access to finance
  - Access to markets

- Most (90% of surveyed) MSMEs were unable to service debts due to COVID-19 and stringent credit policies by funders. MSMEs believed they were on the verge of closure if no intervention was made by the government.

- Key needs raised included:
  - Government ring-fencing procurement for MSMEs
  - Prompt payment for services provided by MSMEs
  - Reduction of red tape when accessing UIF, Relief Fund and other COVID-19 measures
  - Focussing on rural and township MSMEs (SEDA, 2020).

Figure 9 depicts the main areas where MSMEs required assistance – the top needs being:
- Finance and Liquidity
- Operations
- Business continuity – crisis management

Figure 9: MSME assistance required



Source: (SEDA, 2020)

Topmost additional services required from government in assisting SA's small businesses during COVID-19 and thereafter were:

- Financial assistance (required by almost 40% of respondents)
- Followed by Training and education; Business support/rescue; Preferential procurement and compliance assistance; (required by 8-10% of respondents)

COVID-19 – Impact on SA's MSMEs

Gen 22 on Sloane carried out a survey to understand how COVID-19 has induced changes and its impact on MSMEs. It found that:

- Slightly more than 90% of small businesses operations (of survey companies) are affected
- Travel restrictions limited physical interaction and as such key business activities such as meetings, training and even contracts were cancelled
- Some projects were put on hold, and this led to low levels of incomes generated
- Majority of businesses will not have budgets to continue their operations. Some businesses indicated they tap into their reserves. However, with overall macroeconomic uncertainties looming, these reserves will run low
- Retrenchments are likely to happen
- Assuming the pandemic does not last for more than 6 months, about 50% of entrepreneurs in the townships do not think they will survive COVID-19. Businesses are uncertain of what the future may hold if the pandemic lasts long.

UCT and Phapama Survey: COVID-19– Solutions to support entrepreneurs in townships

In a case for better solutions to support entrepreneurs in townships, University of Cape Town undertook a survey to measure the impact of COVID-19 on MSMEs and identify the gaps in the current interventions provided by both private and public entities. Table 8 ranks the additional services required from the government in assisting SA's small businesses during COVID-19 and thereafter.

Table 8: Gaps and recommendations re current private and public sector interventions

Gaps	Recommendations
• Most funding platforms require businesses to be registered and tax and UIF compliant. Further requirement being 6 month bank statement and financial projections • No funding available for foreign owned businesses even when they are providing employment to local citizens.	• Application requirements must be less stringent and businesses owned by foreign nationals need to be considered in the assistance
• Entrepreneurs don't know where to find assistance. Funding requirements are often ambiguous and many schemes are misunderstood to be grants when they are actually loans.	• Funding needs to be as accessible as possible. This includes applications being made available in all official languages executing the application process in a manner that minimises costs for business owners; emphasising the nature of funding (loan vs grant) • More assistance needs to be in the form of grant funding to minimising saddling small business entrepreneurs with extra debt • Small business needs representation
• Waiting period between funding application and disbursement of funds is too long for businesses in distress	• Turnaround from application to funding should be within a short period

It is critical that the government facilitates a process to ensure that these gaps (financial assistance, business rescue, and preferential procurement) are addressed to improve the chances of businesses surviving the effects of the pandemic.

COVID-19 and its impact on the MSME sector

Another survey on COVID-19 and its impact on the MSME sector by the Inclusive Society Institute (ISI)[4] investigated how MSMEs are coping with the Coronavirus lock-down and proposed measures to alleviate financial distress. It tested enterprises' willingness to accept new fiscal measures that would require further sacrifices in terms of higher taxations. This survey introduced two new concepts that do not form part of the current public discourse:

- The once-off "COVID-19 RECOVERY LEVY" based on company turnover; and
- A "SOLIDARITY TAX" on personal incomes above R240 000 per annum (also once-off) was introduced.

More than one-third of the respondents supported the former, and 44% the latter. Whilst retrospectively grasping that a 2.5% levy on turnover is too high, and that only a fraction thereof (still with the ability to generate substantial revenue) will most probably be feasible – it is proposed that the policymakers undertake economic modelling to examine the feasibility of such new financial measures. The survey found that the vast majority of MSMEs require financial assistance to see them through the lock-down period and that sustained support will be required to aid the recovery of the sector. It is accordingly proposed that the policymakers consider additional mechanisms to support the MSMEs and that the mechanisms, current and future, be streamlined to ensure speedier decision-making and transfer of financial aid to the enterprises (Inclusive Society Institute, 2020).

i. Summary

[4] See APPENDIX B - section **Error! Reference source not found.** for context on the survey

Globally the pandemic has affected MSMEs disproportionately and has revealed their vulnerability to supply and demand shocks (in particular regarding their liquidity) with a serious risk that over 50% of MSMEs will not survive the next few months (OECD, 2020).

The exchange rate increase has led to more expensive imports but also increased revenues for exporters. For MSMEs the biggest issue has been the cash crunch and their desperate need to remain liquid as the economy is expected to take a significant amount of time to recover. Though government support measures were put in place, bureaucratic processes delayed relief from coming through. For many MSMEs the UIF payments take too long to be paid and in many cases, it is still not received.

Within the wide-range of international lock-downs supply chains have been disrupted. This provides a window of opportunity for local import substitution where the government can promulgate policies to replace imports with local production. If MSMEs are positioned to fill the imports gap, this could kerb unemployment.

In prioritising support and relief funding, consideration should be given to the worst affected sectors, namely: tourism, retail, transport, and all manufacturing activities – as they are the most likely to retrench staff or close altogether. Also, significant government procurement could be ring-fenced for MSMEs.

To launch MSMEs into the economy of the future, they could be channelled and supported in new sectors and 4IR sectors.

Key MSME assistance requests that come up regularly in surveys are financial assistance, some form of business rescue, preferential procurement and market opportunities.

2.3 Social

Changes in social factors can impact a business in many different ways, such as in sales. The effects on society have the potential to significantly slow down the economy. It is therefore essential to assess the impact of pandemics such as COVID-19 on society so that appropriate programmes could be developed to recover the economy, including survival of MSMEs. Social factors could include demographic changes, lifestyle changes, and perceptions of people, education and transport.

Due to the COVID-19 effects, the private and public sector could possibly invest more in underserved communities by improving telecoms infrastructure, basic services and making hygiene practice part of everyday lives. A national health emergency could cause people to leave aside their current political squabbles. On the other hand, COVID-19 could have side effects such as possible social unrest associated with the containment of the virus. In countries with long histories of sectarian violence, this might be worrisome.

a. Impact of COVID-19 on society

Societal changes as a result of COVID-19 are summarised below:

- Older persons are particularly susceptible to the risk of infection from COVID-19, especially those with chronic health conditions such as hypertension, cardiovascular disease and diabetes. This could result in the loss of capacity to the economy as older persons have skills and experience in the industry
- Mass retrenchments as a result of COVID-19 will be experienced and this could increase the burden on social welfare (Policy Brief: 5, 2020)
- Township entrepreneurs are most likely to fail to support themselves and their families (22 On Sloane, 2020)
- The disruption in all education systems is likely to affect small business negatively in the short and medium term, however in the long term this should be mitigated
- Workers are suspicious of the work environment safety (Policy Brief: 6, 2020). Government needs to educate the public so that they (people) are not sceptical about returning back to work after lockdown
- People have been keeping tabs on social media for update on COVID-19 developments. This has increased the use of social media
- Internationally, several countries have introduced COVID-19 socio-economic policy measures related to **working time shortening, temporary lay-off and sick leave,** some targeted directly at MSMEs. Similarly, governments provide wage and income support for employees temporarily laid off, or for companies to safeguard employment. In many cases, countries have introduced measures specifically focused on the self-employed. (OECD, 2020)

b. Impact on MSMEs

Social impacts of COVID-10 affecting MSMEs include:

- The potential loss of capacity as a result of the susceptibility of older persons (who possess skills and experience) could hamper the productivity of MSMEs
- Suspicions of workers about the work environment safety could delay further rate of recovery of businesses, including MSMEs
- Retrenchments will likely reduce the disposal income of consumers and thus this will impact on the sales of goods and services. Also, crime could increase
- There is an opportunity for digital education platforms, however small businesses are not likely to benefit widely in the short to medium term
- MSMEs could utilise social media for promotions of their goods and services

To minimise the impact of societal changes on MSMEs the following is suggested:

- MSMEs should be encouraged or supported to accommodate older people to work from home so as to benefit from their skills. Also, a succession plan could be put in place.
- Relief programmes and schemes should reach out to businesses so as to minimise retrenchments of people
- Government and MSMEs should invest in digital systems

2.4 Technological

Technology, which encompasses a huge body of knowledge and tools is critical for economic development. It enables the use of economic resources to produce goods and services efficiently and innovatively. MSMEs, similar to large businesses, require technology to enhance their

productivity, efficiency and growth. One of the positive impacts of COVID-19 on the global economy is that it is accelerating the pace of digital transformation within public and private organisations. For example, the release of the long-awaited additional spectrum to support data requirements and telecommunication is imminent. It is now an opportune moment for business to embrace 4th Industrial Revolution as part of the recovery plan.

a. Technology trends resulting from COVID-19

The following technology trends emerged as a result of lockdowns and quarantines arising from COVID-19. These technologies are changing how society and business could remain resilient and relevant despite the effects of COVID-19, and may have a long-lasting impact beyond the pandemic.

- **Online shopping** – On-line shopping is gaining momentum because of regulations in industries such retail eg. Restaurants). Countries such as China and the USA are launching contactless delivery services where goods are picked up and dropped off at designated locations
- **Digital and contactless payments** – Digital payments enable people to make online purchases and payments of goods, services and even utility payments, as well as to receive stimulus funds faster
- **Remote work** – Social distancing and lock-down regulations have resulted in many companies allowing employees to work from home. This is enabled by technologies such as virtual private networks (VPNs), voice over internet protocols (VoIPs), virtual meetings, cloud technology, work collaboration tools and even facial recognition technologies that allows a person to appear before a virtual background to preserve the privacy of the home.
- **Distance learning** – Due to the inability of students and lecturers to converge at learning facilities, educational institutions are exploring online tutoring. The challenges would however be digital readiness and economic ability of parents
- **Telehealth** – Telehealth can be an effective way to contain the spread of COVID-19 while still providing essential primary care
- **Online entertainment** – Reduction of in-person interactions led to introduction of online entertainment. This includes cloud raves and online streaming of concerts
- **3D Printing** – 3D printing technology has been deployed to mitigate shocks to the supply chain and export bans on personal protective equipment
- **Robotics and drones** – COVID-19 provided a strong push to rollout the usage of robots and research on robotics.
- **Information and Communications Technology (ICT)** - the technology trends discussed above rely on a stable, high-speed and affordable internet. The adoption of 5G (which is roughly ten times faster than the newest 4G) in South Africa is still at its early stages, with Vodacom having commenced its roll-out already

b. Challenges that comes with technology

COVID-19 has demonstrated the importance of digital readiness, which will enable business to recover from the impact of the pandemic and to compete globally. However, the adoption of these technologies comes with some challenges:

- Technology enabling remote working comes with challenges such as information security, privacy and timely tech support.

- Production using 3D printing faces obstacles such as intellectual property issues and certain goods, such as surgical masks may be subject to regulatory approvals, which can take a long time to obtain.
- Automation of manufacturing and utilisation of robotics and drones may lead to job losses. However, new jobs could be created by the adoption of these technologies
- The adoption of advanced ICT such as 5G will increase the cost of compatible devices and the cost of data plans.

c. *Findings from surveys with respect to technology*

Findings from surveys conducted by various organisations are listed below:

- In parliament's Risk-Adjusted Strategy for Economic Activity, an inability of an industry's employees to work from home would contribute to their risk of transmission and impact on their clearance to operate over the various levels. According to the Risk of Transmission matrix, in the majority of industries less than 30% of employees could work from home
- Most businesses surveyed by Stats SA in its COVID-19 business impact survey (Stats SA, 2020) indicated that their IT systems are robust enough to handle the demand if employees are required to work from home. Unfortunately, for the majority of informal small businesses, which make up more than 50% of the small businesses, technology uptake is still low. In 2018 only 1 in 7 households had broadband internet access – limiting working from home options (Policy Brief: 3, 2020)
- Many MSMEs require assistance to access modern technology (DSBD, 2019) It is hoped that the imminent release and licensing of high demand radio spectrum will in time boost economic activity and employment, particularly for the MSME sector (SEDA, 2019).

MSMEs need to be ready and able to embrace technology for their survival. Based on the findings, it would seem intervention is required to assist with roll-out of technology infrastructure such as 5G and ensuring MSMEs are able to adopt technology to recover from the impact of COVID-19. This could be included in relief schemes and interventions by public and private sector

2.5 Environmental

Businesses are affected by changes in the environment. Conversely, operations of businesses affect the environment. Therefore, any economic initiative or intervention needs to consider the impact of the environment to enable effective intervention. Key environmental factors include climate change, pollution, sustainable raw material supply, energy and impact of the environment on individual lifestyle.

a. *Impact of COVID-19 on the environment*

Some impacts of COVID-19 on the environment are summarised below:

- Electricity sales dropped by over half during the lockdown (TIPS, 2020). The main cause was sharp cuts in industrial production, especially the metals refineries. This, coupled with reduced transportation resulted in the reduction of carbon emissions
- COVID-19 could permanently alter commuting and transportation

- Disruptions to supply chains including suppliers' closure affected the sustainable supply of raw material and production inputs required for their processes
- Maintenance and monitoring of natural ecosystems have been temporarily halted
- Waste:
  - Volumes of unrecyclable waste have risen
  - Severe cuts in agricultural and fishery export levels have led to the generation of large quantities of organic waste;
  - Local waste problems have emerged as many municipalities have suspended their recycling activities over fears of virus propagation in recycling centres.
  - Food retailers have resumed using plastic bags at checkout points citing health concerns over consumers' reuse of paper bags. In addition, due to stay-at-home policies, many consumers have increased their consumption of take-away food delivered with single-use packaging.

b. *Impact on MSMEs*

The impact of COVID-19 on the environment affected MSMEs in the following ways:

- Approximately 35% of the MSMEs in the renewable energy could close operations due to COVID-19 (SA Parliament, 2020). However, the reduction in carbon emissions as a result of reduced electricity supply could redirect power supply from alternative sources such as renewables and this could create opportunities for MSMEs
- Environmental disruptions due to COVID-19 and lockdown measures, which result in reduced capacity for environmental service provision and maintenance, will further exacerbate and prolong the cost and delay in returning to capacity of small businesses that are downstream or dependent on the service
- Generation of waste packaging as a result of increased home deliveries of food and other goods could create waste recycling opportunities for MSMEs

2.6 Legal

This section lists legal issues that may affect MSMEs as a result of the COVID-19 outbreak and its impact. Legal impacts include discrimination laws, employment laws, health and safety (H&S) laws and consumer protection laws. These are relevant to MSMEs, since discrimination was a criteria for assigning relief in the tourism sector, preferential employment of South Africans is being encouraged, H&S regulations are effected to curb the spread of the COVID-19 virus and consumer protection laws to regulate overpricing of essential products and goods.

Table 9 lists some of the latest lock-down regulations that were promulgated during the lock-down period.

Table 9: Lock-down regulations

Regulations	Directions	Guidelines	Disaster Management Act
Alert level 3 lockdown regulations, 28 May 2020	Re-opening of schools under Coronavirus COVID-19 lockdown, 29 May 2020	Guidelines for Mandatory Code of Practice on Mitigation and Management of Coronavirus COVID-19 Outbreak, 18 May 2020	Disaster Management Act: Declaration of a National State of Disaster: COVID-19 (coronavirus), 15 Mar 2020
Alert level 4 lockdown regulations, 29 Apr 2020	Alert level 3 directions for religious gatherings, 28 May 2020	Exemption from Municipal Supply Chain Management Regulations, 1 May 2020	Disaster Management Act: Classification of a national disaster: COVID-19 (coronavirus) , 15 Mar 2020
Lockdown regulations, as amended on 20 Apr 2020	Amended directions for biodiversity sector, 26 May 2020	Guidelines: Public Service return to work after the easing of COVID-19 lockdown, 1 May 2020	Disaster Management Act 57 of 2002, 15 Jan 2003
Lockdown regulations amendment, 20 Apr 2020	Amended directions on COVID-19 temporary employee / employer relief scheme, 26 May 2020	Harmonisation of Short Code '111' for Coronavirus COVID-19 National Emergency Services, 15 Apr 2020	
Lockdown regulations amendment, 16 Apr 2020	Amended health directions, 25 May 2020	Compensation for occupationally acquired Novel Coronavirus, 24 Mar 2020	
Amended ICT regulations, 5 May 2020	Alert level 4 amended public transport services directions, 22 May 2020	Explanatory notes for COVID-19 tax measures, 29 Mar 2020	
Expansion of scope of banking sector exemption regulations, 5 May 2020	Amended directions on COVID-19 temporary employee / employer relief scheme, 15 May 2020	SMME debt relief finance scheme, 28 Mar 2020	
Healthcare sector exemptions expansion, 8 Apr 2020	Directions for recyling of waste, 14 May 2020	Business growth/ resilience facility - Guidelines for application, 28 Mar 2020	
ICT regulations, 6 Apr 2020	Directions for freshwater and marine fishing sectors, 14 May 2020	Debt Relief Finance Scheme: Guidelines for application, 28 Mar 2020	
Excessing pricing complaint referrals regulations, 3 Apr 2020	Directions for biodiversity sector, 14 May 2020	UIF guidelines, 20 Mar 2020	

(Source: https://www.gov.za/coronavirus/guidelines)

The laws regulate trade restrictions and people movement, significantly impacting MSMEs.

a. Discrimination laws

The Broad Based Black Economic Equity (B-BBEE) formed part of the criteria used to distribute the COVID-19 disaster relief funds by the Department of Tourism. Afriforum and Solidarity took the Minister of Tourism to court arguing the merit of the use of the Act. However, the Judge ruled in favour of the Minister indicating that the B-BBEE Act had a dual purpose of furthering the department's purpose of sustaining and transforming the tourism sector, as well as acting as a proxy for businesses that are particularly vulnerable to the economic effects of COVID-19 because of discrimination.

b. Employment laws

The Minister of Finance, during a Press Briefing on 24 April 2020, encouraged employers to seriously consider employing local South Africans in order to assist with reducing the unemployment rate. Though this has not been made into law yet, it does seems that it may eventually be drafted in the near future.

c. Health and safety laws

The lock-down regulations indicate that people need to cooperate with hygiene practices especially when in public. These include limiting number of people in gatherings, wearing a face cloth mask, maintaining social distancing, and washing of hands regularly. These have influenced shopping patterns as some people have moved to shopping online.

d. Consumer protection laws

The lock-down regulations relating to excessive pricing are broken up into three parts:

- excessive pricing in terms of the Competition Act No 89 of 1998 (Competition Act);
- unconscionable, unfair, unreasonable and unjust pricing in terms of the Consumer Protection Act No 68 of 2008 (CPA); and
- the supply of goods.

In terms of these Regulations, for the purposes of both the Competition Act and the CPA, a price increase may be excessive and unreasonable if:

- the price increase does not correspond to the increase of providing the good or service; or
- the price increase increases the net margin above the average margin in the three months prior to 1 March 2020.

The Regulations cautioned suppliers to implement measures to ensure fair distribution to consumers and customers (including small businesses). Suppliers were required to implement measures such as limiting the numbers of items customers may purchase in order to maintain adequate stock. The Competition Commission received a few hundred complaints about overpriced goods during the Level 5 lock-down, some suppliers were processed and fined while others were under investigation.

e. Summary

Tourism MSMEs with good BBBEE scores stand a better chance of benefiting from the Tourism relief fund. MSMEs are encouraged to employ locals so to contribute towards unemployment in SA. Government should provide an incentive for this goal to be achieved. MSMEs need to ensure H&S compliance in the workplace and with their staff as this will contribute towards reducing the spread of the virus. Essential services MSMEs need to comply with regulations set up to curb overpricing of products and services.

3 INSIGHTS FOR SCENARIO ANALYSIS

This section highlights the impact of COVID-19 on SMMEs, the impact of lockdown and the driving influences both from national and international sources that impact growth or contraction of SMMEs.

3.1 Impact of COVID-19 on SMMEs

The highlighted impact of COVID-19 on SMMEs include:

- The COVID-19 crisis is causing financial distress and liquidity problems for many enterprises as a result of the reduction or cancellation of business
- Over time, consumers might change their behaviour, e.g. increasing their online retail activity (PWC, 2020)
- Trade disruption, many South African enterprises will see an adverse impact from COVID-19, including mobile operators, automotive manufactures, hospitality and retail establishments (PWC, 2020)

Operations of the businesses are affected, resulting in lower sales made and thus lower income. One survey revealed that 92% of small businesses' operations are impacted. Although 63% of businesses can provide their products and services virtually, contact with clients is still very important for 92%. (GEN 22 ONSLOAN, 2020).

Most businesses are unable to finance operations. The most affected operations are the payment of salaries and rental of premises. Some businesses indicated they would tap into their reserves. However, because of overall macro-economic uncertainties looming over the coming weeks, these reserves may run low.

For the **auto industry**, the immediate lockdown impact is a severe liquidity drain that is threatening the survival of smaller second-tier automotive component manufacturers. If the lockdown were to continue beyond April, this threat would extend to first-tier component manufacturers. If the lockdown extends further than April, many second-tier automotive component manufacturers may potentially not be able to restart operations. While this will not cripple the industry, it will reduce local content in South African vehicles, amplify pandemic-related employment losses, and reverse the localisation gains made over the past two years. (Policy Brief: 6, 2020)

Liquidity is the most significant issue that the **steel industry** is facing. Working capital is stuck due to lack of industrial activity. Non-payment by first-tier steel users is caused by their customers (second and third tiers) not paying, such as the construction companies, component manufacturers and mines. This lack of liquidity will force a spate of defaults and possibly some parts of the industry will not survive this crisis, not because they are bad businesses, but simply because the flow of cash dries up. Manufacturing companies integral to the supply chain of SA Inc. may not recover, which will have a longer-term impact on the competitiveness of some of the sectors. This area of cash flow and liquidity is critical for government to provide urgent support interventions. There is a Master Plan process underway for the steel industry – reshape the industry to ensure that it supports structural improvements. (Policy Brief: 7, 2020)

3.2 Impact of different durations of COVID-19 and the lockdown on SMMEs

Regarding lockdown duration impact i.e. short term = 1-3 months, medium-term = 4-6 months, and long term = 7-12 months, Statistics South Africa conducted a rapid response survey (experimental study) in April 2020 (for reference period 30 March to 13 April 2020). The study provided an early indication of business impact resulting from COVID-19.

The survey targeted selected businesses operating within various industries in SA that are registered for value-added tax (VAT). Micro enterprises (turnover below R2 million) were excluded. Responses were received from 707 businesses across 10 industry sectors. Key results were as follows:

- The majority of responding businesses (85.4%) reported turnover below the normal range.
- 46.4% indicated temporary closure or paused trading activity
- 50.4% expected their workforce size to stay the same in the two weeks after the survey, while 36.8% reported that their workforce size is expected to decrease.
- 28.3% indicated that their workforce has decreased working hours and 19.6% reported laying off of staff in the short term
- 19.1% indicated that prices of materials, goods or services purchased increased more than normal.
- Access to financial resources: 23.8% indicated a decrease while 52.6% indicated access to financial resources remained the same
- 38.2% of businesses applying for financial assistance reported that they would use government relief schemes
- 30.6% indicated they can survive less than a month without any turnover, while 54% can survive between 1 and 3 months
- 46.3% of the workforce were able to meet business demands and 43% of the workforce were not able to meet business demands (the rest reported “unsure”)/

The results indicate that extensions of the lockdown beyond three months may threaten the survival of many businesses. Over 40% were not confident that their business had the financial resources to continue operating throughout the COVID-19 pandemic. This indicated that government relief schemes will be very important in assisting businesses to survive the pandemic. If the lockdown continues longer than three months, the survival rate of already vulnerable businesses may decrease dramatically – government will not be able to provide assistance indefinitely. Businesses that can innovate, are likely to survive beyond 6 months and even grow in the long term.

Agricultural businesses may not be affected in the short term as they are essential services however breakdowns in the supply and value chains will eventually affect them negatively in the medium and long term. Those depending on prohibited goods e.g. alcohol and tobacco products, may be severely impacted in the medium and long term.

A lockdown period longer than three months may impact people's mental health and it could also lead to a breakdown in law and order as people start to rebel against restrictions. A lockdown period longer than three months may do irreparable damage to most SMMEs.

Some entrepreneurs, 47%, believe that they will survive during this period while others, 43%, remained uncertain about the future. Of those who noted their businesses will not survive, mostly employed between 1-10 people (GEN 22 ONSLOAN, 2020).

A survey conducted by the Inclusive Society Institute looking at post-COVID-19 policy planning revealed the following (Inclusive Society Institute, 2020):

- The situation becomes somewhat bleaker, should the government decide to extend the lockdown beyond 30 April 2020. It was found that there was a far greater number of enterprises that believed they would not survive such an extension. Whereas 69% of enterprises were confident that they would survive the initial lockdown period, this declined dramatically to only 29.5%. 95.5% of the enterprises are of the opinion that their turnover would decline and 76% would have to lay off more staff
- A similar trend was detected in the manufacturing, services, and wholesale and retail sectors. Only 29% of manufacturing enterprises, 25% of those in services and 30% of those in wholesale and retail believed they would survive should the lockdown be extended by another month
- 92% of the enterprises indicated that they do not have the necessary cash flow in place to carry them beyond the end of April. Whilst the manufacturing and the wholesale and retail sectors reflected a similar trend, the services sector was particularly hard hit. Less than 1% had sufficient cash flow to see them through an extended lockdown.

Table 10 illustrates the varying production capacities by sector, indicating the impact of the lockdown levels.

Table 10: Production capacity estimates by industry by risk level

Sectors	Level 5	Level 4	Level 3	Level 2	Level 1	Level 0
Health & Social Services	100%	110%	120%	125%	125%	100%
Electricity; Financial Services; Fishing; Glass; Insurance Services; Petroleum & Refineries; Plastic; Water	100%	100%	100%	100%	100%	100%
Post Telecommunication Services	90%	110%	110%	110%	110%	100%
Agriculture; Coal mining	80%	100%	100%	100%	100%	100%

Sectors	Level 5	Level 4	Level 3	Level 2	Level 1	Level 0
Food	80%	90%	100%	100%	100%	100%
General Government	75%	80%	100%	100%	100%	100%
Print Publish; Wood Paper Pulp	75%	80%	80%	100%	100%	100%
Other Business	75%	75%	100%	100%	100%	100%
Open mining	50%	100%	100%	100%	100%	100%
Chemicals; Education	50%	75%	100%	100%	100%	100%
Retail Trade; Wholesale Trade	50%	75%	80%	90%	100%	100%
Construction	50%	60%	80%	100%	100%	100%
Private services	50%	60%	75%	80%	100%	100%
Beverages & Tobacco; Deep mining	50%	50%	100%	100%	100%	100%
Real Estate	25%	50%	80%	100%	100%	100%
Transport Services	25%	35%	50%	75%	100%	100%
Textiles & footwear	25%	25%	100%	100%	100%	100%
Other Manufacturing	20%	20%	50%	100%	100%	100%
Hotel Restaurants Tourism	10%	20%	25%	75%	100%	100%
Forestry	0%	100%	100%	100%	100%	100%
Cement; Transport Equipment	0%	50%	100%	100%	100%	100%
Iron Steel; Other Metal Equipment	0%	20%	100%	100%	100%	100%
Rubber	0%	20%	75%	100%	100%	100%
Electric Machinery; Radio TV; Furniture	0%	20%	50%	100%	100%	100%

Source: (Van Heerden, J.H., 2020)

3.3 National influence of COVID-19 on SMMEs

The impact of the pandemic on the fiscal revenue for 2020/21 is difficult to estimate, but it is certain that there will be a substantial shortfall compared to revenue forecasts during the 2020 Budget. This will be due to reduced revenue from economic weakness and the cost of additional tax relief measures.

The following are some of the national influences on SMMEs:

- The weakening local currency as a result of COVID-19 is having an impact on SMMEs in terms of imports and exports
- Crude oil prices result in reduced operational costs for SMMEs
- Closing of SA borders restricts trade with international markets
- Travelling restrictions affecting operations
- Supply and demand-side disruption, suppliers may no longer be in a position to continue their activity and honour contracts.

This next section sets out a coordinated, 3-phase approach to government's economic interventions post-National Lockdown over the next 18 months, after reopening the economy from 1 May 2020. This was aimed at building a stronger economy post-COVID-19, which will require extensive structural reforms with an enduring social compact between business, labour, communities and government.

In coming months government's response will shift towards helping support employment and investment and to position the economy for structurally higher growth. This will happen in the following phases:

- Phase 1: Preserve the economy through immediate, targeted and temporary responses (immediate interventions)
- Phase 2: Recover from the immediate effects of the crisis by supporting investment and employment (requiring a special adjustments budget with more details)
- Phase 3: A pivot to position the economy for the faster growth needed to restore long-term prosperity (will require rapid and sustained economic growth to reverse the steep decline and break from a decade of weak growth).

During Phase 1, an R500 billion fiscal support package (10% of GDP) was made available for short-term economic support measures, to protect vulnerable groups and mitigate the economic effects of the lockdown shock. The COVID-19 fiscal response package in Table 11.

Table 11:COVID-19 fiscal response package

COVID-19 fiscal response	Amounts in R million
Credit Guarantee Scheme	200 000
Job creation and support for SMME and informal business	100 000
Measures for income support (Further tax deferrals, SDL holiday and ETI extension)	70 000
Support to vulnerable households for 6 months	50 000
Wage protection (UIF)	40 000
Health and other frontline services	20 000
Support to municipalities	20 000

Total	**500 000**

(Source: National Treasury)

The proposed tax policy measures will be included in the Draft Disaster Management Tax Relief and Tax Relief Administration Bills. R26 billion of the proposed R70 billion for tax relief measures will be foregone revenue, and the rest is delayed revenue. In addition, a monetary financial regulatory policy package will complement the R500 billion to the tune of R300 billion. These measures include reduction of interest rates, relaxing regulatory requirements and introducing temporary payment holidays. The combined fiscal and monetary policy measures therefore is over R800 billion.

See APPENDIX B - for a summary of South Africa's current COVID-19 relief schemes.

After Phase 1, government needs to return public finances to a sustainable position and stabilise debt as a % of GDP. This will require economic reforms and fiscal measures supported by a broad social compact. An implementation plan will be set out in the special adjustments budget and the 2020 Medium Term Budget Policy Statement.

The disruption in schooling and education may mean reduced availability of skilled workers in the medium and long term.

3.3.1 Supply chain

There are several ways the coronavirus pandemic affects the economy, especially SMMEs, on both the supply and demand sides.

On the supply side, companies experience a reduction in the supply of labour, due to unwell workers, childcare / dependant responsibilities while schools are closed, and the people movement is restricted. Measures to contain the disease by lockdowns and quarantines lead to further and more severe drops in capacity utilisation. Furthermore, supply chains are interrupted, leading to shortages of parts and intermediate goods. SMMEs often have a more limited number of suppliers. SMMEs operating more in regional supply chains may, therefore, be less affected by more dire international COVID-19 situations. Conversely, SMMEs may rely on suppliers from countries with more COVID-19 intensity, increasing their vulnerability.

Businesses, including SMMEs, will bear the brunt of a reduction in global demand for their products and services. This impact may particularly be felt in specific sectors such as tourism, but also amongst those SMMEs catering for local markets where containment measures have been introduced. On the demand side, a dramatic and sudden loss of demand and revenue for SMMEs severely affects their ability to function, and/or causes severe liquidity shortages. Furthermore, consumers experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects are compounded because workers are laid off

and firms are not able to pay salaries. Some sectors, such as tourism and transportation, are particularly affected, also contributing to reduced business and consumer confidence. More generally, SMMEs are likely to be more vulnerable to 'social distancing' than other companies. Similarly, obstacles in transportation by sea, road or air affect these SMMEs.

Some SMMEs are particularly vulnerable to the disruption of business networks and supply chains, with connections with larger operators (e.g. multinational enterprises) and the outsourcing of many business services critical to their performance. Over the longer term, it may be difficult for many SMMEs to re-build connections with former networks, once supply chains are disrupted and former partners have set up new alliances and business contracts.

The impact of the virus could have potential spill-overs into financial markets, with further reduced confidence and a reduction of credit.

3.3.2 Costs

SMMEs may have less resilience and flexibility in dealing with the costs these shocks entail. Costs for prevention as well as requested changes in work processes, such as the shift to teleworking, may be relatively higher for SMMEs given their smaller size, but also, in many instances, the low level of digitalisation and difficulties in accessing and adopting technologies. If production is reduced in response to the developments, the costs of underutilised labour and capital weigh greater on SMMEs than larger firms.

3.3.3 Information

Furthermore, SMMEs may find it harder to obtain information not only on measures to halt the spread of the virus, but also on possible business strategies to lighten the shock, and government initiatives available to provide support.

3.3.4 Containment vs survival period

Given the limited resources of SMMEs, and existing obstacles in accessing capital, the period over which SMMEs can survive the shock is more restricted than for larger firms. There is a risk that otherwise solvent firms, particularly SMMEs, could go bankrupt while containment measures are in force.

3.4 International forces that influence the growth or contraction of SMMEs

International forces that have impacts on the South African SMMEs include:

- Technology, lack of information and knowledge, outdated technology
- Cultural, legal and economic differences
- Differences in consumer tastes
- The complexity of foreign-market development
- Export markets for those SMMEs that export products

- Imports of products
- The oil price
- Downgrades by Moody's and other rating agencies
- The impact of COVID-19 on countries we depend on for goods and services
- International travel bans

Exchange rates are a major factor in entrepreneurship. South Africa's weak rand means that there is more opportunities in the export market but that there is less capital for investing in local SMMEs.

The dependency of South Africa on major markets such as China, Europe and the US has resulted in depressed demand for South African exports. The sharp fall in demand as a result of the pandemic has a harsher impact because growth was slow globally even before the pandemic.

3.5 Critical uncertainties that can impact Economic Recovery

The following are factors that impact on the recovery of the economy:

- Expanding production increases interpersonal contact both at work and on public transport, raising the risk of a renewed outbreak. Managing the risk requires changes in work organisation and commuting practices. It also necessitates ongoing monitoring of the contagion and isolation of hotspots, a task made harder by the global lack of testing materials. It is likely that the process will entail a gradual rebooting of production, with the least risky and most competitive opening first and riskier production processes, notably services and retail that require direct contact with customers, to come last (TIPS, 2020)
- South African producers have largely exhausted their liquid resources. During the lockdown they had to meet fixed costs (salaries, rent, rates) despite an extraordinary decline in sales. Both large and small businesses will need financial support, including deferred payments, to reopen, especially while demand remains weak (TIPS, 2020)
- The reopening will have to apply to value chains, not just enterprises. For producers to reopen, their suppliers and sales agents or retailers must also start up again. During the lockdown, both imports and exports faced hindrances due to limitations on international procurement and sales as well as the partial closure of Transnet. Auto production must sync with the reopening of the international economy (TIPS, 2020)
- Both global and domestic demand is depressed by lockdowns, with widely divergent forecasts of when growth will bounce back. Recovery will be slowed by the fragile state of the international and South African economies even before the pandemic. Stagnant commodity prices and the escalating climate crisis from 2012 meant South Africa needed to find alternatives to its historic growth model of exporting mining products with an unusually heavy reliance on coal for energy (TIPS, 2020)
- Because achieving safe conditions is particularly difficult in services and retail, both overall employment and small business are likely to lag in the recovery. By extension, redistributive programmes will have to be maintained and stepped up, with appropriate financing mechanisms. While some programmes have been established formally, they have been very slow in actually providing resources to those in need (TIPS, 2020).

Additional critical issues that will impact economic recovery include:

- The length of the lockdown and the potential of switching between levels
- Intensity of infection rates - depending on rates of infection and deaths; the length of period for each level is uncertain at this point
- The number of people who may lose their jobs and resultant loss in disposable income that can be spent on goods and services from SMMEs
- Whether government, civil society, industry etc. can effectively work together post-COVID-19 to rebuild the economy
- The ability of government to effectively address issues like corruption post-COVID-19
- Whether the prices of goods and services will skyrocket (to make up for lost income) or reduce dramatically (to attract customers)
- Will the pandemic change the way in which in which we work, travel and meet forever
- Will the global power balance shift and if so in whose favour.

5 THREE SCENARIO STORIES: FUTURES OF SMMES IN SA 2022

Introduction

Three scenarios were developed during a facilitated workshop. Workshop participants came from a wide range of stakeholder groups – there were SMME owners, capacity development organisations, financiers, academics, and representatives from the Department of Small Business Development.

The scenario workshop took place on Wednesday 13 May, when South Africa was still deep in Lockdown Level 4.

The scenarios serve as input into the quantitative model. The discussions between workshop participants while they were developing the scenarios created the added benefit of deeper, shared insights into systemic complexities.

Workshop participants imagined three different futures in December 2022, and they focused on:

- The duration of different levels of lockdown.
- A view of South Africa: GDP, what government and large organisations were doing, and how the people were coping.
- A view on SMMEs: who survived and how, winners, losers and new opportunities.
- A roadmap of support initiatives: what happened in the first three months, the next six months and beyond 12 months.

The names of the three scenarios play with the CAR metaphor. The obvious reference is to an automobile, but it is also the acronym for Contain, Adjust, and Recover – an approach for dealing with the effects of the pandemic.

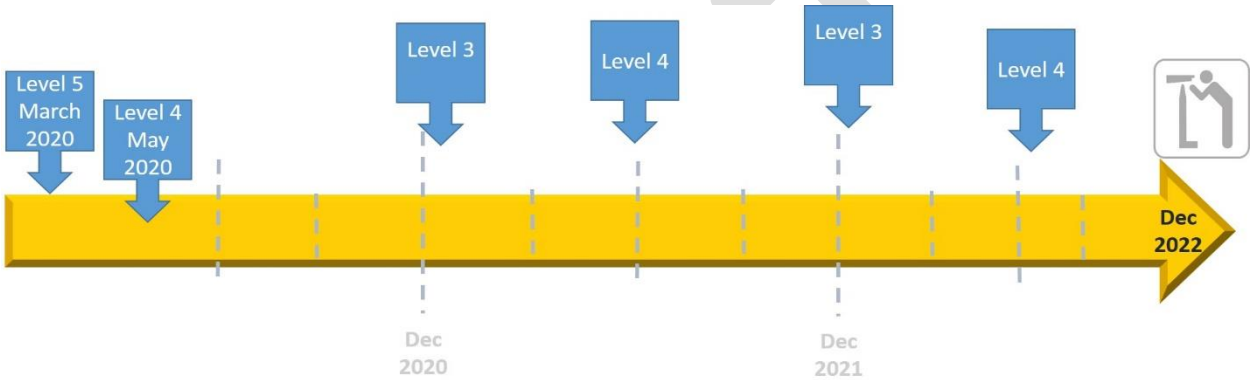
5.1 SCENARIO 1: CARNAGE

It is December 2022, and there are barely any functioning SMMEs in South Africa. In the time between March 2020 and today, they were pretty much wiped out.

5.1.1 Forever in lockdown

South Africa went into lockdown Level 5 during March 2020 and into Level 4 during May of that year. Here in December 2022 we are still hovering around Level 4. This is how it happened:

- Certain parts of the country were allowed to operate under Level 3 conditions since June 2020, but Gauteng, KZN and the Western Cape returned to Level 4 for the rest of that year. The whole country only reached Level 3 early in January 2021. The summer months seemed to have a calming effect on the spread of the virus.
- However, during the winter of 2021 infection levels increased to such an extent that Level 4 was instituted again.
- The same pattern followed in 2022, with Level 3 during the early part of the year, but a return to Level 4 from winter onward.



The 2021 and 2022 issues were compounded by the flood of COVID-19 refugees from neighbouring countries. The social systems in their countries collapsed completely and South Africa did not have the capacity to control the borders effectively. This influx caused an increase in infection rates in South Africa and put additional strain on resources that were already stretched to the limit.

5.1.2 A country in crisis

The **GDP growth** rate in South Africa is at an all-time low, decreasing from around -1.4% in early 2020 to -12% in December 2022. The **currency** is weaker than it has ever been, and combined with the strict lockdown measures, resulted in organisations struggling to import production materials over the past two years.

Government lost the bulk of their tax income, could not keep up with grant payments, had to borrow significant amounts and are now running into difficulty to meet the repayment schedules on these loans – deeper downgrades by the rating agencies are imminent.

The price of data and limited access to good quality digital connectivity services introduced significant constraints for **organisations** on their path toward digital transformation; this was particularly true for organisations outside the metropoles. The prevalence of the virus and the influence of the lockdown measures put organisations (particularly those in employment-rich or contact-rich sectors) out of business for extended periods of time. Almost all of the large organisations had to cut staff numbers and were unable to meet payments of their fixed costs, and many had to put themselves into business rescue. For some, there was so little hope of recovery that they just closed their doors.

Banks are in trouble - big trouble. Individuals and businesses could not meet their payment obligations on mortgages, loans or overdraft facilities and the banks cannot carry the burden any more. Over the past two years, we have seen the demise of a few of the smaller banks, but now even the big ones are in trouble.

Some **international investors** started taking their money out of South Africa after the downgrades in early 2020. As the crisis deepened, even the most loyal ones had to start looking elsewhere and now, in December 2022, very few remain and new FDI is at an all-time low.

At the start of the crisis, the **people** of South Africa were mostly compliant, but that soon deteriorated into full-scale chaos. People became desperate in their quest to earn a bit of money and they regarded the regulations from government as ill-conceived. The household debt burden was high at the onset of the crisis and that, coupled with the fact that people were unable to generate an income during strict levels of lockdown, increased household debts beyond all reasonable limits. Social divides are increasing and here in 2022, food riots are a regular occurrence.

5.1.3 SMMEs: A few winners and newcomers, but mostly losers

SMMEs that were related to government spending, had a better chance of survival than their peers. The few SMMEs that **survived** through the crisis mostly rendered crisis-related products and services to government. However, some government departments were in such turmoil that their non-payment for services rendered caused the demise of a significant number of SMMEs.

A few SMMEs **thrived** – the ones providing food and other products that previously had to cope with competition from international suppliers, had the benefit of a less competitive trading environment.

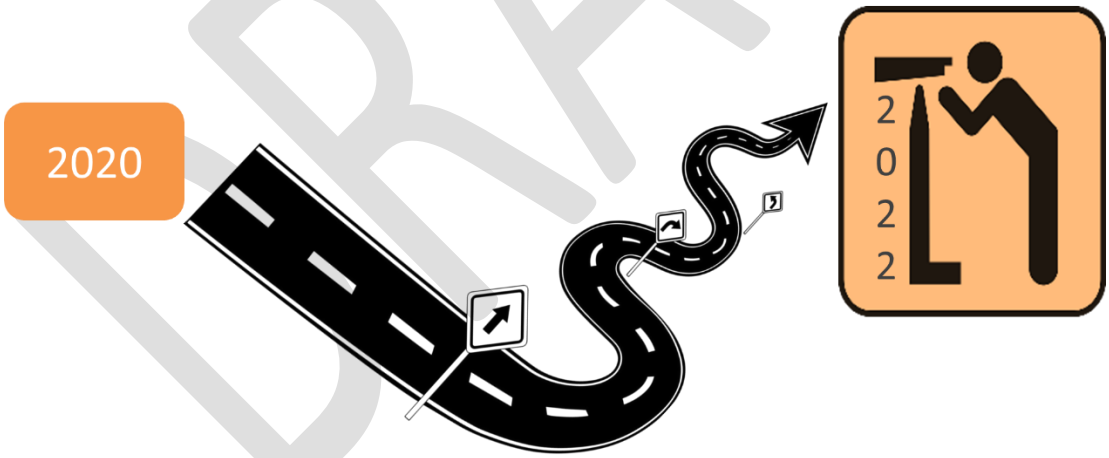
New SMMEs were established – mostly ones offering and utilising sensor technologies, those in agribusiness and others that facilitated the delivery of fresh and prepared food to households. The defining characteristic of most of these new SMMEs were their digitally mature business models.

South Africa followed the global trend where huge numbers of SMMEs were wiped out between 2020 and 2022. The biggest **losers** came from the tourism industry, personal services, and those that relied on large numbers of people gathering at markets, events, festivals, conferences, etc. The construction industry also suffered because, even though they were allowed to trade, demand dropped and projects were put on hold. Many SMMEs went bankrupt after the owner got sick and could not trade for some time.

The physical location of SMMEs also had an influence on their potential for survival. Areas with high infection rates remained in higher levels of lockdown than other areas in the country, with the effect that SMMEs in higher lockdown areas were unable to trade, while their counterparts in the rest of the country could.

However, the main reasons for the SMME carnage were their own inability to reimagine their value offers and their lack of embracing the 4IR, while from government side the inappropriate SMME support programs cost a lot of money, but were ineffective.

5.1.4 The course of the carnage



During the **first three months** following April 2020, life for SMMEs was tough but, even though they suffered severe losses, most still had hope of surviving. There were news about a number of support initiatives and government grants. Furthermore, they hoped to start doing business again soon.

The **next six months** were pivotal. There was a lot of very unclear, sometimes contradicting, and even false information going around. SMME owners were constantly uncertain of whether pieces of information were true or not. Leaders of support initiatives were unsure of whether they were working with trustworthy data sets and there were significant information asymmetries – information did not flow on time to the right decision makers. Government departments worked in silos, creating

substantial gaps or duplications of effort and resulting in a total lack of coordination. The design of support initiatives were based on bad data and were therefore mostly inappropriate. Many resources were wasted in this way.

The real carnage happened from about **12 months onward**. Senior decision makers on all levels of government portrayed a limited understanding of systemic complexities, resulting in ill-conceived interventions and support initiatives. The dis-coordinated and inappropriate initiatives added to uncertainty, deteriorated trust, and fuelled the growing social discontent. Riots and looting sprees became regular events. Continued high levels of lockdown, especially in the metropolitan areas, put the final nails in the coffins of the bulk of SMMEs in the country. 2020 to 2022 will go down in South African history as a SMME carnage of epic proportions.

5.2 SCENARIO 2: SLOW CAR

December 2022 is an important milestone for SMMEs in South Africa. From early 2020 until now, SMMEs lived through a very tough time. However, most of them survived. Here is the story of how it happened.

5.2.1 Living through the lockdowns

Here in December 2022, large groups are allowed to gather for the first time in more than 2½ years. South Africa remained in Lockdown Level 1 since January 2021, allowing most activities, but restricting non-work gathering in groups of more than 10 people.

The strictest level of lockdown started in March 2020, and eased to Level 4 during May. Through the rest of 2020 most of the country moved to Level 3 early in June. Some areas with high infection rates remained in Level 4. Infections reached a peak during September 2020, but eased off after that, allowing restrictions on the whole of the country to be eased to Level 2 during November 2020 and to Level 1 in January 2021. Decision makers were under tremendous pressure to keep a balance between the impact of the disease and the impact of lockdown measures on livelihoods. The impact on SMMEs were severe, and some did not adhere to lockdown protocols – they grasped any opportunity to be economically active, even if it exposed them to the risk of infection and punishment for breaking the lockdown rules.

5.2.2 Patient SA: Serious injuries, but still breathing

During 2020, year-on-year **GDP growth** hit an all-time low of -8%, but in 2021 it recovered nicely to levels around 1.5% and settling to a consistent 0.8% in 2022.

Large organisations reshaped themselves in many ways. The first shift came in organisations that increased their levels of digitisation, enabling many people to work from home, followed by a drive to ensure the safety of their customers and the people that work for them. This changed the way in which large organisations designed and managed their operations. Sadly, some large organisations did not survive and many others had to lay off significant portions of their workforce.

Supply chains underwent interesting changes, with organisations opting for suppliers closer to home. Countries across the globe became more inward-focused and self-dependent in terms of supply, initially because borders were closed, but later because of loyalty and focused efforts to rebuild their own economies.

The **people** of South Africa learned to live with the virus, being constantly careful and vigilant, practicing physical distancing and following a strict regime of hygiene precautions. Living alongside the virus became super-personal - it meant that people became infected themselves, worried about and cared for loved ones that became infected and, from time to time, grieved the loss of a person that succumbed to it. People became very cautious, hesitant to engage with others, both at work and in public. Most people were quite rational, but some became fed-up with the regulatory constraints and towards the second half of 2020, there were many that just ignored cautionary advice. Of course, that was one of the factors that contributed to the huge spike in infections during September of that year. The media narrative moved toward casting doubt on the trustworthiness of government but, over the course of 2021, attitudes changed and people gradually became more positive.

Government entered the crisis in 2020 with relatively good support for its initiatives. However, under the immense pressure of trying to protect people while keeping the economy going, some mistakes were made. Once government re-focused their efforts on creating an environment that enabled people to live with and alongside the virus, everything started working better.

5.2.3 SMMEs shape-shifted for survival

Here in December 2022 the number of SMMEs seems to be similar to what it was in January 2020, but that does not account for the fact that many new businesses were started and many existing businesses **closed down**. Informal businesses were particularly vulnerable.

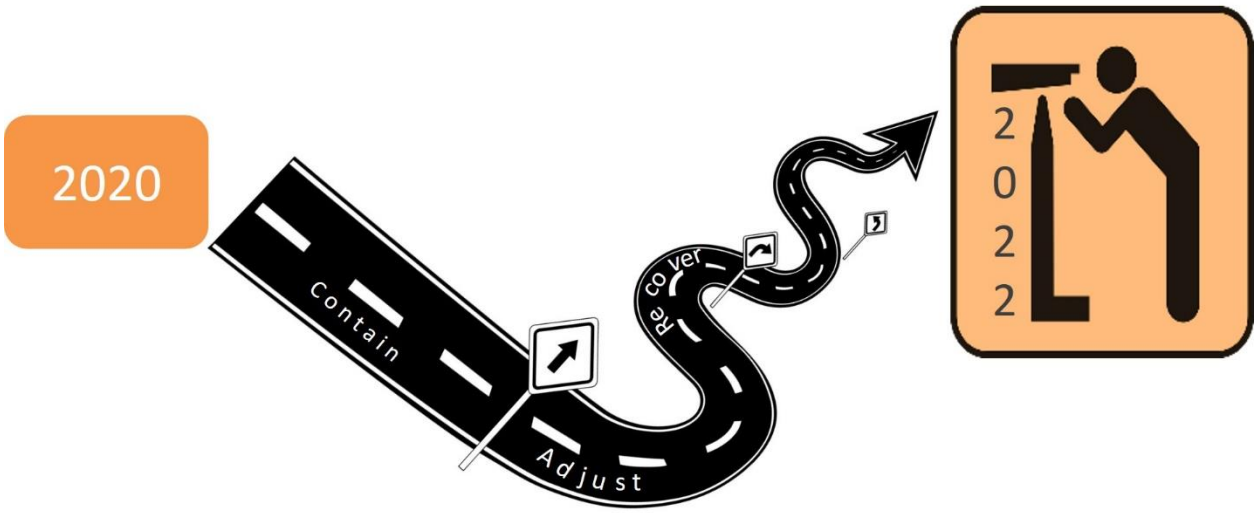
The SMMEs that **survived** the crisis, were the ones that could adapt and change - even to the extent of closing down their existing business in order to start a new one. This was particularly true for SMMEs in the tourism, hospitality and MICE sectors. Serial entrepreneurs took the lead and inspired others on the rebound journey.

SMMEs that were able to do a fast pivot toward a more digital operating model had a better chance of survival. Coaches (both mental and physical) that embraced on-line options realised that they could now serve a global audience. The Pilates instructor that used to operate in a metropolitan suburb could now offer classes to anyone that subscribed, regardless of their location.

The crisis created some opportunities for existing SMMEs. Early winners came from the agri-sector, those that provided courier and hygiene services, and those involved in the mining and minerals supply chain.

New SMMEs were established through partnering and collaborating across sector and industry boundaries; their different way of thinking about who they serve and what they offer ensured their success.

5.2.4 Slow CAR: Initiatives, interventions and re-inventions



CAR (Contain, Adjust, Recover) was the umbrella term for the initiatives between 2020 and 2022. During the **first three months** the focus was on **containment.** The strict lockdown regulations, that aimed to contain the spread of the virus, caused considerable disruption to business activities and led to tension between employers and employees. Support initiatives focused on assisting SMMEs to survive the lockdown period, comply with regulations and figure out if, when and how they could return to economic activity. Reaching informal businesses through support initiatives were very difficult, hence a strong drive for formalization was initiated.

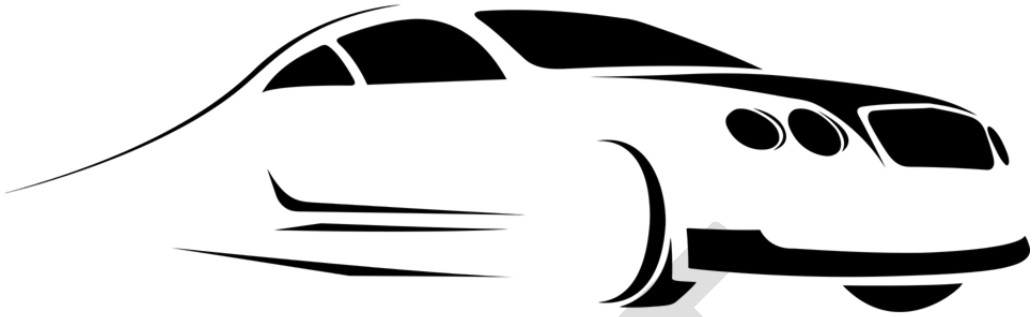
From mid-2020 the focus shifted; during the next **6 to 12 months** initiatives were aimed at helping SMMEs to **adjust**. Some businesses had to adjust their operating models, some had to focus on

making their offers known to previous and potentially new customers, while some other businesses had to re-imagine themselves completely because they would probably not be able to operate for the next two years in their existing format. This was also the time when new SMMEs started emerging and they needed support to get on their feet. The owners of informal, survivalist businesses received sustenance in the form of food parcels and grants through the social support system; it was very hard to reach them through the economic support initiatives. True to their nature, many of them soon started new ventures – their history of hustling and spotting opportunities positioned them favourably.

During the **next 12 months and beyond**, from early 2021 onward, the focus was on **recovery**. Economic growth rates slowed a bit, and incremental adjustments had to be made to business models. A significant focal area was the adoption of new technologies and furthering the 4IR. Support initiatives also broadened the scope to include investments into new SMMEs focusing on after-COVID-19 opportunities.

South Africa had to re-invent itself multiple times before; this time the whole world had to do it too. Since 2020, SMMEs in South Africa benefited from support initiatives that enabled them to persevere, pivot or re-imagine as required and now, in 2022 they look back with a sigh of grateful relief – they are still alive.

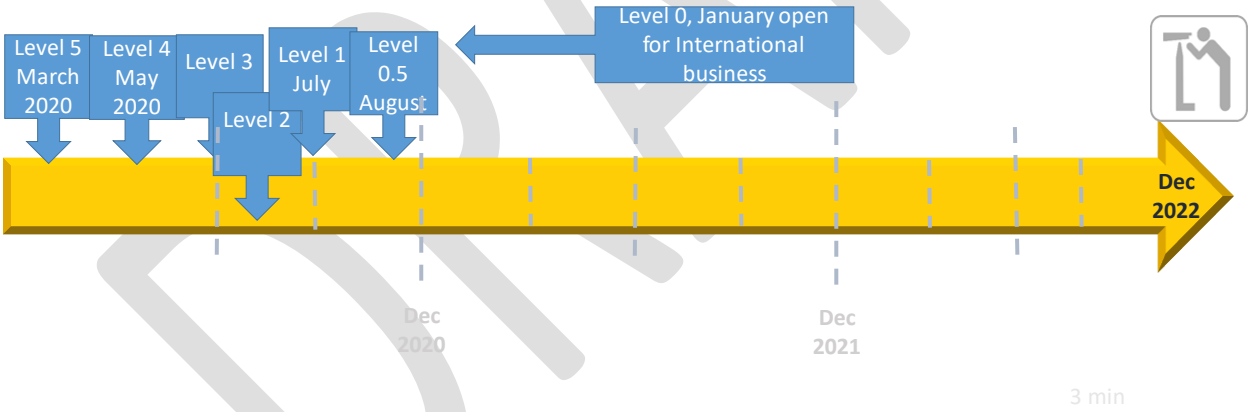
5.3 SCENARIO 3: FAST CAR



December 2022 is an important milestone for SMMEs in South Africa. From early 2020 until now, SMMEs were growing due to the adoption of an organisational agility approach and digital transformation through a very tough time. Here is the story of how it happened.

5.3.1 Pacing through the lockdowns

Now that we are in December 2022, we remember December 2020, when the last bits of lockdown was lifted and we opened our borders for international travel again from January 2021.



The strictest level of lockdown started in March 2020 and eased to Level 4 during May. Through the rest of 2020, the country rapidly moved through the different lockdown levels. Level 3 was entered early June, with level 2 reached at the end of June. The transition to level 2 was achieved through the low death rate, even though infections was steadily rising. Level 1 was achieved at the end of July, allowing most of the industries to achieve full economic activity. Level 0 was divided into two new levels, Level 0.5 and Level 0. Level 0.5 still restricted international travel but to allow the local tourism industry to resume, the new Level 0.5 was introduced at the end of August, and level 0 formally entered at the end of December 2020.

Decision-makers were under tremendous pressure to keep a balance between the impact of the disease and the impact on the economy. The Impact on SMMEs was severe in some sectors in the economy due to poor agility and diversification, but in other sectors, the SMMEs achieved significant growth, especially when they started embracing the digital revolution.

5.3.2 SA: Rising

During 2020, year-on-year **GDP growth** hit a low of -2%, but in 2021 it recovered nicely to levels around 1.5% and increased to an unexpected 5% in 2022.

Large organisations realised that everybody was in the same ocean and they invested in the economy to create a local boost. The COVID-19 pandemic forced large organisations to be a lot more socially-minded. However, the large organisations also benefited from the buy local drive.

The new challenges in the economy during 2020 also forced large corporations to review their overhead structure. The reduction in overheads created more agile, cost competitive organisations that are significantly more competitive, and even more cost-competitive, considering the high exchange rate. Large organisations that struggled to improve overheads were forced to down size into smaller, more agile competitive organisations. The rapid transition to digitalisation and improved ability, coupled with improved cost structures enabled South African companies to be more competitive internationally and provided a significant boost to the economy. The new local economy has a strong emphasis on home based work; people can work from home, reducing the need for office infrastructure and improving profitability as well as efficiency.

People in South Africa have hope again. For most of 2020, people were worried and many did not see the benefit of the lockdown measures. But they stood together, persevered, and now, in 2022, they look back on two years of steadily growing toward a place where economic opportunity is real. Many people working for organisations, both big and small, appreciate the quality of life that they enjoy because of the option to work from home. Since the rapid and massive move toward digitised operations, work changed significantly and many organisations can now offer their employees the option to work at the office or work from home.

Government is still leading the way toward economic growth and recovery, as they have done during the COVID-19 response. They provide clear leadership, pulling together all the parties and stakeholders required, make swift decisions, allocate resources and implement initiatives in an efficient manner. Government is more accountable to the citizens and the business sector, but also more inclusive, allowing for a South Africa Incorporated approach to involve industry in decision making. The pandemic has created a new collaborative mind set between Government and Industry to have a networks mind-set, where the government is networked into the private sector to enable collaboration. But industry has created a networked structure to support each other and government.

5.3.3 SMMEs digitised for growth

Here in December 2022 the number of SMMEs has grown beyond the number of SMMEs in January 2020. During the period many new businesses were started and many existing businesses **closed down**, but the net effect is a growth in the numbers.

The SMMEs that **survived** the crisis were the ones that could adapt and change, and adopt a new digital approach to work. SMMEs that could diversify their income streams were less effected and had a higher potential for growth. The adoption of new fourth industrial revolution technologies to support operations during Covid-19, created more competitive SMMEs that could do business both in South Africa and in the global market. SMMEs in the medical sector, ICT, digital education, agriculture and logistics were successful in creating new markets and grow. The textile industry diversified into PPE manufacturing which supplemented the downturn in the textile industry.

The large businesses that focused on producing a single product for a narrow sector, as well as the less agile companies with large overheads, were the biggest losers during the 2020 crisis period. These large businesses have either split into smaller companies or created space for new SMMEs to develop and capture the market.

As with any threat came new opportunities, and subsequently the creation of **new SMMEs.** Tourism had to re-invent themselves to survive during the 2020 crisis period, and new opportunities opened in virtual and rural tourism. Rural tourism in areas with low Covid-19 infections and the ability to enforce social distance became the destinations of choice. Even now, in December 2022, local travel is the new norm and it keeps on rejuvenating the tourism sector. The adoption of digitisation technologies during Covid-19 enabled the growth of new ICT companies and new SMMEs that assist with the digitisation in the manufacturing sector.

5.3.4 Fast CAR to new futures

CAR (Contain, Adjust, Recover) was the umbrella term for the initiatives between 2020 and 2022. During the **first three months,** the focus was on streamlining government processes and creating new infrastructure. The government removed all red type for SMMEs to allow them to be more agile. The SMME process improvement was made in conjunction with a full-scale commitment to digitisation across all levels of government to allow for digital collaboration between government and industry, as well as increasing government agility to respond to COVID-19. New telecommunications expansion programmes were launched to provide low-cost data to SMMEs to support them to do more e-commerce business.

The government created better co-ordination across all three spheres of government to address the real problems that hamper growth in the country. New incentives were rolled out to support SMMEs in general, using a targeted sector and geographic approach. New incentives and support programmes were established to assist SMMEs to establish and expand their business digitisation processes.

A South Africa Incorporated approach was taken to rejuvenate sectors like tourism, where the government supported the sectors to unlock new business opportunities.

From mid-2020 the focus shifted; during the next **6 to 12 months,** initiatives were aimed at co-creating Covid-19 recovery plans/strategies between industry and government. The recovery plan process spanned national, provincial and district level. Economic growth initiatives were identified like energy programmes to support sector growth. The government played a leadership role in initiating new programmes to support entrepreneurship and SMME development in areas of economic recovery.

During the **next 12 months and beyond**, from early 2021 onward, the focus was on driving economic growth. The government established a new future business centre to identify potential future markets and work with industry to capture these markets for a South Africa Inc. approach. The

centre supports SMME growth through diffusion of new innovation into the industry. New positive energy and partnership between government and industry, and industry and government jointly establish a new SMME ecosystem and networks.

The tourism sector fully recovered and with the adoption of new virtual tourism platform with digital shopping. The rural areas have significant tourism growth, and South Africa is proudly the safest Covid-19 tourist destination.

New Education, a world-class digital system, was developed to assist with education during Covid-19. The government, with the help of industry, invested in new digital infrastructure and platforms to scale access to education across the country. SA is moving toward a position of leadership in e-learning and digitization of education on the continent, which opened a new sector of growth for the country.

6 MODELLING SCENARIOS AND RESULTS.

Table 10 in the environmental scan document is the point of departure for converting the scenarios as described in Section 5 above into modelling terms.

The three discussion groups of stakeholders guessed the periods of time that the economy of South Africa would remain in the different lockdown levels. The assumptions made are depicted in Table 12 below.

Table 12 Number of weeks in the different lockdown levels for the three scenarios

Scenario	Level 5	Level 4	Level 3	Level 2	Level 1	Level 0	Total
Fast CAR	5	3	2	3	0	37	50
Slow CAR	5	4	23	7	0	11	50
CARnage	5	17	17	0	0	11	50

The Fast Car scenario assumes that the economy comes out of lockdown and moves through the lower levels very quickly, by staying in Level 3 for only two weeks, then move to Level 2 for only three weeks and then to Level 0.

Since the peak of the Corona crisis is only expected to happen after August, the Slow Car scenario assumes that South Africa would remain in Level 3 for a long time, namely for 23 weeks, and then move to Level 2 until the end of 2020. The eleven weeks at Level 0 refers to the time-period before lockdown started at the beginning of the year.

The Carnage scenario wanted to keep the country at Level 4 until the end of the year, but the model was not able to simulate such a bad scenario. We therefore altered this scenario to 17 weeks at Level 4 and 17 at Level 3. They also assumed that the country would hover between Levels 3 and 4 for half of 2021 and 2022 each – hence the description of their scenario of "Carnage".

The model that we use to calculate the effects of the various periods of lockdown in South Africa is the computable general equilibrium (CGE) model of the Department of Economics at the University of Pretoria[5]. The next step in calculating appropriate shocks to variables in the CGE model is to link the contents of Table 12 with the contents of Table 10 above[6], resulting in Table 13 which depicts the maximum capacity of operation during 2020 by industry for each one of the three scenarios. For "Carnage" the maximum capacity is calculated for 2020-2022. We assume that the healthcare industry would operate above its normal capacity, by for example, working overtime.

6.1 Methodology

We follow the methodology of Bohlmann, *et al.* (2015) who estimated the effects of the 2014 Platinum Mining Strike on the South African economy. They let the capital stock in the Platinum Mining industry lay idle for six months, and decreased the national labour supply by the proportion of labour that is employed by the said industry. The rationale behind this is that

[5] The model is a standard Monash style CGE model, fully described in Dixon, *et al.* (2013)

[6] Table 10 from the environmental scan document.

a number of labourers would not be employed during that time, but they are allowed to search for work elsewhere.

Table 13 Maximum capacity of operation per annum by industry (%)

Industry	SIC code	Fast Car 2020	Slow Car 2020	Carnage 2020	Carnage 2021	Carnage 2022
Agriculture	11	98,0	98,0	98,0	100,0	100,0
Forestry	12	90,0	90,0	90,0	100,0	100,0
Fishing	13	100,0	100,0	100,0	100,0	100,0
Coal mining	21	98,0	98,0	98,0	100,0	100,0
Open mining	25	95,0	95,0	95,0	100,0	100,0
Deep mining	22-24	92,0	91,0	78,0	75,0	75,0
Electricity	41	100,0	100,0	100,0	100,0	100,0
Water	42	100,0	100,0	100,0	100,0	100,0
Food	30	97,4	97,2	94,6	95,0	95,0
Beverages & Tobacco	30	92,0	91,0	78,0	75,0	75,0
Textiles & Footwear	31	88,0	86,5	67,0	62,5	62,5
Wood Paper Pulp	32	95,5	86,7	83,9	80,0	80,0
Printing & Publishing	324,5	95,5	86,7	83,9	80,0	80,0
Petroleum Refineries	332	100,0	100,0	100,0	100,0	100,0
Chemicals	334-6	93,5	93,0	86,5	87,5	87,5
Rubber	337	84,2	72,1	54,3	47,5	47,5
Plastic	338	100,0	100,0	100,0	100,0	100,0
Glass	341	100,0	100,0	100,0	100,0	100,0
Cement	3424,5	87,0	86,0	73,0	75,0	75,0
Iron and Steel	351-3	85,2	83,6	62,8	60,0	60,0
Other Metal Equipment	354-7	85,2	83,6	62,8	60,0	60,0
Electric Machinery	36	83,2	60,6	45,8	35,0	35,0
Radio & TV Equipment	37	83,2	60,6	45,8	35,0	35,0
Transport Equipment	38	87,0	86,0	73,0	75,0	75,0
Furniture	391	83,2	60,6	45,8	35,0	35,0
Other Manufacturing	392-5	85,2	62,6	47,8	35,0	35,0
Construction	50	91,8	82,6	74,6	70,0	70,0
Wholesale & Retail Trade	61-3	92,1	82,4	79,7	77,5	77,5
Hotels & Restaurants	64	81,7	46,6	38,3	22,5	22,5
Transport Services	71-74	85,1	60,8	53,4	42,5	42,5
Post & Telecommunications	75	100	100	100	100	100
Banking Services	81	100,0	100,0	100,0	100,0	100,0
Insurance Services	82	100,0	100,0	100,0	100,0	100,0
Real Estate Services	84	88,7	79,3	68,7	65,0	65,0
Other Business Services	85-88	96,0	95,5	89,0	87,5	87,5
General Government	91,4	96,3	95,9	90,7	90,0	90,0
Education	92	93,5	93,0	86,5	87,5	87,5
Health & Social Services	93	102,9	113,5	110,2	115,0	115,0
Other Services	95-99	90,4	77,5	72,9	67,5	67,5
Weighted average		**92,56**	**85,59**	**79,58**		

In this study we lay idle many industries' capital stocks for as long as they are not able to produce under lockdown. We then take the weighted average of the idle capital stock in the economy at large and decrease the total labour supply by the same proportion nationwide for 2020. We reactivate the idle capital stock and labour supply from 2021 onwards. We also assume that any industry with a part of their capital stock idle, would alter their investment in new capital stock to match the decrease in current capital stock.

The maximum capacity to be utilised by each industry is presented in Table 13.

6.2 Modelling results

In this section we present the effects of the modelling scenarios on real GDP, on the GDP expenditure components: household, investment, export and import demand, and then conclude with the effects on industry production. We list the most vulnerable industries, but also highlight the ones that will survive the lockdown period better.

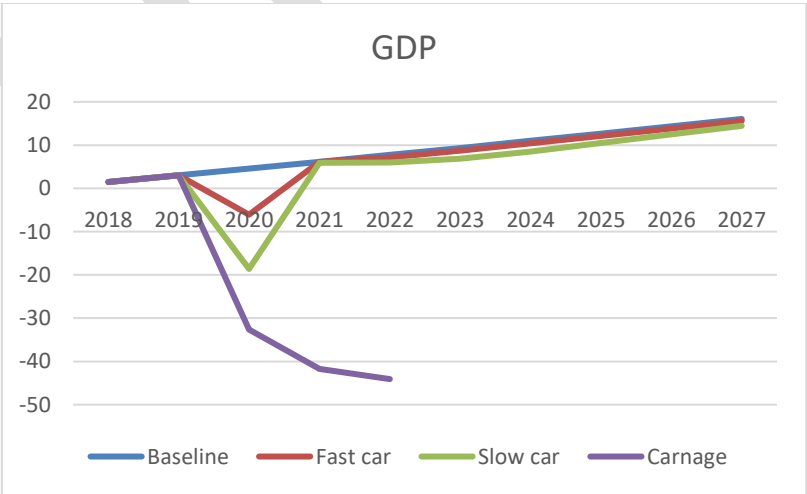
6.2.1 Expected GDP growth or decline

6.2.1.1 The macro economy

The weighted average capacity at which industries could operate under the three scenarios are given in the last row of Table 13. The possible levels of GDP growth obtainable under the three scenarios are related to the capacities at which the industries are allowed to operate, but there are other factors playing a role as well, such as the demand for the goods produced by investors, households, the government and foreigners.

We report the modelling results relative to our baseline scenario: the baseline shows the cumulative growth that would have taken place without any period of lockdown. We then apply the capacity shocks to the capital stock as well as the demand for labour in each one of the 39 industries, according to the numbers in Table 13, and the model reports the deviations that would occur away from the baseline.

Figure 10 Differences in cumulative GDP growth between the baseline and three scenarios



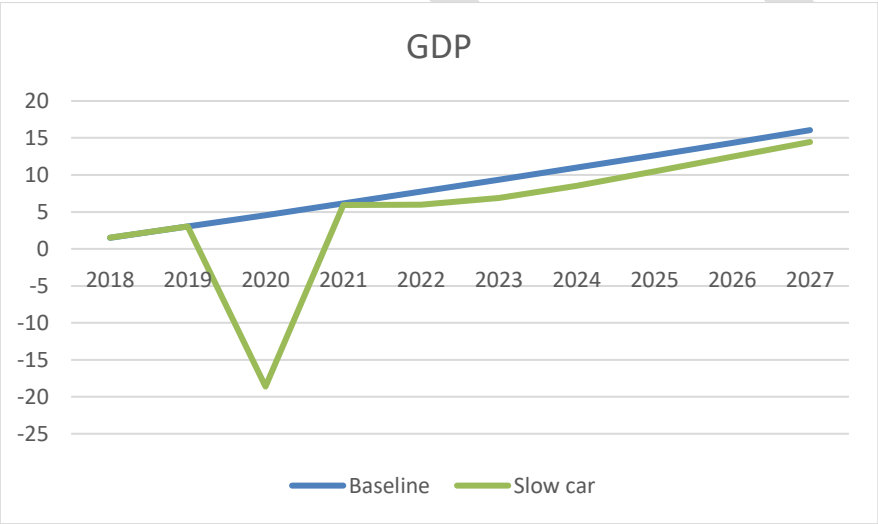
As expected, effects on real GDP growth in 2020 is devastating, even in the most optimistic scenario. Real GDP decreases to 6.08%, 18.82% and 32.63% below the baseline,

respectively, in the three scenarios. If the original suggestion of the stakeholder group that devised "Carnage" were to be implemented, namely to keep the economy at Level 4 lockdown for the rest of 2020, the real GDP would have decreased by 50% below the baseline. Their suggestion that South Africa stays in lockdown for another two years does take the economy to more than 50% below the baseline in 2022. The model is not capable to bring the economy back towards the baseline[7].

The good news from Figure 10 is that the economy recovers remarkably in 2021, given the assumptions made in the Fast Car and Slow Car scenarios, namely that the economy runs at full capacity from 2021 onwards, and world demand is restored completely. Real GDP growth for the Slow Car scenario as compared to the baseline is shown in

Figure 11, where it is clear that the economy stays below the baseline during the entire forecast period. Even though the economy would recover under ideal circumstances, the 2020 shocks will remain with us for a long time.

Figure 11 Difference in cumulative GDP growth between the baseline and the realistic scenario

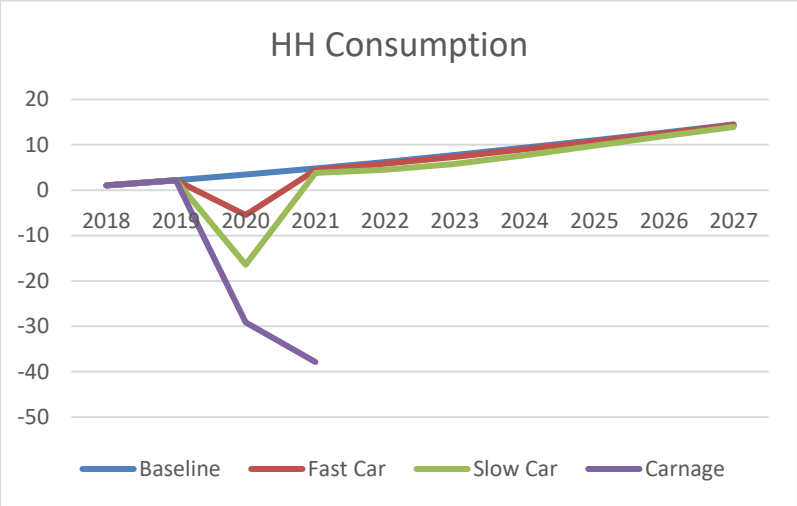


6.2.2 Macroeconomic results: GDP expenditure components

GDP is the sum of household expenditure, government expenditure, investment expenditure and net foreign expenditure (exports minus imports). The expenditure components are presented in a few graphs below, with some comments about each of them.

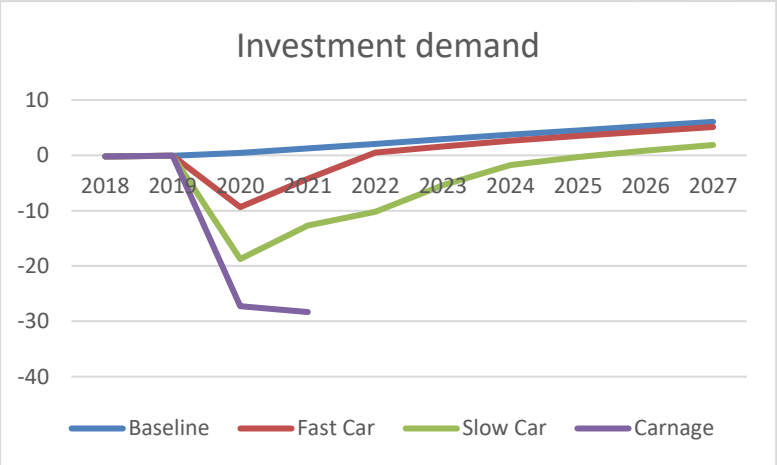
[7] It is more correct to say that the modeller struggled intensively to let the model run until the end of the simulation period, without success. The ideal is to apply small shocks to the model and evaluate the results at the margin. Huge shocks like these would cause major instability in any CGE model.

Figure 12 Household consumption: cumulative deviations from the baseline in % terms.



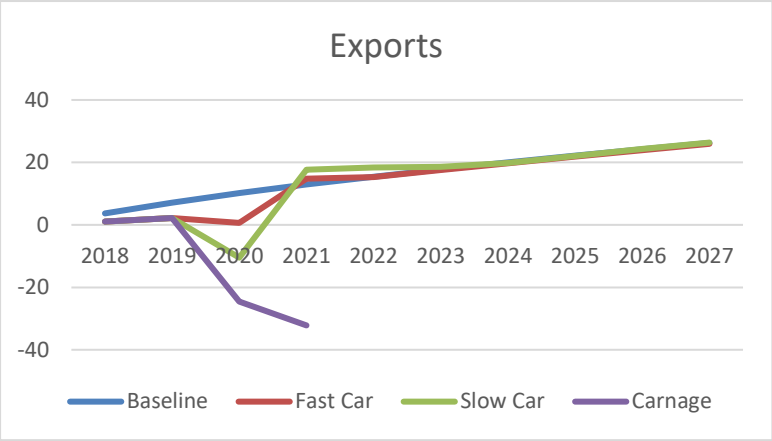
Household consumption in the model is dependent on labour income. As the economy returns to full capacity from 2021 onwards, we also assume that workers return to the jobs they were in when the baseline had been estimated. Since we assume all workers gradually return, household consumption also returns to the baseline.

Figure 13 Investment demand: cumulative deviations from the baseline in % terms.



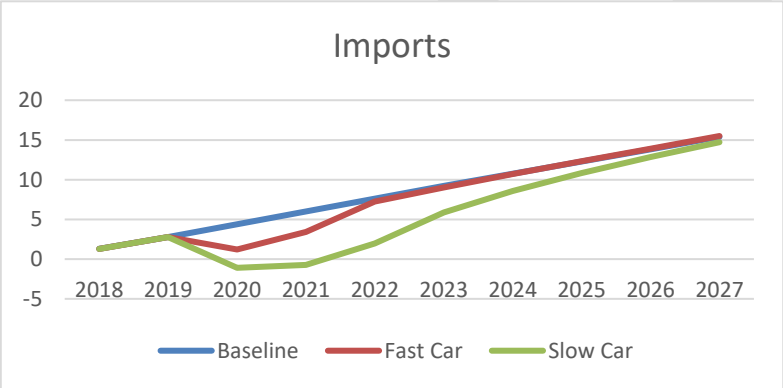
Investment demand does not recover as well as household demand and converges to 0,93% and 4,18% below the baseline in 2027. For Fast Car we assumed that the world financial market return to normal swiftly, but the Slow Car results portray the recent downgrading of various rating agencies of South Africa during and before lockdown. The result is that investor confidence does not return to normal which lets total investment demand stay below the baseline indefinitely.

Figure 14 Export demand: cumulative deviations from the baseline in % terms.



The export function in the model is usually very price elastic, which means that when South African prices drop, the world immediately starts to buy more goods from us. We have curtailed the export elasticity of demand as much as possible, due to the fact that the whole world is experiencing the same pandemic. However, exports still shoot up in 2021, before it stabilises close to the baseline in the longer term. We would like to stress the fact that the results in Figure 14 would only be possible if the world economy is restored to normal levels of operation.

Figure 15 Imports: cumulative deviation from the baseline in % terms



The import demand graphs look somewhat similar to Investment demand in Figure 13, because investment demand is strongly dependent on imports. Much of the ingredients going into the construction of investment goods are imported, so that the poor performance of investment spills over into poorer investment demand. Household goods are also imported and since household demand performed quite well over the forecast period, import demand gets closer to the baseline than investment demand in the longer run.

In the next section we discuss the effects of the lockdown periods in South Africa on the various industries in the economy. The industries are directly affected by the performances of the respective macroeconomic expenditure variables that we have just discussed: we will see that the Construction industry performs very similarly to national investment demand, because all investment goods consist of a large proportion of the construction commodities; also, since exports performed particularly well, we can expect that industries who export significant proportions of their production, would do better than others who do not.

6.2.2.1 Industry growth or decline

There are significant differences between industries, with regards to the impacts of the lockdown periods on their growth or decline, relative to the baseline. Some industries were allowed to operate fully, even under lockdown Level 5, while others have to wait for Level 2 before they can open up again.

It is important to remember that all the numbers in Table 13 are cumulative percentage changes away from the baseline, for example, the number in the table for “Slow Car” in 2020 is -21,21. In the baseline scenario cumulative Agricultural growth would have been 6,44% (since 2018). If the Slow Car scenario would be applicable to the economy, then the cumulative growth would be 21,21 percentage points below 6,44, namely -14,77%. The reader might notice that the Agricultural industry shows a positive number for both the “Fast Car” and “Slow Car” scenarios in 2025. This means that Agriculture would recover fully and even surpass the baseline cumulative growth if the assumptions of the model materialise.

Table 14 Cumulative industry decline/growth relative to the baseline in 2020 and 2025 (%)

Industry	Fast Car 2020	Slow Car 2020	Carnage 2020	Fast Car 2025	Slow Car 2025
Agriculture	-8,79	-21,21	-36,46	0,15	0,16
Forestry	-11,04	-21,99	-37,59	-0,26	0,03
Fishing	-8,66	-20,66	-35,58	-0,17	-0,54
Coal mining	-7,40	-17,07	-28,15	0,35	1,71
Open mining	-9,67	-17,85	-33,14	-0,16	0,99
Deep mining	-10,67	-20,86	-36,75	0,12	1,57
Electricity	-10,72	-23,41	-39,00	-0,34	-0,42
Water	-6,53	-16,20	-32,75	-0,13	-0,32
Food	-9,35	-22,11	-38,12	-0,04	-0,75
Beverages & Tobacco	-11,01	-23,24	-39,49	-0,15	-0,42
Textiles & footwear	-12,81	-27,75	-48,21	-0,31	-1,54
Wood Paper Pulp	-12,19	-26,18	-42,01	-0,48	-1,66
Printing & Publishing	-11,26	-24,86	-40,20	-0,52	-2,44
Petroleum Refineries	-5,51	-14,06	-23,72	1,29	2,30
Chemicals	-13,05	-28,75	-46,02	-0,45	-1,35
Rubber	-13,83	-29,94	-49,01	-0,47	-1,81
Plastic	-12,62	-27,63	-43,95	-0,55	-2,47
Glass	-12,12	-26,80	-43,78	-0,16	-1,13
Cement	-10,76	-21,18	-32,35	-1,05	-5,31
Iron and Steel	-11,97	-25,42	-40,99	-0,54	-1,37
Other Metal Equipment	-12,95	-25,47	-43,50	-0,69	-1,19
Electric Machinery	-13,29	-28,83	-44,57	-0,85	-4,52
Radio & TV Equipment	-19,84	-44,06	-67,02	-1,34	-5,05
Transport Equipment	-12,44	-26,31	-41,68	-0,72	-2,57
Furniture	-12,46	-27,96	-44,62	-0,68	-3,46
Other Manufacturing	-18,96	-47,86	-69,10	-1,10	-4,20
Construction	-9,40	-18,54	-27,72	-1,02	-6,58
Wholesale & Retail Trade	-9,72	-21,45	-36,00	-0,44	-2,16
Hotels & Restaurants	-19,68	-35,74	-61,02	-1,73	-3,91
Transport Services	-13,52	-34,22	-48,92	-0,69	-5,22
Post & Telecommunications	-9,57	-21,87	-37,37	-0,40	-1,63
Banking Services	-6,42	-14,35	-23,12	0,29	0,96
Insurance Services	-4,00	-9,83	-11,79	1,29	4,44
Real Estate Services	-14,09	-26,35	-40,08	-2,41	-8,13
Other Business Services	-11,49	-25,30	-41,67	-0,36	-2,20

General Government	-8,93	-19,94	-32,80	-0,24	-1,53
Education	-9,44	-20,36	-36,19	0,04	-0,31
Health & Social Services	-8,84	-19,99	-36,48	-0,01	-0,63
Other Services	-12,92	-28,19	-41,60	-0,12	-0,64

6.2.3 The most vulnerable industries

The ten most vulnerable industries under each scenario are given in

Table 15 and

Table 16 below.

Table 15 lists the ten worst affected industries (in percentage change terms) for each of the three scenarios. The numbers are again the cumulative deviations from the baseline taken from

Table 14 above.

Table 15 Cumulative industry growth rates below the baseline (%) for 2020

Industry	Fast Car 2020		Slow Car 2020		Carnage 2020
Radio & TV	-19,839	Other Manufacturing	-47,857	Other Manufacturing	-69,1
Hotels and Restaurants	-19,676	Radio & TV	-44,06	Radio & TV	-67,019
Other Manufacturing	-18,958	Hotels and Restaurants	-35,736	Hotels and Restaurants	-61,019
Real Estate	-14,09	Transport Services	-34,221	Rubber	-49,012
Rubber	-13,829	Rubber	-29,944	Transport Services	-48,921
Transport Services	-13,516	Electric Machinery	-28,832	Textiles and Footware	-48,207
Other Non-Metallic Mineral Products	-13,371	Chemicals	-28,745	Chemicals	-46,023
Electric Machinery	-13,294	Other Services	-28,191	Furniture	-44,616
Chemicals	-13,049	Furniture	-27,961	Electric Machinery	-44,566
Other Metal Equipment	-12,952	Textiles and Footware	-27,75	Plastic	-43,95

Table 15 highlights a few significant points: (i) there is a strong correlation between the industries that appear in

Table 15 and the maximum capacities that industries were allowed to operate at, given in Table 13 above; (ii) the three worst hit industries are the same, no matter which scenario is applicable, namely Radio &TV Equipment, Hotels and Restaurants and Other Manufacturing. They were severely constrained to operate, even under Level 3 of lockdown; (iii) most of the worst ten industries under each scenario belong to the manufacturing group of industries, with the exception of Hotels and Restaurants, and Transport Services, who both suffer as a result of people that are not allowed to move between provinces or across borders.

Table 16 Cumulative industry growth rates below the baseline (%) for 2025

Industry	Fast Car 2025	Industry	Slow Car 2025
Real Estate	-2,405	Real Estate	-8,127
Hotels and Restaurants	-1,733	Construction	-6,584
Radio & TV	-1,335	Cement	-5,306
Other Non-Metallic Mineral Products	-1,164	Transport Services	-5,222
Other Manufacturing	-1,104	Radio & TV	-5,051
Cement	-1,045	Other Non-Metallic Mineral Products	-4,694
Construction	-1,024	Electric Machinery	-4,522
Electric Machinery	-0,846	Other Manufacturing	-4,199
Transport Equipment	-0,723	Hotels and Restaurants	-3,905
Transport Services	-0,693	Furniture	-3,464

Two lists that probably contain more important information regarding the vulnerability of industries are presented in

Table 16, where the ten worst performing industries in 2025 are listed. The numbers in the table are still cumulative deviations from the baseline in percentage terms.

Table 16 highlights a few significant points: (i) although there are some industries that feature in both the tables, there is not a one-to-one relationship between the worst affected industries in 2020 and those in 2025. This means that some industries are able to recover in the longer term, better than others. All industries are badly hit in 2020, but the important question is who has the resistance to bounce back? (ii) manufacturing still makes up a significant proportion of the ten worst performing industries on both lists in 2025; (iii) some industries that do not appear in

Table 15, suddenly make a strong entrance into

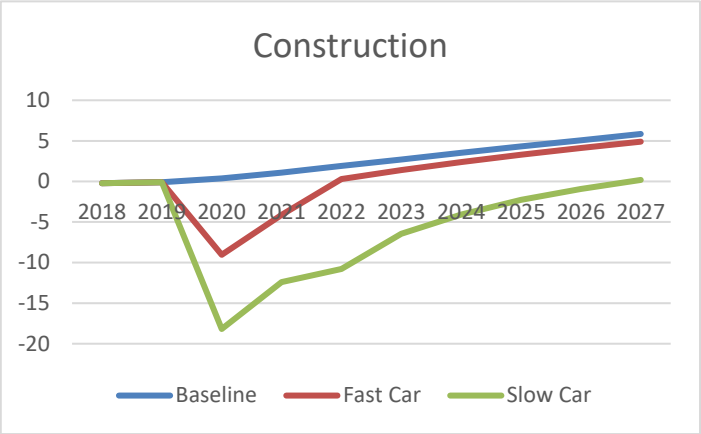
Table 16, such as Real Estate8, Construction and Cement. This is a danger sign: industries that are not amongst the most vulnerable in 2020, feel the effects of the lockdown periods a few years down the line. (iv) it is important to realize that we are reporting per cent deviations from the baseline, but not the absolute sizes of the impacts on industries9.

We are showing four of the most vulnerable industries' cumulative deviations from the baseline in the figures below.

[8] Real estate does appear in one of the 2020 lists, but not the other two, and now it tops both lists.

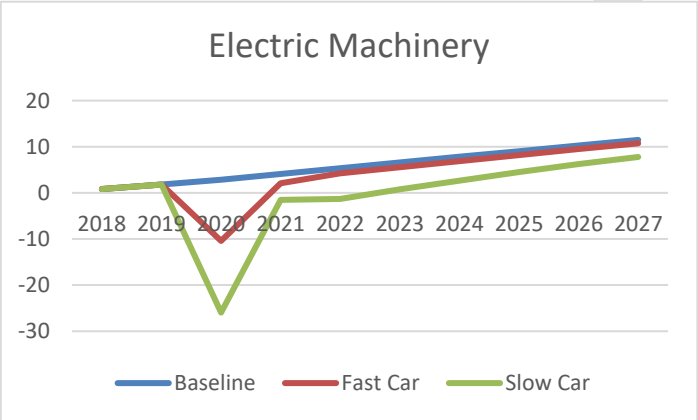
[9] Team, the industries listed in these tables are not necessarily the ones that would affect MSMEs the most, so we will need to conclude from these lists which MSMEs are the most vulnerable (obviously).

Figure 16 Cumulative deviations from the baseline in the Construction industry



Construction is very hard hit in 2020 and the suffers to recover over the whole of the forecast period. Unlike most other industries, we did not shock any variables in the construction industry directly, i.e., we did not change its capacity to operate according to the abilities presented in Table 13 above. The effects on the construction industry are all indirect as a result of the simulated modelling shocks on other industries.

Figure 17 Cumulative deviations from the baseline in the Electric Machinery industry



Electric Machinery performs slightly better than Construction and almost recovers to the baseline under Fast Car, but remains 3,7% below the baseline under Slow Car, which is a big number over the relatively short period of time. The industry is strongly linked to the Construction industry, and to all investment demand, and hence mimics their respective graphs.

Figure 18 Cumulative deviations from the baseline in the Other Manufacturing industry

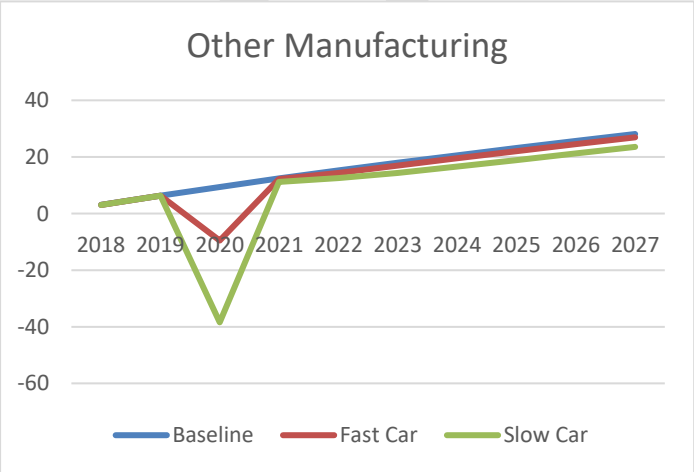
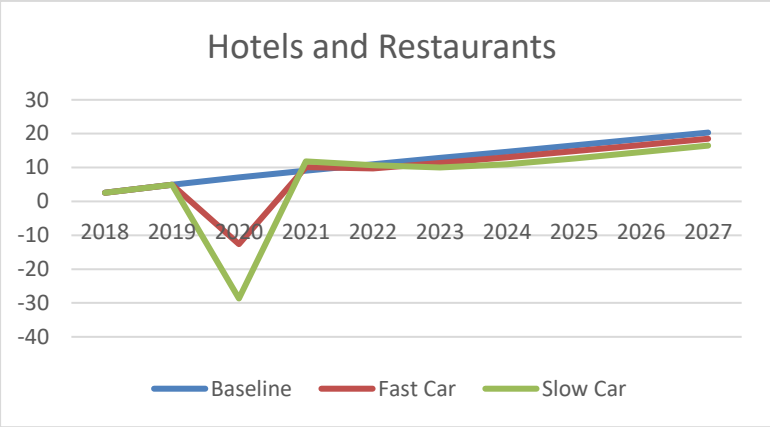


Figure 18 seems to show a remarkable recovery for Other Manufacturing, but Fast Car is still 1,2% below the baseline in 2027, while it converges to 4,6% below with Slow Car. This is almost one per cent per annum on average, below what it should have been.

Figure 19 Cumulative deviations from the baseline in the Tourism industry



Since the Tourism industry is one of the hardest hit in 2020, and remains on the worst hit lists of 2025, we insert this figure also. It shows a remarkable recovery in 2021, before the industry converges to 1,82% and 3,84% below the baseline in 2027 for Fast Car and Slow Car respectively.

The apparent strong recovery in 2021 is a result of the immense drop in all price levels in the model with the contraction in economic activity in 2020, which leads to a subsequent gush in demand in 2021. It is, however, important to look beyond 2021 in where the model variables converge to over time.

Table 17 shows the industries that recover the best by 2025, relative to the baseline, and measured in cumulative percentage deviations. The table shows that, as with the worst hit industries presented above, there is significant overlap between the lists of "survivors" of the two scenarios. It seems that the same group of industries would survive, despite the severity of the shocks applied to them.

Table 17 Lists of best ten recovering industries by 2025, relative to the baseline (cumulative % deviation)

	Fast Car 2025	Slow Car 2025
1	Petroleum and Refineries	Insurance Services
2	Insurance Services	Petroleum and Refineries
3	Coal and Lignite	Coal and Lignite
4	Financial Services	Other Mining
5	Agriculture	Deep Mining
6	Other Mining	Financial Services
7	Education	Agriculture
8	Health and Social Services	Forestry
9	Food	Education
10	Private Services	Water

However, most of the industries listed in Table 17 have at least one thing in common: they were not capacity constrained under any of the lockdown levels, except for the mining industries and Private Services.

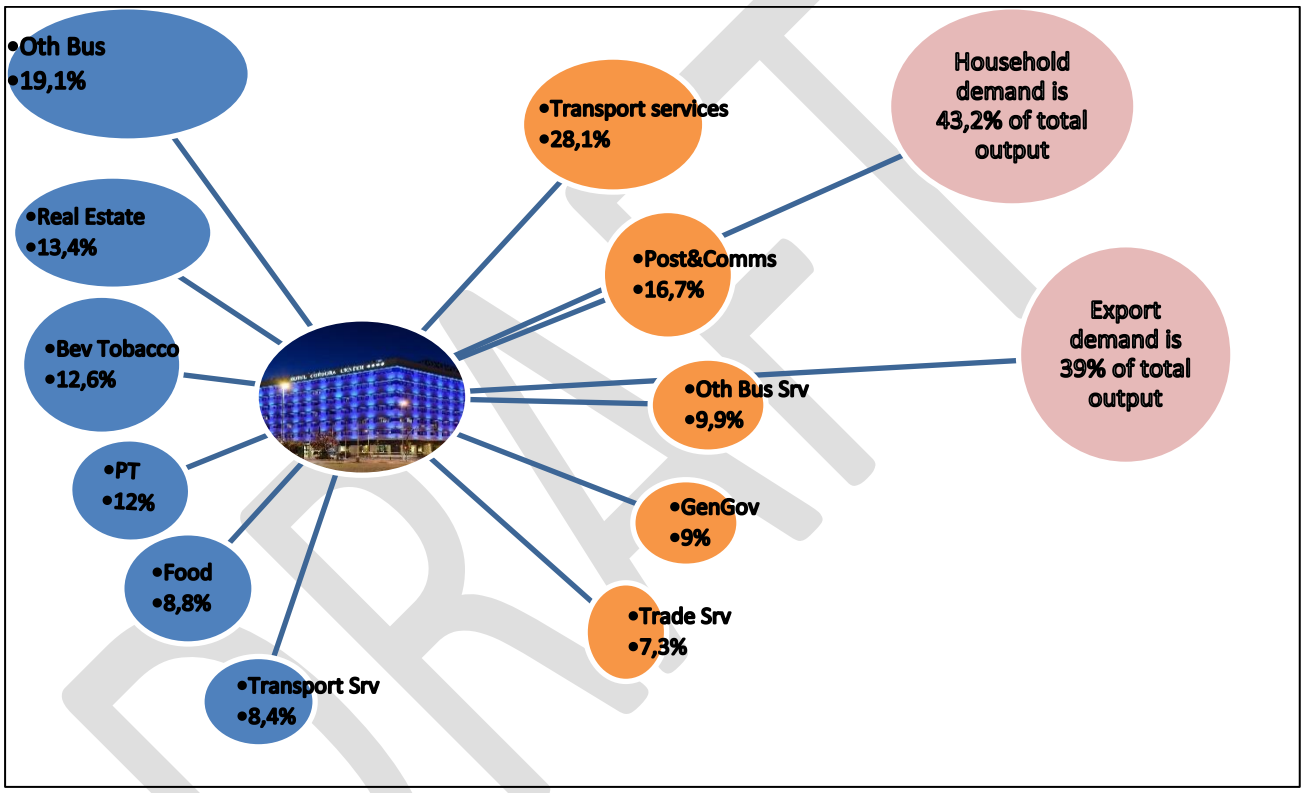
Private Services and Deep Mining from the two columns in the table are remarkable entries into Table 17, because both of them were severely affected during lockdown levels 4 and 5. Why were they able to recover so well? We will get closer to the answers in the next section, where we discuss the forward and backward linkages between industries, as well as the

linkages between industries and the macroeconomic agents, namely households, the government, investors and foreigners. This is discussed in the next section.

6.3 Backward and forward linkages of some vulnerable industries

The linkages of three[10] of the most vulnerable industries are given in the figures and table below. In Figure 20 the backward industry linkages are given in the blue ovals on the left, while the forward industry linkages are given in green on the right. The six industries on the left provide 74% of all the intermediate inputs into the Hotel and Restaurant industry, while the five industries on the right buys 25% of all the output of the Hotel and Restaurant industry. The other two main consumer of these services are households, who consumes 43%, and foreigners, who consume 39% of hotel and restaurant services in South Africa.

Figure 20 Backward and forward linkages of the Hotel and Restaurant industry.



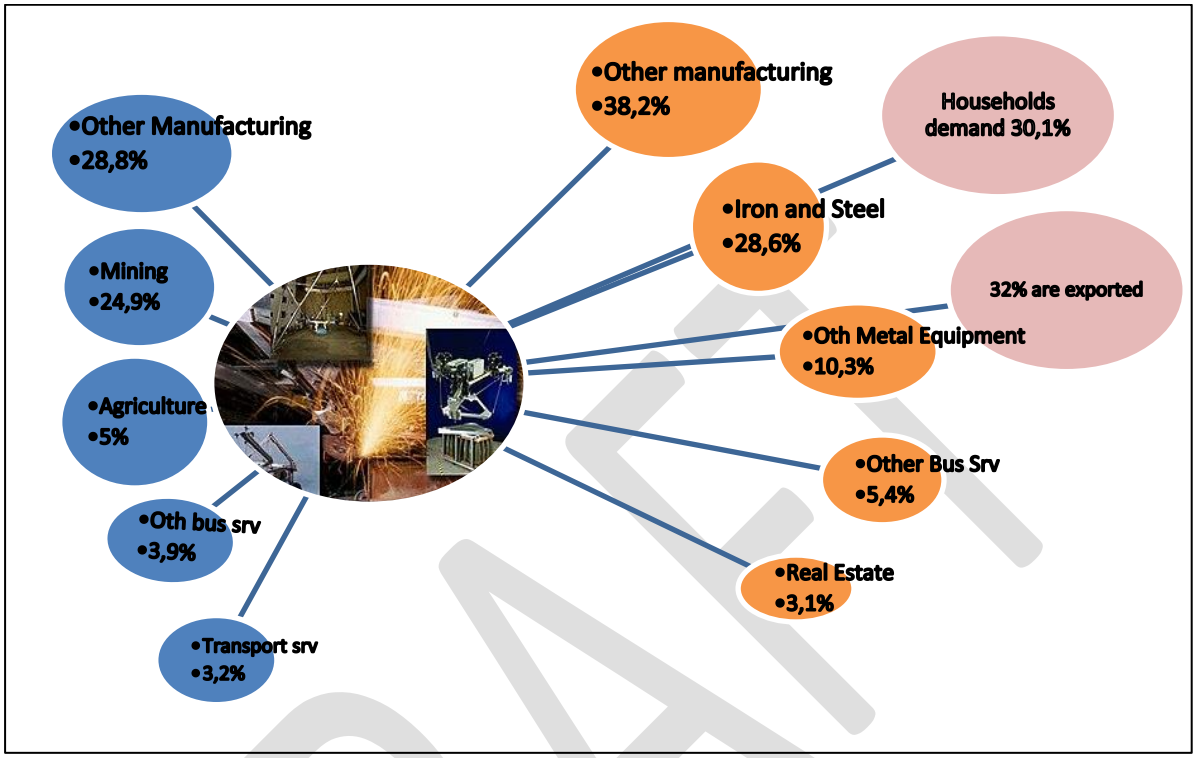
From the figures and table it becomes clear that the vulnerable industries are often linked to other vulnerable industries, on both sides – backward and forward. We were wondering why Real Estate topped the most vulnerable list in the longer term, and it is exactly due to their strong linkages to Other Manufacturing and Construction, who are both high up on the vulnerability spectrum.

Looking at Figure 20 tells the story how the Hotel and Restaurant industry would survive: households and foreigners consume around 80% of its services, while the forward linked industries consume the difference. It will therefore mostly depend on these two agents to help

[10] I could do this for 39 industries, but would like to get your suggestions here. I think four industries should be enough. Do you like this picture, or the table below?

the industry survive. Foreigners are not going to flock to South Africa soon, so the industry will have to entice local consumers to support them and buy their services.

Figure 21 Backward and forward linkages of the Other Manufacturing industry



Firms in the Other manufacturing industry buy many goods from each other, as shown by the backward and forward linkages in Figure 21. If some firms in the industry suffer, then it has a strong ripple effect throughout the industry. Households and foreigners consume around 60% of the total output of this industry, and these agents are therefore very important to keep the industry afloat.

Table 18 Backward and forward linkages of the Construction industry

Backward industry linkages			Forward industry linkages		Final demand component
Other business services	22,1%	**Construction industry**	Construction	25,8%	**Investors demand 74,2% of all construction output**
Other metal equipment	12,7%		Transport services	12,8%	
Other non-metallic products	9,9%		Other business services	9,6%	
Construction	9,5%		Petroleum refineries	8,5%	
Cement	7%		Post & Communications	8,1%	
Iron and Steel	6,3%		Real Estate	6,5%	
Electric machinery	6,1%		Mining	5,4%	

			General Gov	4,4%	

Construction services deliver 74,2% of their output to investment production, while 25,8% of the remaining demand goes back into the industry (the firms in the industry consume much of each other's output in the production of their own). We are convinced that investment demand in South Africa will stay below the baseline for a long period of time, due to various factors (see Figure 13), and conclude that the construction industry in general will be slow to recover as well.

6.3.1.1 The effect of the lockdown on the Poor, Middleclass and Rich

6.3.1.2 Labour income

Although we only have one household group in the model that we are currently using, we do have ten different occupational groups, and from official government statistics we know which occupations are filled by which household group.

The household data shows labour income for 48 household groups, working in the ten occupational groups, arranged by wage income. We divide all household groups into three groups and call them the Poor, the Middleclass and the Rich, as follows: All households are ranked by race group and income group in our database. We take the bottom 20% of each race group, in terms of income received, and put them together in the Poor group. Similarly, we take the top 20% of each race group, put them together, and call them the Rich group. The 60% remaining households that do not fall in either the bottom 20% or the top 20% of each race group, is called the Middleclass. There are obvious inaccuracies in this approach of creating the groups, but it presents us with a birds' eye view of labour income and consumption by different household groups. It is quite possible for us to report on more specific groups, such as "The poorest Black group", or "The richest Asian group", if a demand for such analysis exists.

Our modelling results show how labour demand in each occupational group would change in each year of the simulations, which allows us to calculate how the weighted averages of labour demand for each of the Poor, Middleclass and Rich labour groups would change. The results are given in Table 19 and **Error! Not a valid bookmark self-reference.** below.

Table 19 Cumulative change in labour demand by income group (% deviation from the baseline)

	Poor	Middleclass	Rich
2020	-24,539	-23,56	-22,845
2021	0,435	0,454	0,417
2022	-1,67	-1,474	-1,35
2023	-2,24	-1,947	-1,676
2024	-1,839	-1,52	-1,17
2025	-1,133	-0,816	-0,418

Labour demand falls by design in 2020. Our modelling method in this study consists of decreasing the capacity to produce in each industry by a percentage that we estimated using the information about the five lockdown levels defined by the Government. We let a proportion of the capital stock by industry lay dormant, coupled with a proportion of national labour supply.

In 2021 we restore the capacity to what it would have been without the lockdown period. Due to the contraction in the economy in 2020, all prices fall significantly, including real wages. Firms then demand more labour, and might even overdo demand, as is seen in Table 19 for 2021. However, in the longer run they will correct their behaviour and approach the baseline gradually.

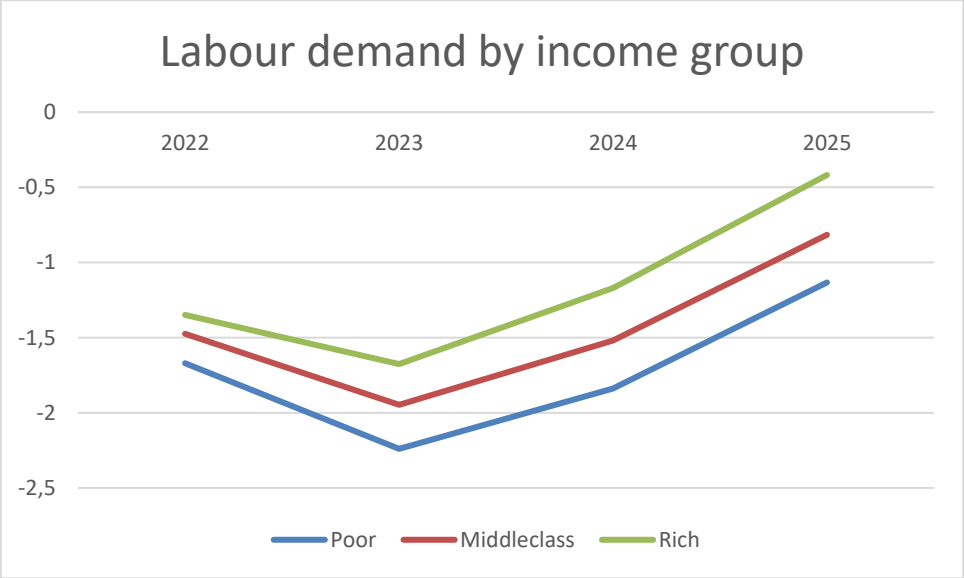
The important information to notice in Table 19 and **Error! Not a valid bookmark self-reference.** is that the demand for workers in the poorest group recovers slower than the demand for the other two groups. The poor group's dominant occupations are given in Table 20. They are mostly working in four occupational groups, namely Craft workers, Machine operators, Elementary workers and Domestic workers. The first three of these are predominantly employed in the Construction, Mining and Trade industries.

Table 20 Occupational distribution of 86% of the Poor group

Occupational group	Craft workers	Machine operators	Elementary workers	Domestic workers
Proportion of total	14,8%	13,9%	32,3%	25,1%

Figure 22 shows the same information as Table 19, but makes it clear that the demand for unskilled labour will be the last to return to the baseline.

Figure 22 Cumulative change in labour demand by income group (% deviation from the baseline).



6.3.1.3 Household consumption

Household consumption in our model is a function of labour income, and from the above we have concluded that the poorest group of households' labour income will recover slower than the middleclass and rich groups. However, there are two sides to every coin – the wage income of a consumer plays an important role, but the prices that she pays in the market are also determining how much she can buy of her favourite consumption goods. What are the important pieces in a poor person's consumption basket?

Table 21 shows the fifteen largest expenditure components in each of the three household groups' budgets.

Table 21 Household consumption by income group – top 15 commodities in terms of total expenditure

	Commodities	Poor		Commodities	Middle		Commodities	Rich
1	Food	83070,55		Food	179222		Real Estate	224916,1
2	Priv Services	48651,72		Priv Services	89894,64		Food	87212,5
3	BevTobacco	38167,34		BevTobacco	80327,79		Health/Soc	61735,34
4	Transport Eq	36765,77		Agriculture	62938,25		Insurance	58623,78
5	Agriculture	27627,07		Transport Srv	57130,06		Priv Services	51219,32
6	Health/Soc	19136,58		Textiles	55103,62		BevTobacco	45122,6
7	Chemical	18243,75		Transport Eq	50325,15		Electricity	41399,38
8	Petro Ref	17995,08		Chemical	46810,19		BevTobacco	37299,48
9	Transport Srv	14661,15		Petro Ref	46547,31		Hotel/Rest	36478,28
10	Metal Mach	13308,43		Health/Soc	45000,97		Financial Srv	31283,22
11	Textiles	10885,81		Insurance	43112,43		PostTeleCom	29128,29
12	Insurance	7503,179		Real Estate	40415,95		Petro Ref	28980,16
13	Furniture	7417,573		Electricity	35606,63		Chemical	28697,87
14	Post TeleCom	7279,132		PostTeleCom	32463,41		Transport Eq	26932,31

15	Oth Manuf	6263,516		50 Education	30756,18		Textiles	19305,91

It is quite interesting that the top three commodities, in terms of size of expenditure, are the same for the Poor and the Middleclass, namely Food, Private Services and Beverages and Tobacco. The three commodities on which the Rich spends most of their money are Real Estate, Food and Health and Social services.

In Table 22 we highlighted which of the ten worst performing industries (mentioned in Table 16 above) provide any of the consumption items on the three income groups' lists, in yellow. It seems that the Poor group would be less harmed by increased prices of the said industries, while the Rich has three implicated industries fairly high up their list of consumption goods.

Table 22 Indication of the worst ten performing industries' produce that form part of the income groups' consumption lists

`	Poor		Middle Class		Rich
1	Food		Food		Real Estate
2	Priv Services		Priv Services		Food
3	BevTobacco		BevTobacco		Health/Soc
4	Transport Eq		Agriculture		Insurance
5	Agriculture		Transport Srv		Priv Services
6	Health/Soc		Textiles		BevTobacco
7	Chemical		Transport Eq		Electricity
8	Petro Ref		Chemical		BevTobacco
9	Transport Srv		Petro Ref		Hotel/Rest
10	Metal Mach		Health/Soc		Financial Srv
11	Textiles		Insurance		PostTeleCom
12	Insurance		Real Estate		Petro Ref
13	Furniture		Electricity		Chemical
14	Post TeleCom		PostTeleCom		Transport Eq
15	Oth Manuf		Education		Textiles

The poor might be the worst off in terms of wage income, compared to the other two groups, but the important commodities in their consumption basket are less severely affected by the lockdown periods.

7 PROVINCIAL IMPLICATIONS OF MODELLING RESULTS

The ten worst performing industries under the Slow Car scenario in 2025 are listed in Table 16 above, while the ten best recovering industries are listed in Table 17.

To determine how the nine provinces in South Africa are affected by the lockdown period, we have listed the ten largest industries in each province, in terms of total value of production, in Table 23. We have subsequently highlighted which of the ten largest industries in each province, fall in either one of the categories in Table 16 or Table 17. The industries counting under the ten worst performing industries were marked in yellow, while those in the best performing group were marked in green.

It is quite striking that none of the provinces have more than three of the most vulnerable industries amongst their ten largest industries, which is good news.

Table 23 Ten largest industries by Province in terms of value of production

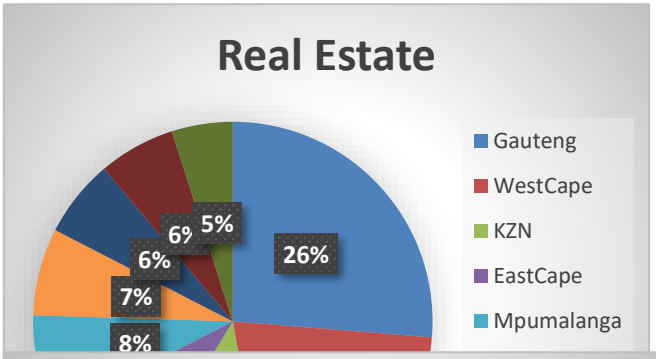
Rank	Limpopo	NorthWest	Mpumalanga	Gauteng	FreeState
1	Metal Ores	Metal Ores	Coal	Trade	Trade
2	Trade	Other Services	Trade	Other Services	Other Services
3	General Gov	Trade	Petro Ref	Transport Srv	Health Soc
4	Real Estate	Real Estate	Real Estate	General Gov	Transport Srv
5	Oth Bus Srv	Transport Srv	Transport Srv	Construction	Metal Ores
6	Education	General Gov	Basic IronStl	FinancialSrv	Real Estate
7	Construction	Oth Bus Srv	Other Services	Education	Agriculture
8	Other Services	Construction	Construction	Oth Bus Srv	General Gov
9	OthMining	Electricity	General Gov	PostTeleCom	Food
10	Transport Srv	Education	Oth Bus Srv	Real Estate	Oth Bus Srv

Rank	NorthCape	WestCape	EastCape	KZN
1	Other Mining	Trade	Trade	Trade
2	Real Estate	OthServices	OthServices	Transport Srv
3	Agriculture	Construction	General Gov	OthServices
4	Transport Srv	Real Estate	TransEquip	Construction
5	Trade	Transport Srv	Transport Srv	Food
6	MetalOrs	Food	Construction	General Gov
7	Electricity	Oth Bus Srv	Real Estate	Oth Bus Srv
8	HealthSoc	Financial Srv	Education	Agriculture
9	OthServices	Agriculture	Oth Bus Srv	Education
10	General Gov	General Gov	Food	Real Estate

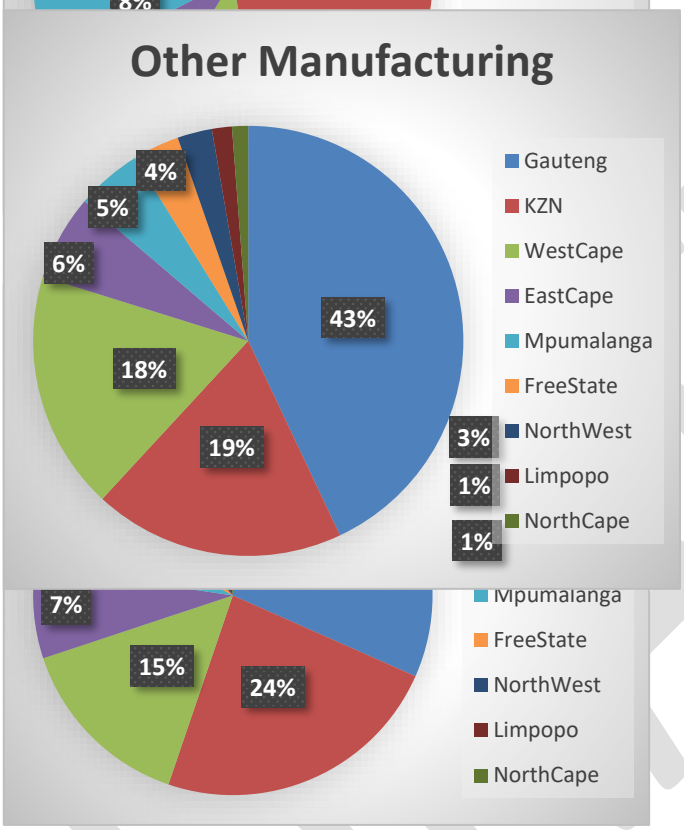
The industries in Table 23 are ranked in terms or size from the top to the bottom, in each province. It seems like Gauteng, the Western Cape, Eastern Cape and KZN are worse off than the other provinces, because in each one of them, their six largest industries include at least two in the list of ten worst performing industries, while the Western Cape has three of those in its top five.

The top three provinces in terms of size of production, namely Gauteng, the Western Cape and KZN, dominate South African production in all ten of the worst performing industries, as further elaborated in Figure 23 below.

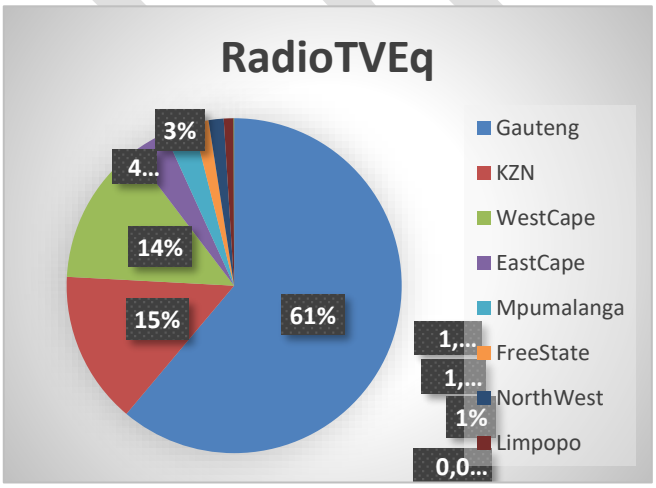
Figure 23 Provincial break-down of production by industry – ten worst performers in 2025



The Real Estate industry tops the list of worst performers in 2025, under the Slow Car scenario. Unlike any other industry on that list, Real Estate is remarkably evenly distributed amongst all nine provinces. All provinces will therefore bear the brunt of Real Estate not performing well.

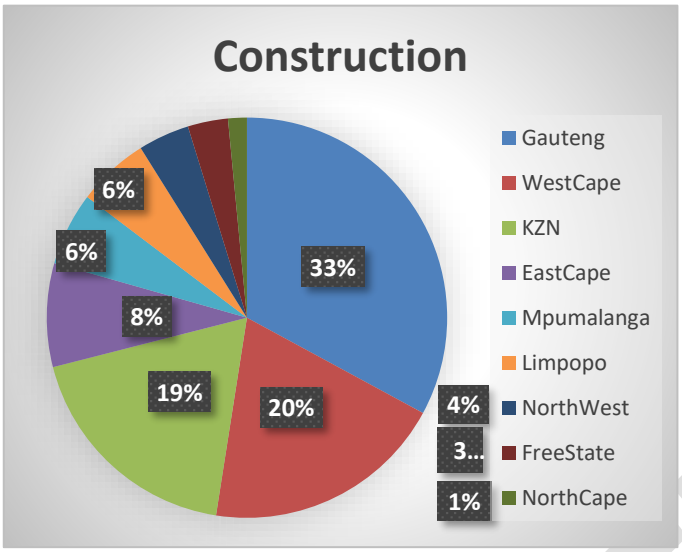


The "Big Three" (Gauteng, KZN and WC) make up more than 70% of the Transport Services industry, which is severely hit by the lockdown period.

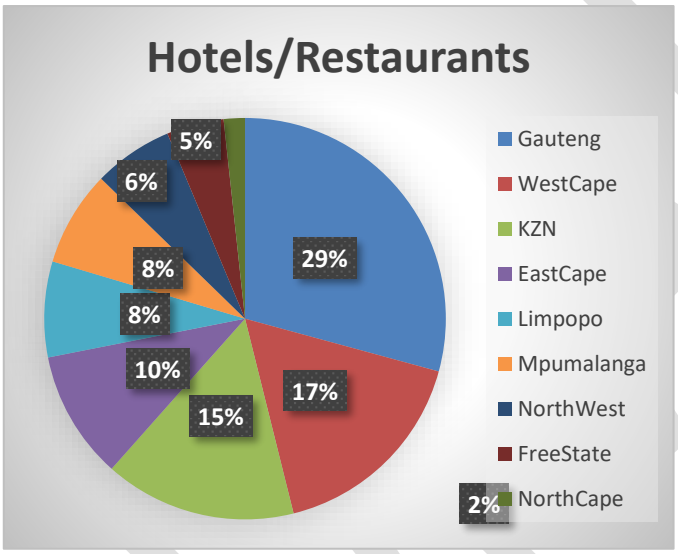


Radio and TV equipment is almost exclusively produced by the Big Three, whose production makes up more than 90% of national production.

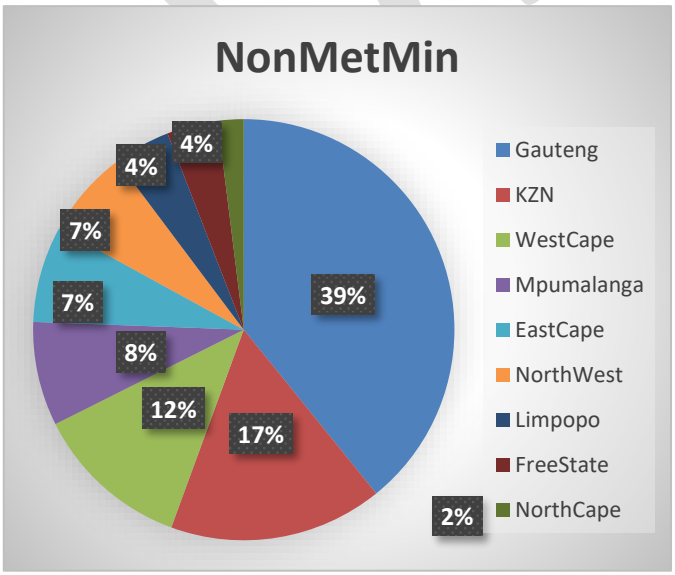
It is clear from this graph also, that the Big Three produce the bulk of Other Manufacturing goods, namely 80% of the total.



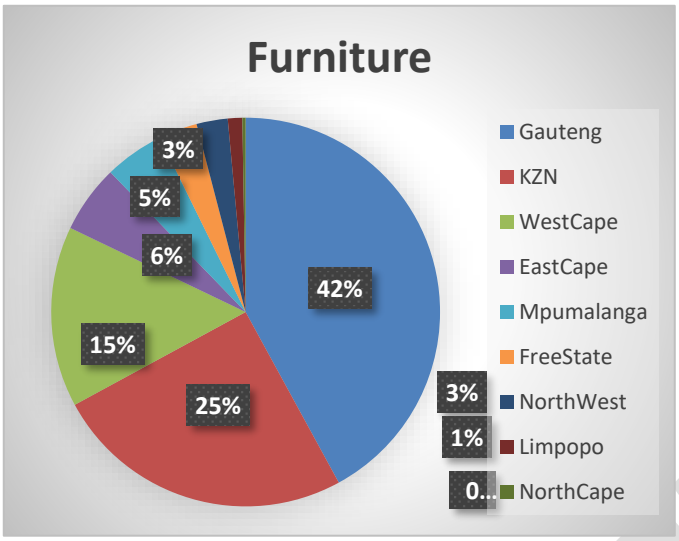
Construction is somewhat more evenly distributed amongst the provinces, with the implication that the bleak outlook for the Construction industry will hit most of the provinces. Only the Northern Cape, the Free State and North West would be less affected by the poor performance here.



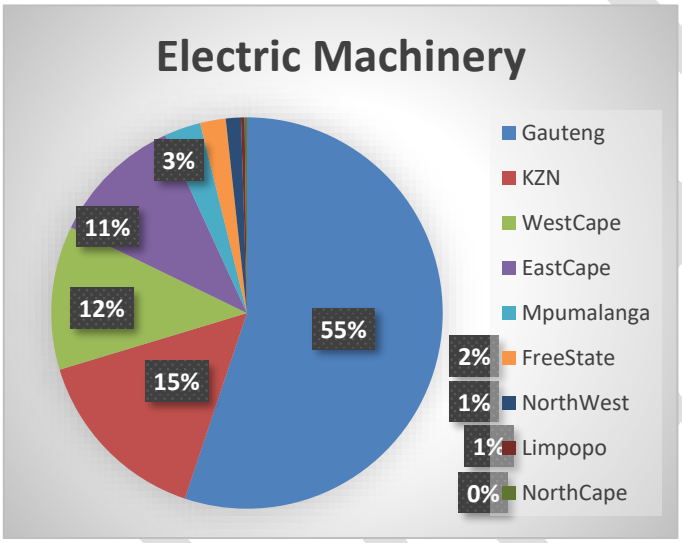
The tourism industry is spread throughout the country and the impact on it affects the whole country.



Non-metal Minerals include the cement industry, which is strongly linked to construction services. Six of the nine provinces have significant proportions of the production of these minerals and will be significantly impacted by the poor performance of the industry.



Furniture is mostly produced by the Big Three (82%) who will be adversely affected by the slump in the industry. Although Furniture is the last entry in the worst ten list, it is just another manufacturing industry performing poorly. It is clear that primary goods, mining and services are not as hard hit by the lockdown as the group of manufacturing industries at large.



93% of all Electric Machinery is produced by only four provinces. Our forecast for the industry is to reach a growth level of 4,5% below the baseline by 2025, under the Slow Car scenario, which would have a significantly negative effect on the said provinces.

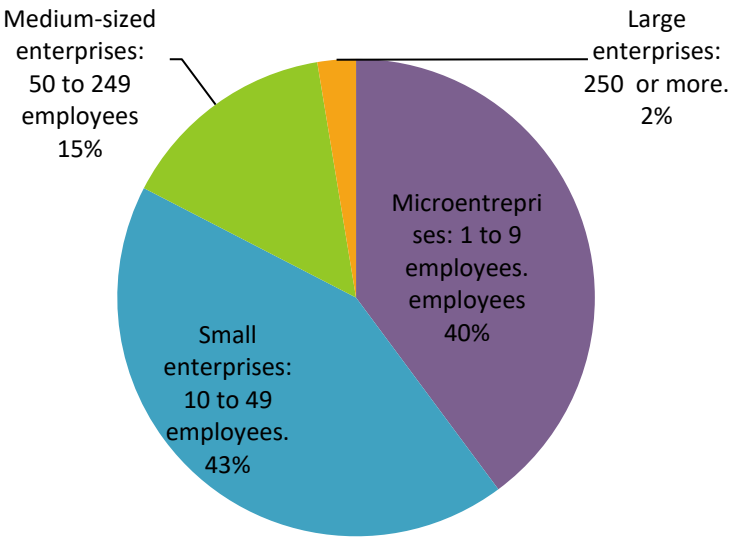
8 SMME SURVEY RESULTS

8.1 Covid-19 SMME Impact Survey

As part of this report, a survey was developed and distributed to more than 20 000 SMMEs in the country. The survey assisted in the development of a better understanding of future South African socio-economic, environmental change and identified the challenges SMMEs are facing, as well as the support required for the sustainability, development and growth of SMMEs during the COVID-19 epidemic. The following section provides the results of the study:

8.1.1 SMME Survey Profile

The survey was distributed to over 20 000 SMMEs across the country, 388 respondents started the survey, but only and 366 were complete responses, which is a 2% response rate. The sample size is sufficient, considering the short period the survey was open and the current climate. The profile if the 366 SMMEs are the following:



The survey performed had a total of 366 respondents of which 39,8% is Micro Enterprises (1 to 9 employees), 42,7% small enterprises (10 to 49 employees), 14,8% Medium-sized enterprises (50 to 249 employees) and 2,6% Large Enterprises (250+ employees).

The respondents combined total turnover per annum is R7 909 137 487, with an average turnover between the companies of R21 609 665.27

The table below provides a summary of the different sectors the companies represented. The survey has excellent coverage, having a respondent from almost every sector. With the majority of the SMMEs in Manufacturing, Agriculture, Iron and Steel and Business Services.

Table 24: Survey Sector Distribution

Value		Percent	Count
1	Agriculture	3.9%	15

2	Forestry	0.5%	2
4	Coal mining	0.8%	3
5	Open mining	1.3%	5
6	Deep mining	0.5%	2
7	Electricity	2.9%	11
8	Water	0.8%	3
9	Food	2.9%	11
10	Beverages & Tobacco	0.8%	3
11	Textiles & footwear	2.1%	8
12	Wood Paper Pulp	0.5%	2
13	Print & Publish	0.8%	3
14	Petroleum and Refineries	1.8%	7
15	Chemicals	1.3%	5
16	Rubber	0.3%	1
17	Plastic	2.6%	10
18	Glass	0.8%	3
20	Iron & Steel	5.3%	20
21	Other Metal Equipment	3.2%	12
22	Electric Machinery	1.3%	5
23	Radio & TV	0.3%	1
24	Transport Equipment	0.5%	2
25	Furniture	2.9%	11
26	Other Manufacturing	28.2%	107
27	Construction	10.8%	41
28	Retail Trade	2.9%	11
29	Wholesale Trade	2.6%	10
30	Hotel, Restaurants & Tourism	2.4%	9
31	Transport Services	2.1%	8
32	Postal and Telephone Services	0.8%	3
33	Finance Services	1.1%	4
36	Other Business Services	6.8%	26
37	General Government	1.3%	5
38	Education	1.3%	5
39	Health & Social Services	0.8%	3
40	Private services	0.8%	3
		Totals	380

The survey was done from mid-May to the end of May before most of the regulations for level 3 was announced, and thus this section has a specific context from which resp[ondents responded. Taking this into consideration most of the SMME's interviewed indicated that they

would return to work in Level 5, Level 4 and level 3. A very small percentage of the SMME's indicated that they would only return in level 2, 1 and 0. The response is in line with the spread of industry representation that was discussed in the previous question, especially considering the low rate of response from the Hotel, Restaurants & Tourism sector

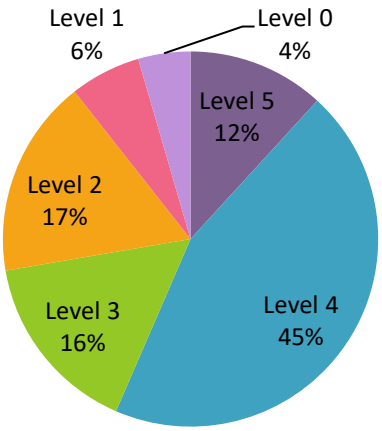


Figure 24: When will your company return to work

8.1.2 SMME Sustainability

The survey aimed to understand the impact of COVID on the SMMEs and questions were raised to understand how long SMMEs can survive during the lockdown taking into consideration when they will return to operation in the previous questions. The response was shocking, with 80% of SMMEs that indicated that they could only survive between one and three months.

Only 10% indicated that they would be able to survive longer than 6 months, in this group of SMMEs there is no correlation between size, sector and duration of survival. Still, most of these companies are allowed to operating in level 5 to level 3, a very small portion of the companies that can survive longer than 6 months are due to open in level two to zero.

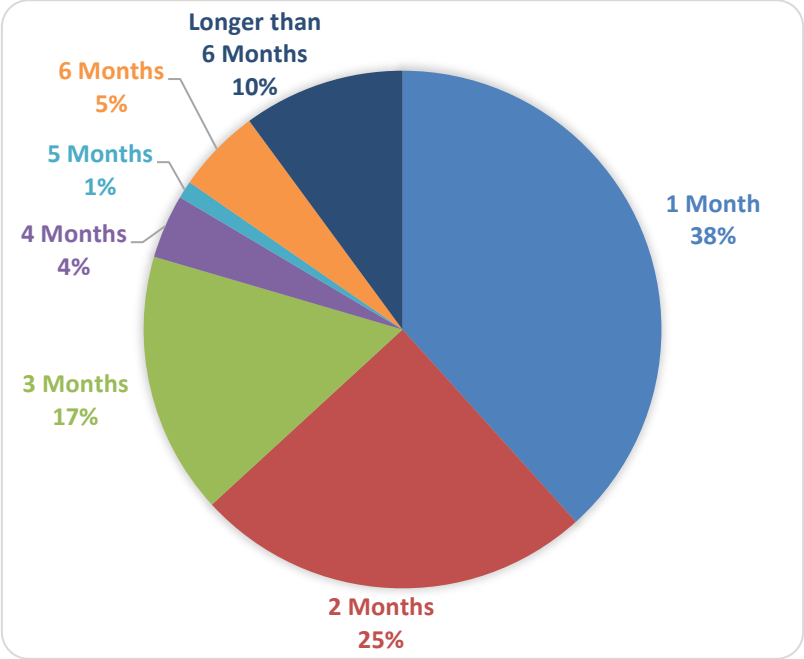


Figure 25: How long will your company be able to survive until your company return to full operation?

The respondents indicated that that on average they will only be able to pay 43% of their salary bill this year with a staggering 41% of their staff will lose their jobs. The inability to pay salaries does is mostly due to a lack of cash as can be seen in the graph below, with only 19% of the SMMEs indicating that most of their funds are in their bank accounts, and 44% indicated they have no cash left.

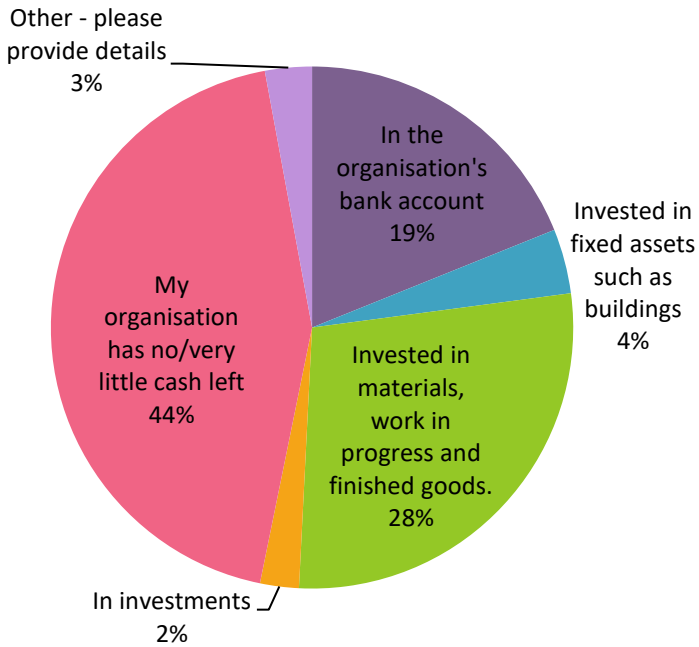


Figure 26: Where can the bulk of your organisation's cash currently be found?

The respondents were also asked if their debtors are still paying them, and 60% indicated that they are still receiving some payments from debtors, and 12% indicated that most are still

paying. The indication that that debtors are still able to pay is excellent, however, it should be noted that the survey was done during the second month of the lockdown, and the reflection is most probably only for the first month of payment in lock-down.

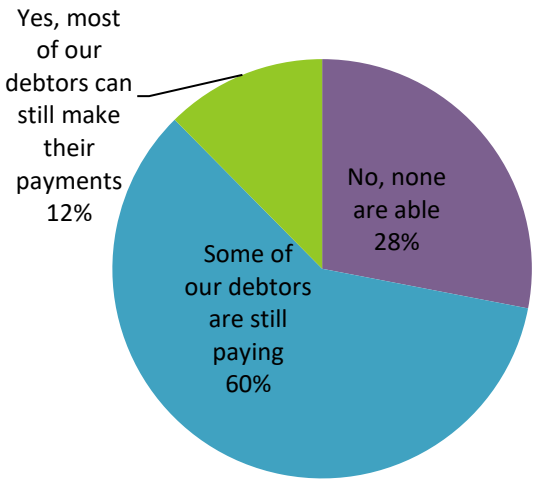


Figure 27: Are your debtors still able to make their payments to you?

The respondents indicated that the demand for their company's products or services in this current environment was low. The demand in the Hotel and Restaurant, Electric Machinery, furniture and Private services sector was the lowest. The Health & Social Services, Agriculture and food sector responded to high levels of demand during the lockdown, which is in line with the sectors that are allowed to operate.

The figure below (Figure 28) provides a view of what the SMMEs are struggling with during COVID-19. The response below does provide two critical insights, and the first is that SMMEs as struggling to connect to customers and secondly the decrease in productivity remotely, this might point to poor sectorial digital adoption to support employees and digitally connect the supply chain.

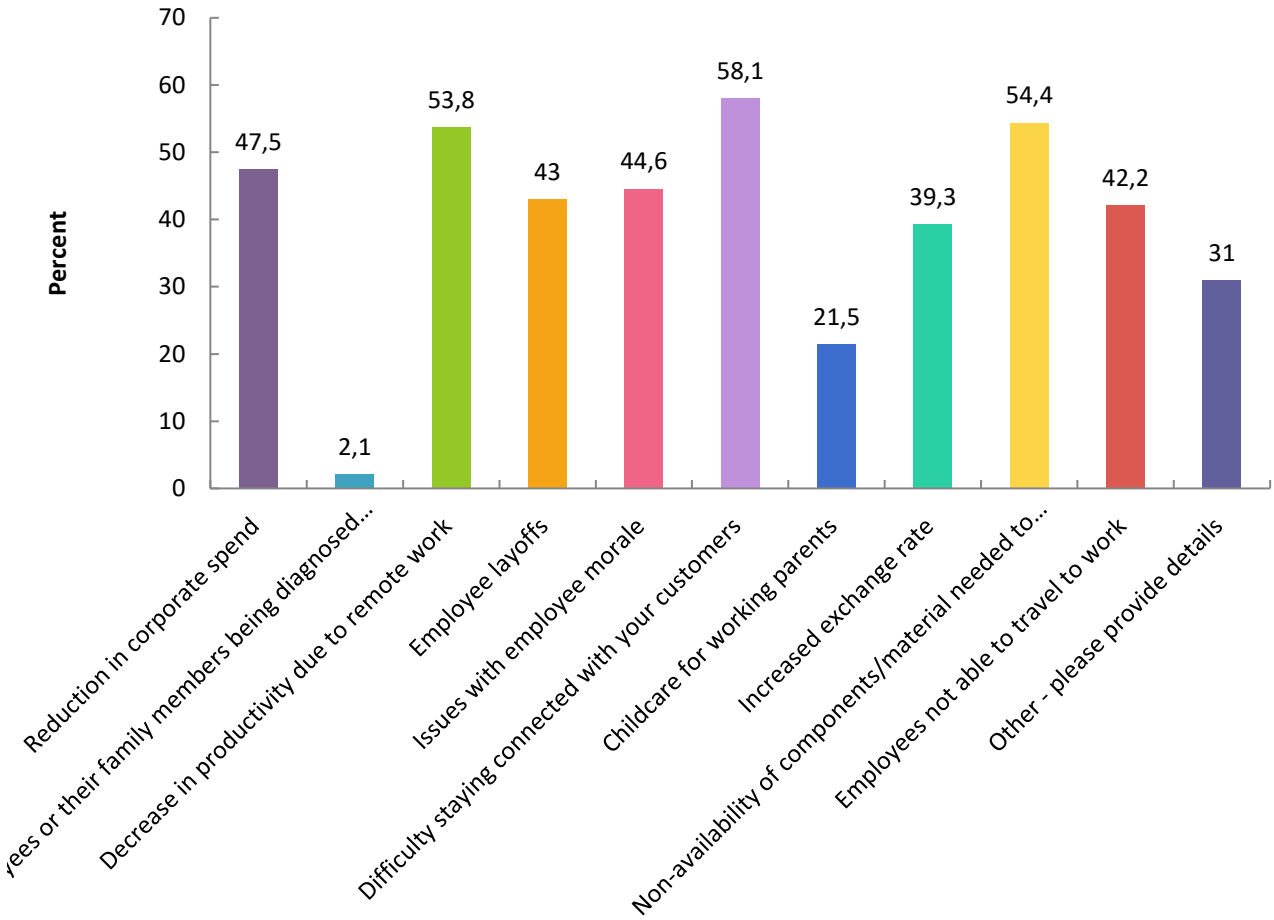


Figure 28: What challenges has your organisation experienced as a result of the coronavirus pandemic? Select all that apply

The closure of the South African ports of entry was considered as a risk to SMMEs that is highly dependent on import and exports. The survey had two questions to determine the impact of exports and imports on SMMEs. The result from the survey is that exports and imports have less of an effect on the sample size than expected. Imports have more of an impact as can be seen in the figure below then exports.

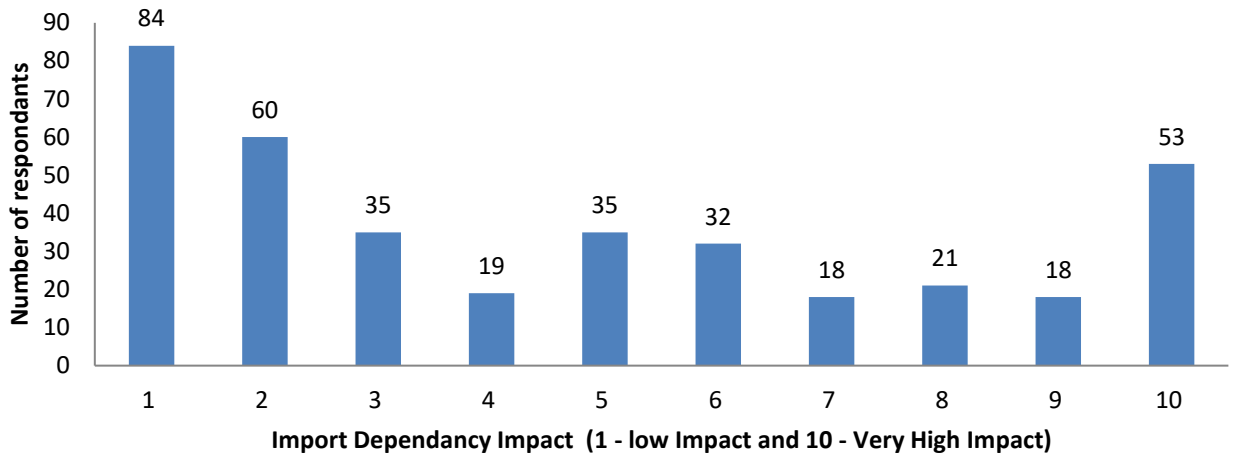


Figure 29: What is the effect of Covid-19 on your company imports.

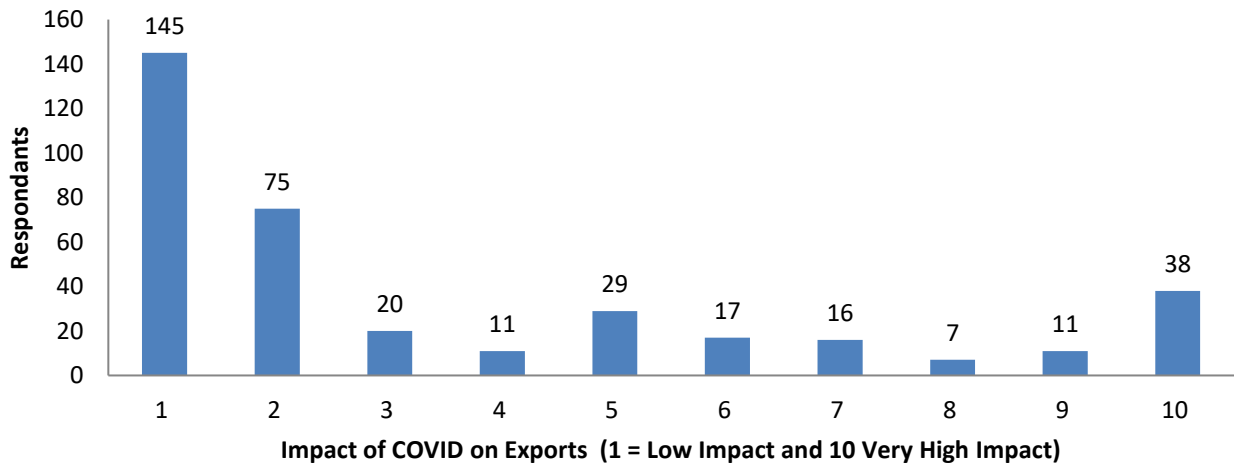


Figure 30: What is the effect of Covid-19 on your company exports?

8.1.3 SMME COVID-19 Risk

Covid-19 does have a much higher risk on the older portion of the population and creates an inherent risk to companies with older staff. The companies surveyed were requested to indicate which portion of the company's staff is older than 50 years. The average is 15.4% of the total labour across respondents was older than 50 years. The age distribution is an indication that the risk factor is much lower on the sample of SMMEs surveyed.

Public transport is another big risk to employees due to the difficulty to implement social distance. The respondents indicated that 53% of their employees are using public transport. This figure is, however misleading in terms of a number of people using public transport. The medium and large enterprise had larger percentages of public transport usage and have much larger workforces and are more susceptible if one person is infected.

8.1.4 Digital Adoption

The survey was designed to determine the level of digital adoption that is required to allow companies to do business during COVID-19. The respondents were asked if their organisation currently can offer your products/services via e-commerce platforms. Most of the respondents indicated that they could provide products or services via a digital platform. The responses provided did not give a clear indication of any correlation between sectors, digital adoption and assistance required in digital adoption.

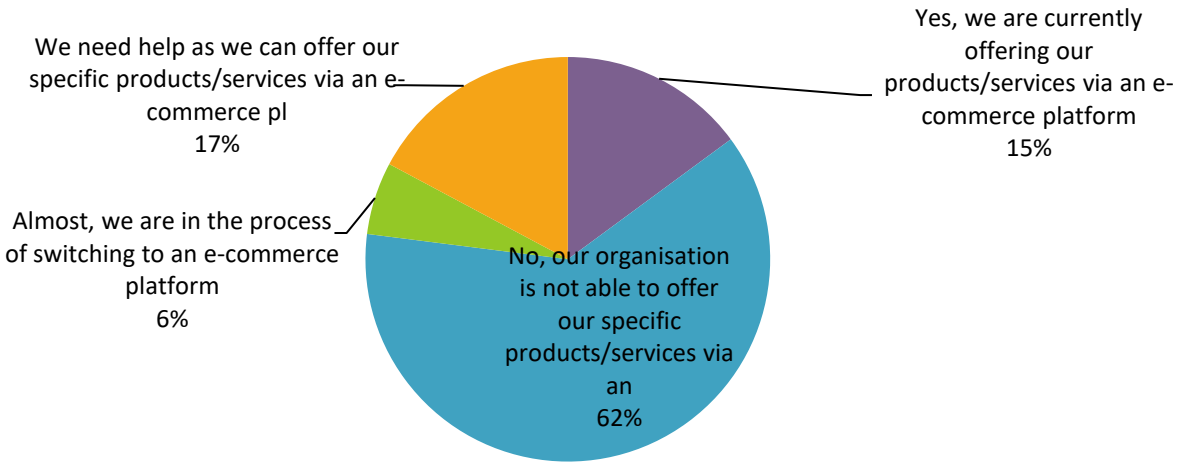
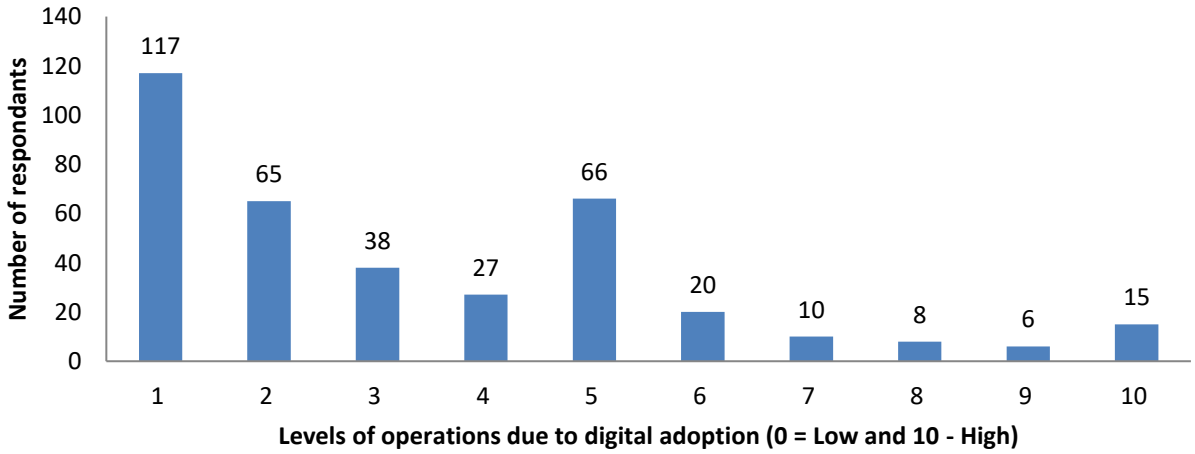


Figure 31: Can or is your organisation currently able to offer your products/services via an e-commerce platform (website or e-mail)

Most of the SMMEs responded they have improved levels of operational efficiency through the adoption of digital technologies/



The responses do give a clear indication that an effort to support SMMEs with digitising their operations will increase productivity and success. The Fourth Industrial Revolution is build on the premise that businesses are digitising not just the operations but more importantly, the supply chain integration with customer and suppliers. Covid-19 is just accelerating the adoption process, and business that can not adapt will be left behind.

8.1.5 COVID Recovery

The following section describes the view SMMEs provide on their ability to recover after COVOD-19. Most of the SMMEs believe that they will be able to be a return to pre-COVID-19 levels with 12 months, with the average indicated duration at 11 months. As can be seen in the graph below

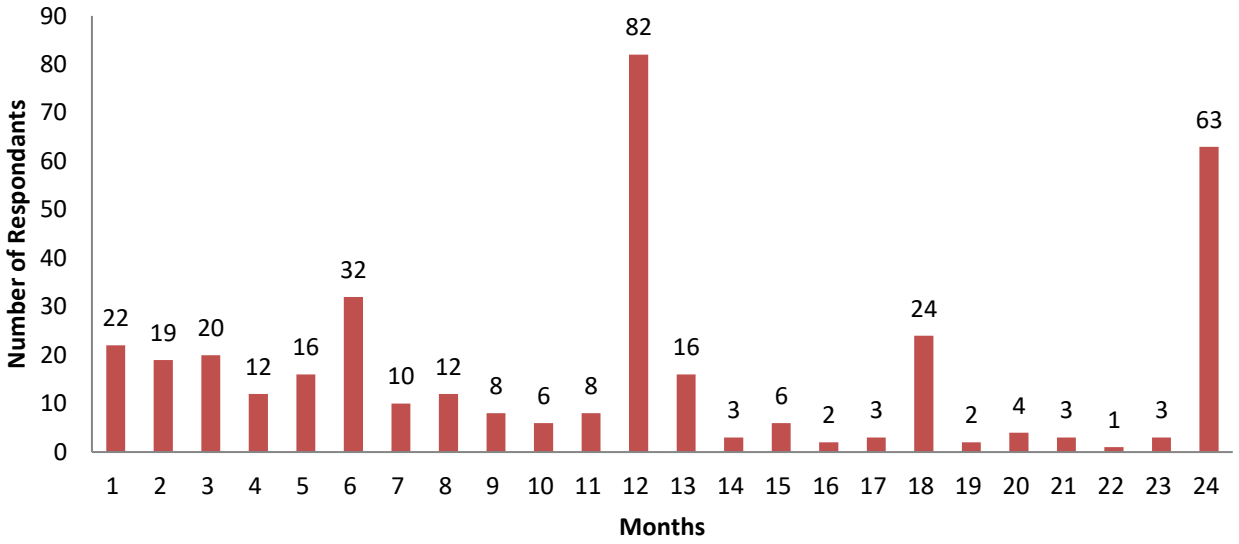


Figure 32: How long will it take your company to return to pre-COVID-19 levels?

Most of the SMMEs (80%) indicated that they would be able to catch-up on order or demand after the compy returned to full operations.

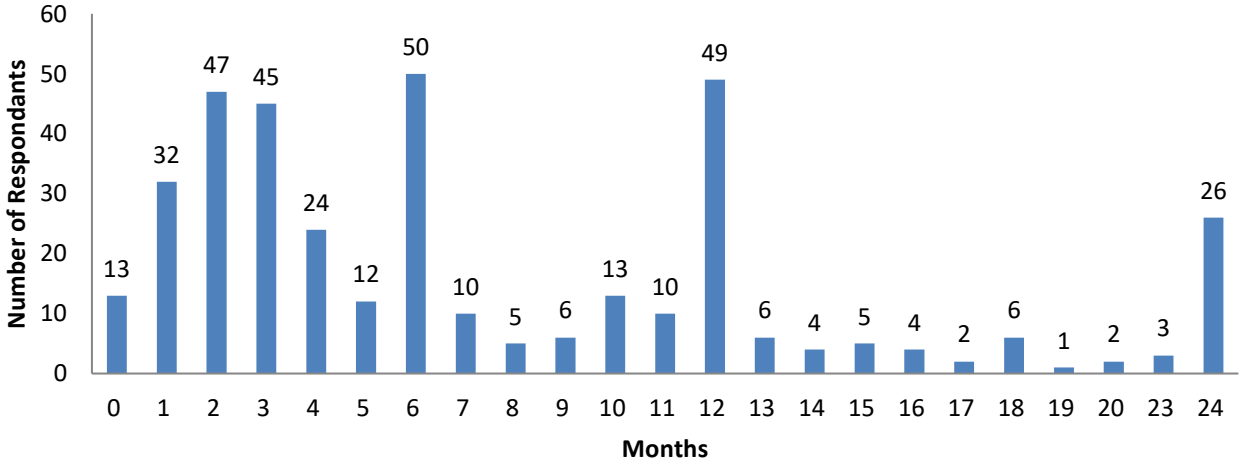


Figure 33: How long will it take your company to catch up on orders/demand after your company return to full operation?

The SMMEs that can recover demand or orders will mostly utilize existing stock levels or will require overtime from the employees, as indicated in Figure 34 below. The indication is that very few of the SMMEs that was interviewed cannot catch-up with demand or orders, most of the SMMEs that indicated that they couldn't catch-up to order or demand are from "Other Manufacturing".

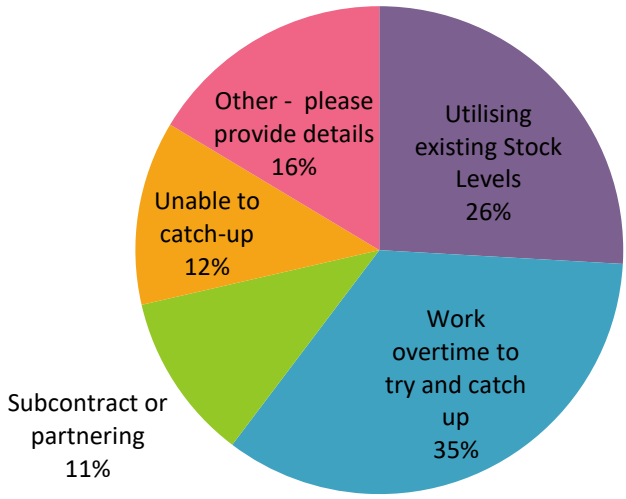
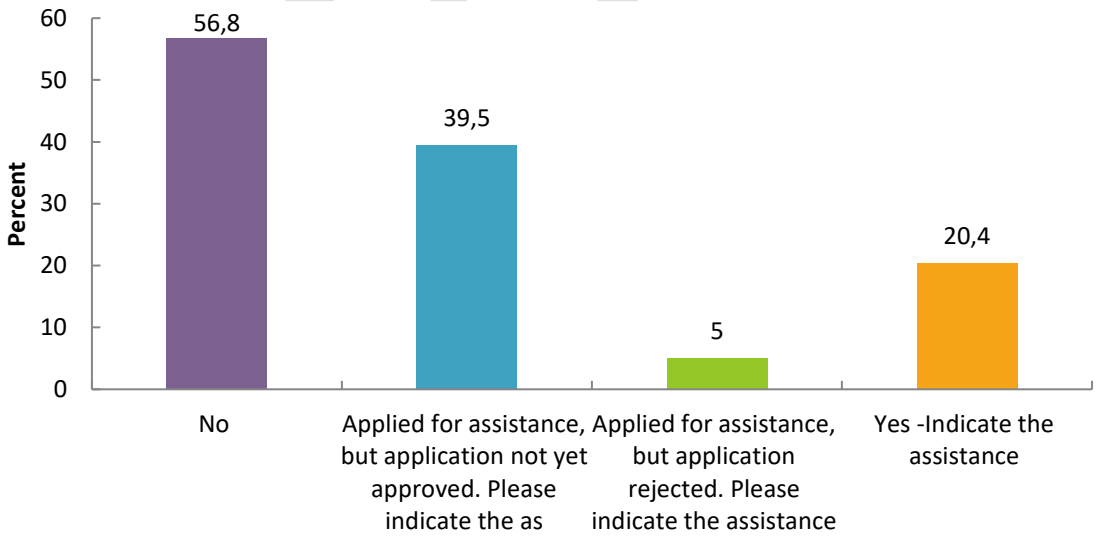


Figure 34: How will your company catch-up on orders/demand?

8.1.6 Government Assistance

Most of the SMMEs surveyed did not apply for any government assistance, which was unexpected if they have applied they have not received any response. The from the 20% of SMMEs that are receiving support, 95% indicate that they are receiving support from either the Unemployment Insurance Fund (UIF) or Temporary Employer/Employee Relief Scheme (TERF) or both. Only two SMMEs mentioned the SEFA Debt relief and SEDA National Gazelles Programme, respectively.



The last question to the respondents was to determine their view on when the lockdown will enter level one. The response to the question provided a view of the scenarios in the previous chapter, Most of the SMMEs(49%) provided a very optimistic outlook, with the lockdown ending in September, this is in line with the optimistic Fast Car scenario. The Slow Car scenario, which is the more realistic scenario, is represented by about 35% of respondents, and about 15% of the respondents fall into the carnage scenario.

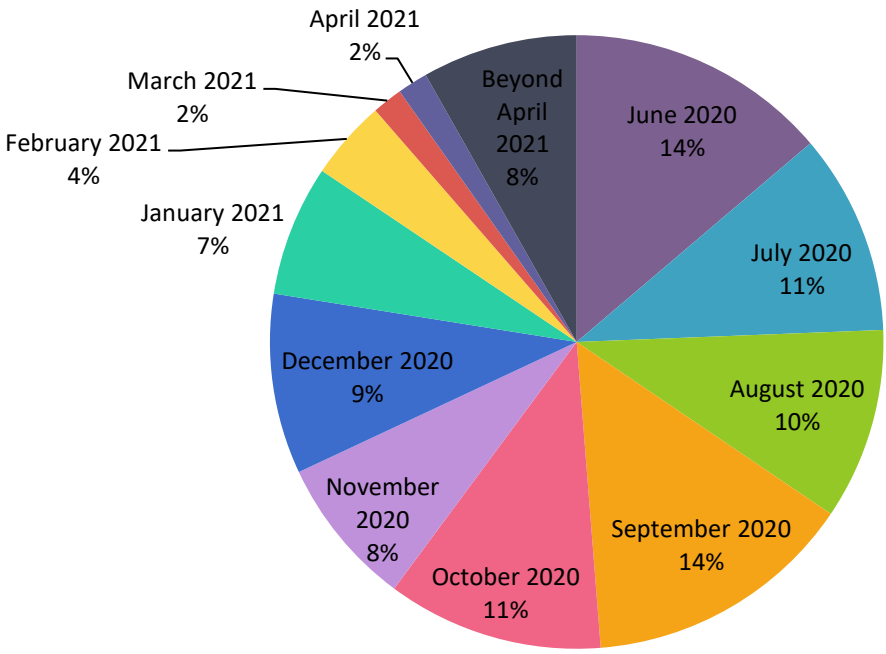


Figure 35: In your opinion, what is the estimated date for South Africa to enter Level One

8.2 Results from other surveys

A number of organisations conducted surveys about the influence of Covid-19 lockdown measures. An overview of nine of them is offered here.

SURVEY	GEOGRAPHY	SURVEY PERIOD	RESPONDENT PROFILE
#COMBATCOVID SMME SURVEY Heavy Chef in collaboration with Retail Capital, Payfast, Xero, Yoco, Whipping the cat & Workshop 17	South Africa	April	**Small business owners** Other 27%, Food & Bev 12%, Beauty salons & wellness 11%, General retail 11% 66% operating 3+ years
COVID-19 IMPACT ON SOUTH AFRICA'S SMMES 22 ON SLOANE	South Africa Mostly Gauteng based (83%)	23-28 March	**SMMEs and stakeholders** Services 31%, Other 20%, ICT 11%, Manufacturing 9%, Fin Services 8%.
COVID-19 AND ITS IMPACT ON THE SMME SECTOR Inclusive Society Institute	South Africa	9-13 April	**SMMEs from all sectors** Analysis of 3 sectors: Manufacturing, wholesale and retail, and services.
The Small and Growing Business Sector and the Covid-19 Crisis Aspen Network of Development Entrepreneurs & Dalberg	Global Emerging markets	March and April	**ANDE Members, Funders, Entrepreneurs** Capacity Development Organisations, Investors, advisors, academics, foundations
State of SA's SME Sector during lockdown Nedbank and Consulta	South Africa	April and May	**SME owners** Across all industries
The Impact of Covid-19 on SMEs sme.africa and Sasfin	South Africa	Early lockdown	**SME owners** Across industries
Business impact survey of the Covid-19 pandemic in South Africa - StatsSA	South Africa	30 Mar – 13 Apr	**Businesses registered for VAT** Across industries, 25% from manufacturing
Business impact survey of the Covid-19 pandemic in South Africa - StatsSA	South Africa	14 – 30 April	**Businesses registered for VAT** Exclude fin intermediation, insurance, pension funding, government, education, other services.
Results from Wave 2 survey on the impact of the COVID-19 pandemic on employment and income in SA	South Africa	29 Apr – 6 May	**Any person aged 18+, SA resident**

#COMBATCOVID SMME SURVEY

The majority (66%) of respondents to this survey's businesses had been in operation for three years or more, with significant numbers of respondents in the Food & Bev, Beauty salons and Wellness, General Retail, and Other industries.

73% of the respondents indicated that they were not trading at the time of the survey, and 89% indicated that their turnover decreased during lockdown, while the majority indicated that their business would probably not survive an extended lockdown. Less than 20% could survive if they only started trading from August onward.

The views on their monthly turnover before, and expected turnover during the first month after lockdown, illustrate how businesses with a higher turnover pre-lockdown expect a slow start in the first month of trading after lockdown.

Monthly turnover before lockdown, and expected turnover during first month after lockdown.

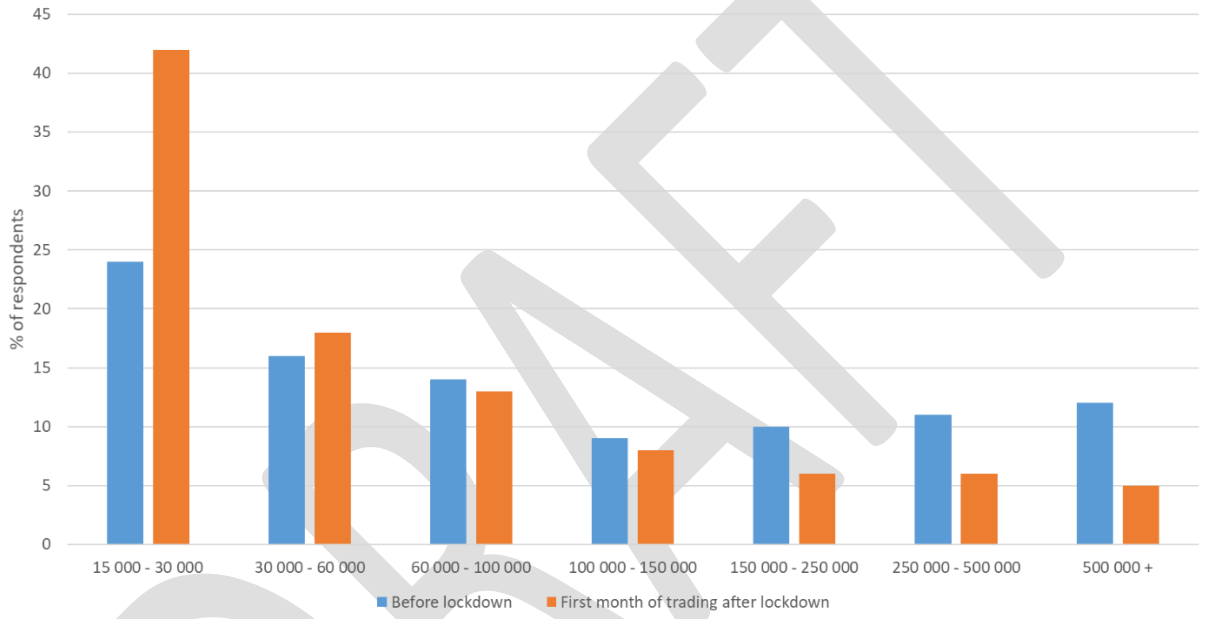


Figure 36: Monthly turnover before lockdown, and expected turnover during first month after lockdown

47% of respondents indicated that they applied for relief initiatives, but 68% indicated that they were not successful in receiving any support. Only 28% of organisations could pay their employees, who were not working, in the same manner as before lockdown.

An interesting section of this survey was the one about adaptability. Here 35% of respondents indicated that they changed their business model since lockdown, and 57% indicated that they plan to change their business model after lockdown. The technologies most frequently applied to streamline current business practices, were messaging platforms (38%), video conferencing platforms (23%), cloud hosting services (15%), file sharing services (14%), and collaboration tools (10%).

COVID-19 IMPACT ON SOUTH AFRICA'S SMMES – 22 ON SLOANE

The majority of respondents in this survey (92%), indicated that COVID-19 affected their operations, with the payment of salaries and wages (63%), sales (59%), rentals (31%) and debtors (26%) cited as the areas most affected. More than half of respondents were concerned about their potential to survive – 43% thought that they may not make it and 11% were sure that they will not survive.

The greatest influence on operations came from travel restrictions (28%), projects, contracts and meetings cancelled (11%), projects being put on hold (9%), drop in productivity and having to work from home (8%), as well as clients cutting costs, events being cancelled and clients or suppliers not operating.

Most businesses indicated that there was at least a 30% chance that they could retrench staff; the main reasons cited were low sales (56%), liquidity (36%), and scaling down (24%).

When prompted about potential future opportunities, respondents identified virtual working (56%), diversifying their offering (46%), and creating disruptive approaches (37%).

The survey also prompted respondents to suggest financial relief measures. The majority suggested grants, tax exemptions, and subsidies as most significant interventions from government and relief funds, and sponsorships/donations as the most significant potential interventions from the private sector.

COVID-19 AND ITS IMPACT ON THE SMME SECTOR – Inclusive Society Institute

This survey found that 72% of respondents were unable to operate during lockdown, while 28% were regarded as essential services. 98% experienced a decrease in turnover. In total, around 7.5% of the workforce could not be retained. For all respondents, a lockdown beyond end April 2020 could cause significant decreases in their potential to survive.

Respondents were asked to indicate their support for a range of proposed recovery measures.

- 34% were in favour of a Covid-19 recovery levy
- 44% supported a solidarity tax
- 64% were in favour of the close down or radical reform of state-owned SOEs
- 53% would support the launch of major PPP projects
- 48% thought that IMF / World Bank loans were a good idea
- 32% supported increased government spending
- Only 3% were in favour of increased taxes for the foreseeable future.

A deeper analysis of survey responses from manufacturing, wholesale and retail, and services sectors indicated that:

- 97% of wholesale and retail organisations expect to reinstate workers that were laid off once lockdown and cash flow permits, while only 60% in manufacturing and 47% in services expect to do so.
- Less than a third of organisations believe they will survive an extended lockdown period, beyond 31 May 2020. (Wholesale & Retail 30%, Services 25% and Manufacturing 29%).

Three recommendations were made:

- Allow businesses to start operating in an effective manner as soon as possible
- Policymakers should thoroughly investigate the feasibility of new financial measures (like the proposed COVID-19 Recovery Levy and Solidarity Tax)

- Streamline current and future mechanisms to ensure faster decision-making and transfer of financial aid.

The Small and Growing Business Sector and the Covid-19 Crisis – ANDE & Dalberg

This global survey found that, across regions, around 42% of Small and Growing Businesses (SGBs) are at risk of failing within the next 6 months.

Based on the results of their survey, they proposed three categories of action:

- Flexible financing directly to the SGBs. Survey responses indicate that they are facing declining revenues and have low cash balances, with many already downsizing / closing to prevent complete failure.
- Non-financial support to SGBs, focusing on guiding them through financial relief funds' access procedures and technical assistance with pivoting their business models.
- Increased financial support for capacity development organisations. Results from the survey indicated that many of these organisations are facing liquidity problems and would need more resources in order to introduce new Covid-19-related programmes.

State of SA's SME Sector during lockdown – Nedbank

The results from this survey indicated that the confidence levels of business owners about their potential to recover from the impact of lockdown, were low (5.4 out of 10). 27% of respondents already retrenched staff, and 92% were actively seeking some form of financial support.

The most popular sources of potential financial support were relief funds (34%), their bank (33%), and friends and family (20%).

Overall, respondents indicated high levels of uncertainty. 10% indicated that their business will not be able to recover, while 57% were exploring options to drastically change their business and operating models in order to adapt.

The Impact of Covid-19 on SMEs – sme.africa and Sasfin

This survey, conducted early in lockdown, indicated that the majority of respondents did not believe their business could survive a lockdown longer than 21 days – 28% indicated that they could survive less than a month and 45% believed that they could last 1-3 months at most.

Respondents rated their biggest challenges:

- Cash flow to pay expenses (61%)
- New business (14%)
- Losing clients (13%)
- Collecting debt (5%)
- Getting stock (2%)

Business impact survey of the Covid-19 pandemic in South Africa - StatsSA

Only 13.3% of respondents to this survey reported turnover within the normal range, and only half of the respondents (50.4%) expected their workforce size to remain the same in the two weeks after the reference period; 36.8% expected their workforce size to decrease.

In order to cope, 28.3% of respondents decreased working hours, and 19.6% were laying off staff in the short term. 30.6% of respondents indicated that their business would only be able to survive for less than a month, and 54% indicated that they could only survive between 1-3 months.

The majority of respondents (64.8%) believed that their IT systems were robust enough to handle the increased demand of employees working from home, while 15.5% believed that it was not.

The respondents indicated the financial assistance initiatives that they plan on / are using.

- Government relief schemes 38.2%
- Deferring SARS payments 22.8%
- Debt relief holiday 20.5%
- Small business grant/loan schemes 13.3%
- Accredited finance agreements 6.5%
- Business Growth and Resilience Facility for essential service 2.7%

Business impact survey of the Covid-19 pandemic in South Africa - StatsSA

This second survey follows on the one during 30 March and 13 April, adds additional variables, and includes the agriculture, hunting, forestry and fishing sectors as well. In fact, those sectors make up the majority of respondents (32.1%) in this survey.

Respondents to this survey were less optimistic about the expected workforce size changes than the ones in the previous survey.

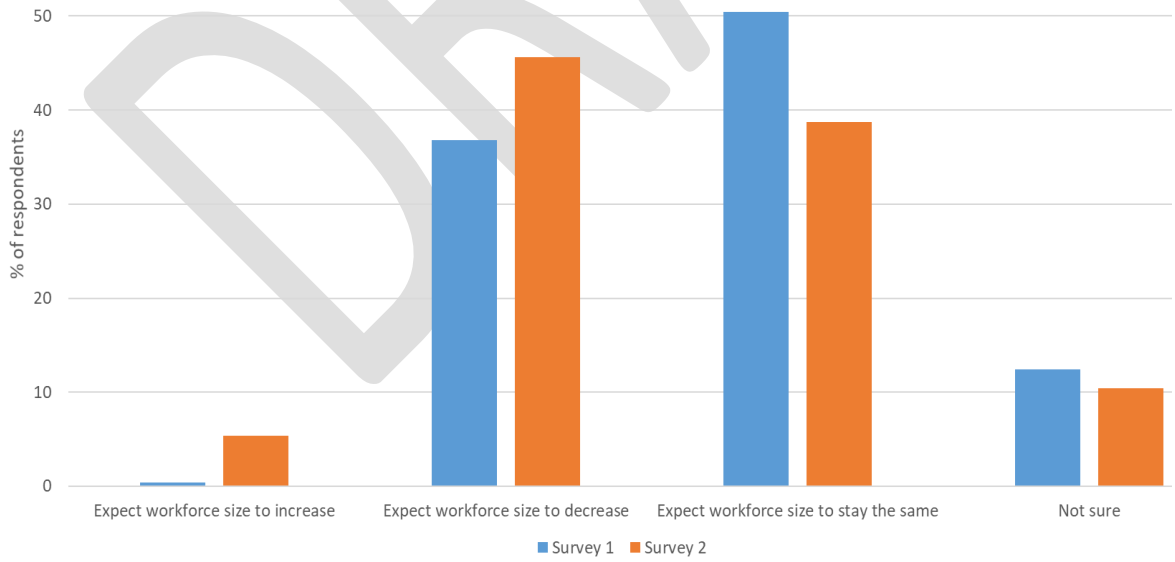


Figure 37: Expected workforce size changes during and after lockdown

More than 60% of respondents indicated that they were not confident about the adequacy of their business' financial resources to continue operating through the pandemic. Without turnover, 29.7%

indicated that they would last less than a month, and 55.3% indicated that they could last between 1-3 months at most.

During the first survey, people were more optimistic about the influence of family commitments on their ability to work remotely than in the second one two weeks later. In the first survey, 53,2% of respondents indicated that their family commitments had not adversely impacted their ability to work remotely, but in the second survey this number is only 31,4% of respondents. (Note: the sample of the two surveys differ and therefore comparisons between the two surveys should be made with caution.)

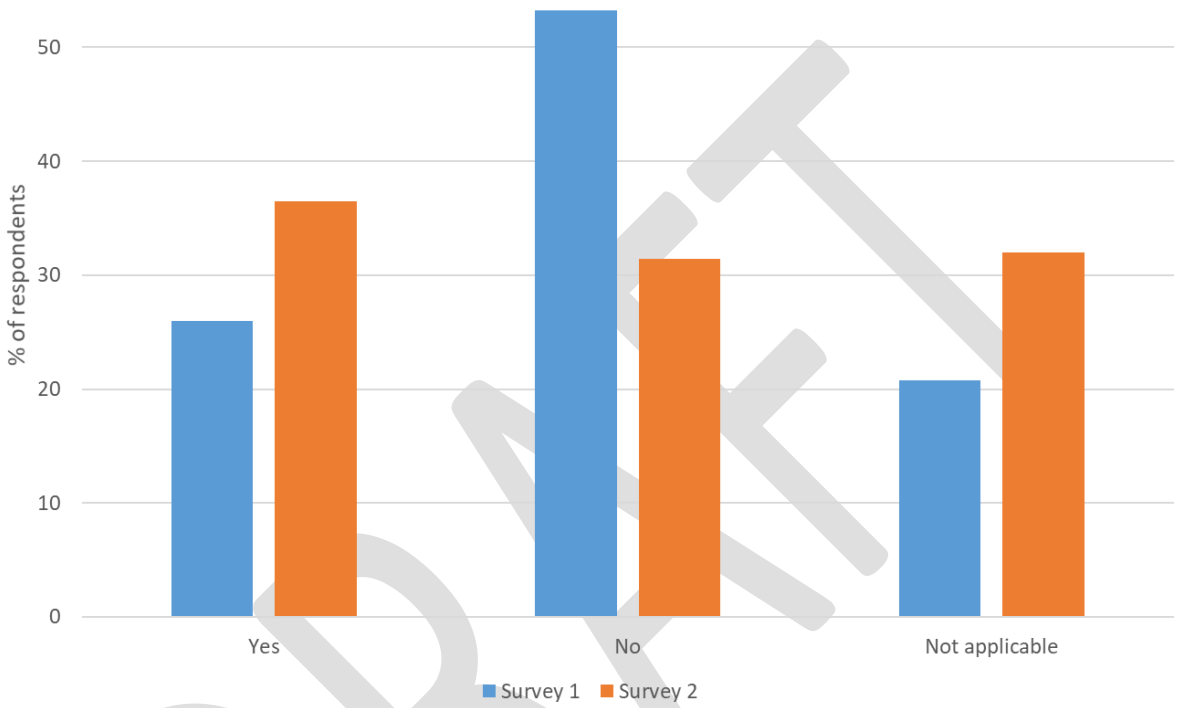


Figure 38: Influence of family commitments on the ability to work remotely

Results from Wave 2 survey on the impact of the COVID-19 pandemic on employment and income in SA

The objective of this survey was to provide information on the impact of the COVID-19 pandemic on income, employment and hunger. Most of the respondents were paid workers (69.5%) or self-employed (15.3%). Of those who were in employment, 12.3% owned a registered small business.

5.2% of respondents indicated that their businesses closed down because of COVID-19. 42% of those businesses were in Gauteng, and 32.6% in the Western Cape.

67.5% of respondents that still had jobs during lockdown, reported that their income stayed the same, while 21.3% indicated that their income reduced and 8.2% indicated that it was too soon to tell.

Almost half of the respondents indicated that they were temporarily absent from work. Upon further interrogation, these respondents cited the reasons for their temporary absence as due to the national lockdown (63.6%) and due to their own illness (34.1%).

Prior to lockdown, 95.6% of those respondents that were employed, worked in a non-residential building. During lockdown 77.9% worked from their own homes and 15.1% from non-residential buildings.

9 SMME SUPPORT INSTRUMENTS

10 CONCLUSION

To be completed in the next phase

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APPENDICES – SUPPLEMENTARY INFORMATION

APPENDIX A - OVERVIEW OF POLICY RESPONSES

Table 25: Overview of Policy Responses

	Labour			Deferral					Financial instruments			Structural policies			
	(Partial) redundancies	Wage subsidies	Self-employed	Income/ corporate tax	Value Added Tax (VAT)	Social security and pension contributions	Rent/utilities/ local tax	Debt moratorium	Loan guarantees	Direct lending to SMEs	Grants and subsidies	New markets	Teleworking/ digitalisation	Innovation	Training and redeployment
Argentina										✓			✓		
Australia		✓	✓	✓				✓	✓	✓	✓				✓
Austria	✓	✓		✓				✓	✓	✓	✓				
Belgium	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓			
Brazil	✓	✓		✓		✓		✓		✓					
Canada		✓	✓	✓	✓			✓		✓		✓			
Chile		✓		✓							✓	✓			
China		✓		✓		✓	✓	✓		✓	✓		✓	✓	✓
Colombia				✓	✓			✓	✓	✓					
Costa Rica	✓			✓	✓				✓	✓					✓
Croatia		✓		✓		✓		✓		✓					
Czech Republic		✓		✓				✓	✓	✓	✓	✓		✓	
Denmark		✓	✓	✓	✓			✓	✓		✓				
Egypt								✓							
Estonia		✓		✓		✓			✓	✓			✓		
Finland	✓			✓					✓		✓			✓	
France	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	
Germany	✓	✓	✓	✓					✓	✓	✓			✓	
Greece		✓		✓	✓	✓			✓	✓			✓		
Hong Kong, China				✓				✓	✓	✓					
Hungary	✓	✓		✓		✓	✓	✓	✓	✓					
Iceland		✓		✓	✓				✓	✓					
India				✓						✓					
Indonesia				✓							✓				
Ireland		✓	✓	✓					✓	✓	✓	✓	✓	✓	✓
Israel	✓	✓	✓		✓	✓	✓	✓	✓						
Italy	✓	✓	✓	✓				✓	✓	✓	✓	✓	✓		
Japan		✓		✓			✓		✓	✓	✓		✓	✓	✓
Korea		✓	✓					✓	✓	✓	✓	✓	✓	✓	✓
Latvia	✓	✓		✓				✓	✓	✓			✓	✓	
Lithuania		✓		✓			✓		✓	✓					

	Labour			Deferral					Financial instruments			Structural policies			
	(Partial) redundancies	Wage subsidies	Self-employed	Income/ corporate tax	Value Added Tax (VAT)	Social security and pension contributions	Rent/utilities/ local tax	Debt moratorium	Loan guarantees	Direct lending to SMEs	Grants and subsidies	New markets	Teleworking/ digitalisation	Innovation	Training and redeployment
Luxembourg		✓		✓					✓	✓					
Malaysia								✓		✓			✓		
Mexico		✓						✓		✓					
Netherlands	✓	✓	✓	✓	✓			✓	✓	✓	✓				
New Zealand		✓		✓						✓		✓			✓
Norway	✓	✓		✓	✓	✓			✓						
Poland		✓	✓	✓		✓			✓	✓				✓	
Portugal	✓	✓		✓	✓	✓			✓	✓		✓			✓
Romania		✓		✓			✓	✓	✓						
Russia			✓	✓		✓		✓		✓					
Saudi Arabia		✓						✓	✓	✓					
Singapore		✓		✓			✓		✓	✓				✓	
Slovak Republic		✓	✓	✓					✓		✓				
Slovenia		✓	✓	✓			✓	✓	✓	✓		✓	✓		
South Africa								✓		✓		✓			
Spain		✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		
Sweden	✓	✓	✓	✓	✓	✓	✓		✓	✓					
Switzerland	✓	✓							✓	✓		✓			
Thailand		✓		✓	✓	✓	✓			✓					
Turkey	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓				
United Kingdom		✓	✓	✓			✓	✓	✓	✓	✓				
United States		✓	✓	✓						✓	✓				
Vietnam				✓			✓								

Disclaimer: This table has been prepared based on official sources and media reporting. Given the rapid developments of events and measures, the information in the table may not be comprehensive or fully up to date. It will be updated periodically.

Source: (OECD, 2020)

APPENDIX B - COVID-19 SA Relief Schemes Summaries

Table 26: COVID-19 SA Relief Schemes Summaries

COVID-19 Relief Funding / Loan Packages Offered			
Name of initiative	**Total Fund**	**Target Market**	**Type of relief**
1. Debt relief finance scheme Administered by the DSBD	R200m	Existing businesses negatively impacted by COVID-19. Must be: • CIPC registered companies • 100% owned by SA citizens • 70% employees are SA citizens • Registered with SARS, tax compliant • UIF compliant	• Loan funding at Prime -5% • Working capital: stock, bridging finance • Purchase order finance • Capital requirement finance
2. Business growth / Resilience facility Administered by the DSBD	R300m	Existing businesses geared to take advantage of supply opportunities resulting from COVID-19 or shortage of goods in local market, especially with regard to medical supplies and critical non-food essentials. Must be: • CIPC registered companies • 100% owned by SA citizens • 70% employees are SA citizens • Registered with SARS, tax compliant • UIF compliant	• Loan funding at Prime -5% • Working capital: stock, bridging finance • Purchase order finance • Capital requirement finance

3. Spaza shop grant funding Administered by DSBD in collaboration with SEFA	R30m	Sole proprietorships spaza shops	R10 000 (with a possible R5 000) being made available as a second phase) for purchasing a basket of essential goods at a discounted price for a period of three months from participating wholesalers
4. Tourism relief funding Administered by Department of Tourism	R200ms	Tourism and hospitality industry Must be: • CIPC registered and in existence > 1 year • Turnover < R2.5m per annum • Tax clearance • UIF registered and proof of min wage compliance	Funding available to assist SMEs in the tourism industry and hospitality sector, who are under particular stress due to the new travel restrictions.
5. IDC COVID-19 Essential supplier intervention Administered by the IDC	R500m	Essential suppliers: • Companies with manufacturing track record • Import experience • Accredited supplier with contract or purchase order or corporate guarantee	• Short term loan • Revolving credit facility • Guarantees to bank for banking facilities, imports, ordering requirements. • IDC loan and trade finance facilities: Prime + 1% per annum • Guarantees: 2% per annum
6. MCEP COVID-19 Programme Administered by the IDC	R300m	• Companies that manufacture and provide essential supplies and have been existence > 1 year • Valid contract / purchase order or letter of intent • Companies with BBBEE level 4 will be encouraged	• MCEP funding can be standalone or blended with IDC • Limited to R30 million per applicant in total • Priced at a fixed rate of 2.5% per annum • Maximum term is 48 months, including moratorium • First drawdown must occur within one month from approval date • All other standard fees are applicable
7. COVID1-19 Temporary employer / Employee relief scheme (TRS)		Business registered with UIF	Replacement of lost income to employees during temporary closure of business and employees in quarantine. The salary benefits will be capped to a max amount of R17 712 per employee and an employee will be paid in terms of

Administered by National Disaster Benefit and UIF			income replacement rate sliding scale (38% - 60%) as provided in the UIF act
8. National Empowerment Fund – COVID-19 Black Business Funding Solutions	R200m	SMEs that manufacture and supply identified priority products (including food) to access concessionary loan funding	Funding of R500 000 – R10 million
9. South African Future Trust (SAFT) Administered by the Oppenheimer Generations	R1bn	SMMEs • <R25m turnover • In good standing as at 29 Feb 2020 • Impacted by COVID-19	• An interest free, 5 year loan to the business entity • Exclusively for the purpose of paying permanent employees • Repayable at the end of the term Funding available: • R750 weekly wage per employee for 15 weeks = R11 250 per employee • No limit to the number of employees per business.

10. COVID-19 SME Fund
 	
Administered by Business Partners (Rupert Foundation & Remgro)
	R900m	For working capital (salaries, rent, HPs, loan instalments)	• Transaction Value – Loans between R250 000 – R1 000 000
			• Cost of finance
			  ○ M1 – M12 0%, payment holiday for first 12 months, no early payment implications
			  ○ M12 – M60 Prime interest, no early payment implications

COVID-19 Tax Relief Measures		
Name of initiative	**Target market**	**Type of relief**
1. COVID-19 Tax relief Administered by SARS	Tax compliant SMEs < R50m and under their employees eligible the current Employment Tax Incentive (ETI) Act	Tax subsidy to employers of up to R500 per month for the next four months for employees earning below R6 500 under the ETI.
	Tax compliant SMEs < R50m	Accelerated payment of ETI reimbursement from twice a year to monthly to get cash into the hands of compliant employers asap.
	Tax compliant SMEs < R50m	SMEs will be allowed to delay: • 20% of their employees' tax liability over the next four months; and • A portion of their provisional corporate income tax payments without penalties or interest

Other COVID-19 Support to SMMEs			
Name of initiative	**Total Support Fund**	**Target Market**	**Type of support**
1. COVID-19 Business Rescue Assistance (COBRA) Administered by Consortium: • Schindlers Attorneys • IQ Business • Engaged		SMMEs	• Free daily (small group) and weekly (large group) webinars to share information / guide business leaders • COBRA War Room – business support to avoid business rescue (pro bono or discounted fees) • Knowledge base and expert Wiki to consolidate information, policy updates from external stakeholders (e.g. banks, Government, CIPC and associations)
2. Training Layoff Scheme Administered by CCMA and SETA	Training allowance up to 50% of wage with max of R6 239 pm	Business compliant with statutory obligations	Training allowance by CCMA replacing wages