

The Economics of the Covid-19 Pandemic and its Effects on Small Businesses in South Africa

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Abstract: The coronavirus has taken both health systems and the global economy by storm. Countries are scrambling for solutions to ease the disruptive effects of the pandemic on their economies and health systems. In South Africa the Covid-19 pandemic was declared a national disaster in terms of the National Disaster Management Act, 2002 followed by several urgent and drastic measures taken to manage the spread of the virus and to protect the people of South Africa from the impact of the virus. These measures included the nation-wide lockdown, which commenced on 26 March 2020 and whose conditions forced many small businesses to close down due to loss of income while on the other hand created new opportunities for other businesses, a direct response on what Weiner (1976) wrote in the article for the Journal of Medical Economics entitled “Don’t Waste a Crisis”. The purpose of this paper is to systematically review the primary literature, policy papers, legislations and media reports on Covid-19’s impact on small businesses. It further provides lessons learnt from the pandemic and opens doors for more investigation on this subject to enable small businesses to reimagine their enterprises and allow government to re-evaluate the type and nature of support provided to small businesses.

Keywords: Covid-19; Coronavirus; Small Business; Government Support and SMMEs.

1. Introduction

The World Health Organisation (WHO) declared the Covid-19 outbreak on the 30th January 2020 as a global emergency and since then studies have been conducted on various areas and fields, with others focusing on getting the cure while some look at the impact of the coronavirus on different facets of life, including health, education, society, finance among others. Governments across the world introduced various measures to “flatten the Covid-19 curve” that had spiraled since the virus was first reported in Wuhan City, China on the 31st December 2019 (WHO, 2020). In South Africa, the President on the 15th March 2020 declared the Covid-19 pandemic a national disaster in terms of the National Disaster Management Act, 2002 and this was followed by several urgent and drastic measures to manage the spread of the virus and to protect the people of South Africa from the impact of the coronavirus in society and on the economy. These measures included the nation-wide lockdown which commenced on the 26th March 2020. The President announced that “All shops

and businesses were to be closed, except for pharmacies, laboratories, banks, essential financial and payment services, including the Johannesburg Stock Exchange (JSE), supermarkets, petrol stations and health care providers” (DIRCO, 2020). People were not allowed to leave their homes except under strict controlled conditions, for example, to seek medical care, buy food, medicine and other emergency supplies or collect a social grant. This paper attempts to explore the disruptive effects of the lockdown conditions associated with Covid-19 on small businesses in South Africa, identify lessons learnt from the pandemic and propose key policy considerations in support of the small business enterprises. The first section of the paper reviews the broader South African Economy, while the second section looks at the disruptive effects of the COVID-19 and key policy considerations on the development and support to small business enterprises in South Africa.

2. South Africa’s Economic Outlook

The South African economy is largely being regarded as the services-based economy, with this sector contributing to more than 62 per cent of the GDP in 2000. In 2014, the services sector contributed 69 per cent to GDP, according to Newfarmer, Page, Tarp, (2019). The other three sectors include agriculture, mining and manufacturing. In the 2018 Medium Term Budget Policy Statement, the Minister of Finance noted a decline of 1.7 per cent of the mining production as compared to the same period in the previous year where mining production increased by 4.5 per cent, (National Treasury, 2018). The decrease in the mining production was attributed to various factors, and chief amongst those was policy uncertainty in the mining sector, which constrained investment and growth in the sector. By gazetting the revised Mining Charter, government aimed to provide stability and policy certainty in the sector (National Treasury, 2018).

Similarly, the agriculture sector also showed some signs of weakness with the decline by 4.8 per cent in the first quarter of 2018 compared to the same period in 2017. This decrease in the agricultural output is mainly attributed to the draughts experienced by most parts of the country in 2018, according to the National Treasury (2018). Unlike the mining and agricultural sectors, the manufacturing sector showed some signs of resilience, with a 1.1 per cent increase in 2018 compared to a 1.2 per cent decrease in 2017. The main contributors to the growth of the manufacturing sector were food and beverages and motor vehicles industries (National Treasury, 2018).

The World Bank (2018) notes that the South African economy was not moving on the same upward trajectory as the global economy, which registered an estimated increased output of 3 per cent in 2018. The steady decline of the South African economy prior to the declaration of the covid-19, which has been declared a global emergency by the WHO was a problem on its own to the country in terms of job creation. Now the declaration of Covid-19 as a

national disaster compounded this problem and it would not have come at this worst time.

3. Small Business and Informal Sectors in South Africa

There is a widespread appreciation of the role of small business enterprises in any economy in terms of job creation and economic development. Sippitt (2014) argues that post the industrialisation period, the world has witnessed an escalation in the role of small- and medium-sized enterprises (SMEs) to drive economic growth and innovation including in the developed economies. This has resulted in small businesses becoming the lifeblood of any economy. Besides, small businesses support big businesses. Skripak (2016) notes that in the United State of America (USA) small businesses constitute a major force in the U.S. economy where there are more than 28 million small businesses in the country that creates more than 54 per cent of sales and 66 per cent of all new jobs in the U.S since 1970s. Small business enterprises provide the platform for workers to enter the job market for the first time. South Africa is not exception to this fact, Dladla and Mutambara (2018) attest that South Africa relies on SMEs to create the necessary employment to absorb the surplus unemployed masses in the country that faces high levels of unemployment particularly for the youth and women.

The Banking Association of South Africa (BASA) (2020) affirms that small businesses in South Africa make up 91 per cent of formalised businesses and provide employment to about 60 per cent of the labour force and thereby accounts for 34 per cent of the GDP. As such, the small business sector is regarded a crucial role-player and contributor to economic growth and development. Further to this, small businesses are also considered a significant driver of job creation (Skripak, 2016). This author further notes that the majority of first entries in the job market are through small businesses.

In his Blog in 2017, Brown contends that small businesses across the world are also credited for being the innovators. He further argues that small businesses are actually better suited to be more innovative than a larger organization because unlike big businesses, small businesses do not have to jump through so many hoops to get their idea approved or passed. Their execution of an idea is much quicker and pivot easier.

However, the BASA (2020) revealed key challenges experienced by small businesses in South Africa and some of these challenges constrained the growth and development as well as innovations for the small business enterprises, *viz.:*

a) Crime and Corruption

Crime and corruption affect the business climate in general and this is a growing phenomenon in both the public and private sectors. Businesses lose public trust because the delivery of goods and services gets compromised by corruption, which comes in different forms,

shapes and sizes. It normally comes either through money extortion, embezzlement of funds or bribery and many genuine businesses suffer because of crime and corruption. For example, a business that may have just been registered today, may in a few days down the line receive a multi-million rand dubious government contract while some companies that may have been in operation for a long time might be ignored.

b) Appropriate technology and low production capacity (including access to electricity)

This refers to outdated and mistimed technology currently being used by some small businesses, either in the production or marketing of their businesses. Access to stable and affordable internet connection are key factors for many businesses. Suitable and up to date technology is very critical in the growth of the business as it also assists businesses to improve their production capacity. So many small business enterprises lack up-to-date technology in the production and marketing of their products. This includes access to a stable electricity supply.

c) Lack of management skills and adequate skilled labour

Lack of managerial skills for many small businesses has been cited as one of the key challenge that affect their operations. Financial and human resource management are amongst the skills shortages highlighted for small businesses.

d) Access to finance or obtaining credit

Lack of access to finance and access to credit, are among the challenges faced by small business enterprises. Due to the nature of small businesses, financial institutions are reluctant to extend finance to small business enterprises. Even big suppliers and wholesalers are averse to extend credit facilities to small businesses because of the risk associated with these forms of businesses. As a result, the growth and development of MSMEs is negatively impacted.

e) Inaccess to markets and developing relationships with customers

Access to market constrains and limitations in the the growth and sustainability of MSMEs including cooperatives are yet other factors. The complexity in some of the requirements and entry standards in certain industries without additional support is a major barrier to entry by MSMEs. Township and rural small businesses lack support mechanisms and guidance to take part in certain markets due to onerous processes and procedures.

f) Recognition by large companies and government bureaucracy

Trading between big and small business enterprises is still one sided and some big businesses are still hesitant to accept and freely buy from small businesses, despite the fact that small businesses may be the major

clients of big businesses. Large companies still need to reciprocate this relationship.

g) Regulatory compliance.

Government regulatory requirements hamstrung small businesses. As noted by, Brown (2017), small businesses have to jump through so many hoops to pass through the government's "red-tape".

4. Covid-19: Disruptive Effects to Small Businesses

Like in many parts of the world, the Covid-19 pandemic halted many businesses in South Africa irrespective of their size (big or small). The announcement of the national lockdown by the President of South Africa effective from the midnight of the 26 March 2020 meant that everything came to a stand-still. Only businesses that provided essential services (such as medical services, essential food staff, financial institutions etc.) were allowed to operate. Even though food was declared an essential services, not all food sellers were allowed to operate and in this category were business enterprises such as fast food outlets and street vendors. Wegerif (2020) points out that many fresh produce sellers lost all the products that did not sell before the announcement of the lockdown. Some resolved to consume their stock, which still did not help in averting the loss due to the quantities they held versus the perishability of the produce.

Many small and informal businesses in the sectors that were declared to provide essential services and products lost the right to corporate owned large chain stores and supermarkets in selling their products and services. This, according to Wegerif (2020) was attributed to lack of embracing the small and informal businesses particularly when it comes to hygiene. Kassen and Brandt (2020) contend that in fact government should have assisted the informal traders and spaza shops to create a safer environment for them to trade because it would have reduced the number of people traveling to big supermarkets and chain stores for essential goods. Further, this would have assisted them in reducing the congestion in these chain stores and supermarkets thereby reducing the rate of infection. Beside, this would have reduce the degree of economic suffering for local small businesses.

There are currently no published official figures as yet on the loss of stock, production and output for businesses, but analysts estimate this to be in billions of rands since the start of the Covid-19 and the national lockdown. The biggest challenge for small businesses and the economy at large is that even if the lockdown conditions are lifted, many small businesses will not re-open again due to their capital depletion. Kalidas, Magwentshu and Rajagopaul (2020) predict that close to 60 per cent of small businesses may permanently close down even before the crisis is over.

The aforesaid circumstance will have a direct negative impact on the economy in terms of job creation. Taking into account that the South African

economy, even before the declaration of the Covid-19 pandemic as a national disaster, the country already experienced one of the highest rates of unemployment since 1994. By the fourth quarter of 2019, the South Africa's unemployment rate was sitting at 29.1 percent (Stats SA, 2020). This economic performance was consistent with the global economy as noted by the World Bank that the South African economy was not moving in the same upward trajectory as the global economy, which registered an estimated increased output of 3 per cent in 2018. Covid-19 has put an additional shock to small businesses.

The time of crisis has shown the highest vulnerability of small business enterprises and further exposed the inequality level and treatment of people in this sector. Yet their contribution to the economy is undoubted and speaks for itself as demonstrated by the Banking Association of South Africa (2020), which shows that small business enterprises provide employment to about 60 per cent of the labour force and also accounts for 34 per cent of the GDP. Sippitt (2014) further argues that the role of small- and medium-sized enterprises (SMEs) to drive economic growth and innovation including in the developed economics has escalated. As a result, protecting and supporting small business enterprises during the time of economic turbulence does not only benefit the enterprises to survive and recover, but it also protects the most needed jobs and the growth of the economy. SMEs are thus the lifeblood of any economy (Dladla & Mutambara, 2018).

5. Emerging Businesses and Potential

The crisis did not stop innovation and creativity from many small businesses in what Weiner (1976) termed "Don't Waste a Crisis". In South Africa, some small businesses seized the opportunities and repositioned their businesses to respond to the current economic demands and restore their lost livelihoods. BusinessTech (2020) highlights some of the young entrepreneurs who grabbed the opportunities and re-focused their businesses to respond to the Covid-19 pandemic and these included:

- **Delivery businesses**
Many people were unable to go to shops, especially those with comorbidities. The emergence and growth of delivery businesses (formal and informal) for both medical supplies and grocery items took center stage.
- **Manufacturing of face masks**
The shortage of recommended face masks saw many businesses in the sawing industries in the township and villages seizing the opportunities and starting to produce and sell face masks to members of their communities.
- **Cleaning Material**
Cleaning material became the most needed items on the market. Even small companies that were selling in small quantities, increased their

production and new entrants were also attracted in the cleaning material supplies.

- **Decontamination of Buildings**

Similarly with the cleaning material industry, the decontamination of buildings became one of the most demanded services as Covid-19 cases became reported daily in big numbers in the country. This also attracted new players to take part in the decontamination process as the demand was getting higher and higher.

- **Entertainment**

This is one industry which was also mostly affected because large gatherings were prohibited. As a result, players in the industry had to come up with new ways and approaches to entertain their customers without physical contact. Many online entertainment platform were also introduced.

6. Key Policy Considerations on Small Businesses and the Informal Sector

As noted by the World Bank (2018), the South African Economy was moving in the opposite direction as the world economy prior the declaration of the Covid-19- a national disaster. During this period, small businesses in South Africa were already contending with a contracting economy accompanied by several downgrades by rating agencies. The added shocks imposed by the Covid-19 put the additional strain to small businesses (Kalidas *et. al.*, 2020). These authors further note that this will surely exacerbate the downward trend of the economy. They also further assert that safeguarding and enabling small businesses during this difficult period in the economy, was not only sensible, but also determined the recovery rate of the South African economy from the atrocious Covid-19 pandemic.

The period of the Covid-19 and measures to live side-by-side with the coronavirus has been dubbed by many as “*the new normal*” refereeing to “*the unconventional way of doing our day-to-day activities*”. The concept of “*the new normal*” is by far the most critical element in dealing with the support provided to small businesses by government. Hence one argues for a need for government to re-evaluate the type and nature of support provided to small businesses under the new normal conditions.

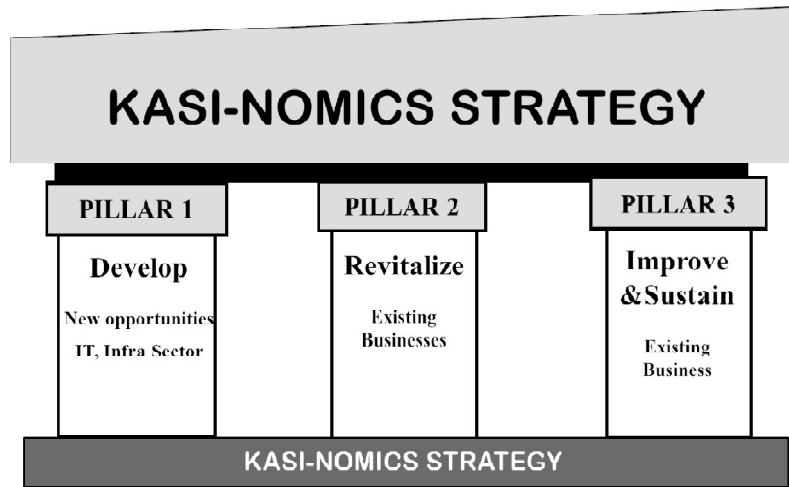
The Coronavirus has taught many people lessons that going along in a “business-as-usual mode” is no longer possible. It has further taught them that to harness the contribution of small businesses to the economy and create the most needed jobs, governments need to review and re-look at some of the support initiatives provided to small businesses. In this case a three-pillar-“*Kasi-Nomics Strategy*” is recommended. The *Kasi-Nomics* concept originates from the work of Alcock, a publishing author, a consistent contributor and motivational speaker on a wide variety of subjects including entrepreneurship

and a focus on the informal market of Africa, diversity and culture society, marketing communications to the mass market and route to market strategies for the informal sector (Alcock, 2020).

The Kasi-Nomics Strategy to small businesses (fig. 1) is what one referred to as an “approach to develop, support and improve township and rural businesses to sustain townships and rural livelihoods”. Small businesses have been projected as the:

“Next great frontier of Africa and it is undergoing an economic revolution – a new world of small people doing big things, transforming the continent (Alcock, 2020).

The strategy is premised on three pillars as depicted in the figure 1 below.



Source: Own Source: Adapted from Alcock (2020)

a) Pillar 1: Develop

The Covid-19 presented economic and health disasters and this is not only a South African problem, but countries across the world are dealing with this difficulty. However in the midst of a disaster, lies opportunities (Weiner, 1976). This has also been evident in some of the businesses that took the Covid-19 crisis and turned it around as noted above. Despite the fact that many conventional businesses suffered greatly due to lockdown and other imposed regulations, the first pillar of the *Kasi-Nomics Strategy* focused on government, riding the wave of those businesses that had turned around the Covid-19 crisis into opportunities.

The information and technology sector has been a mainstay during the Covid-19 crisis (Kalidas *et al.*, 2020). It was either people working

through online shopping, working-from-home, which introduced new and unusual concepts of work in South Africa and many other nations particularly in the public service, home schooling among others in areas where technology was deployed to assist in turning the wheels of the economy. This is the space where more opportunities exist to develop businesses. Online-digital platforms, new technologies and innovations created new opportunities for small businesses and government to capitalize on this and provide tailor-made interventions to SMEs.

Further, through the government's infrastructure development and investment initiative designed to re-ignite the economy, more opportunities existed to develop and integrate small businesses with big businesses in various areas within the infrastructure and allied sectors, including the whole value chain in the infrastructure sector. Deliberate and targeted interventions were put in place to develop local and township businesses and to seize these opportunities in the infrastructure and the whole value chain in the sector.

b) Pillar 2: Revitalizing

Before Covid-19 changed the social and economic landscape of the country, there were businesses that existed with a potential to expand in various sectors, and these included tourism, manufacturing, retail and many more. The operation of these businesses were halted by the Covid-19 lockdown conditions and related regulations and most of them (atleast 60 per cent) as the study by Kalidas et. al. (2020) showed, might permanently close down even before the crisis is over. This Pillar focuses on those small businesses.

To ensure that they do not go down, during and after the Covid-19 crisis, dedicated interventions need to be put in place to ensure that these enterprises are resuscitated. Some of them have passed the critical three year mark as studies have shown that most small businesses fail within the three years of establishment (Kunene, 2020). Therefore it would be economic gaffe that small businesses that are showing signs of resilience and hope are just being allowed to fail.

c) Pillar 3: Improvement and Sustenance of the businesses

Some businesses continued to operate during the Covid-19 and they opened shop when the lockdown levels and restrictions were relaxed. Again under this pillar, a targeted intervention is critical to improve and sustain the small businesses that had weathered the Covid-19 storm. This could be done through focusing on the challenges revealed by BASA (2020) as experienced by small businesses such as those discussed above.

Further, the reduction in demand and access to right market has resulted in many small businesses limiting or halting their expansion plans. Therefore, a demand driven and access to market intervention will bring

these businesses back on track. Kalidas et. al. (2020) argues that government backing is critical to galvanize small businesses in the post COVID-19 era, as recommended by Dladla and Mutambara (2018:13), when they note that to grow and sustain these enterprises, an “end-to-end small business supports solution” is important. In ability to access finance is another key stumbling block to the growth of small businesses. Mokgabudi, (2020) and Dladla and Mutambara (2018) assert that the finance approach by development finance institutions supporting small businesses need to be re-evaluated and re-modeled to respond to the specific needs of those businesses. Because they are all unique, their background differs and the one-size fits all approach is not working. As it can be seen in the study by Kalidas et. al. (2020) that only 6 percent of SMEs surveyed received government funding and only 9 percent had sourced funding from private sources. The growth and improvement of any businesses requires financial injection amongst other key requirements and if this is not provided, the business will remain stagnant, which directly affects the economy and job creation.

7. Conclusion

The coronavirus has taken both health systems and global economy by storm and the World Health Organisation declared the Covid-19 outbreak on the 30th January 2020 as a global emergency. Countries continue to scramble for solutions to ease the disruptive effects of the pandemic to their economies and health systems. In South Africa the Covid -19 pandemic was declared a national disaster in terms of the National Disaster Management Act, 2002. This was followed by several urgent and drastic measures taken to manage the spread of the virus and to protect the people of South Africa from the impact of the coronavirus in society and the economy. This has halted many businesses in South Africa irrespective of their size (big or small), while others seized the opportunities presented by the outbreak. The contribution of small businesses in any economy is undoubted. As a result supporting small businesses has a direct impact on the economy and jobs. The Kasi-Nomics Strategy presented three key pillars to develop, support and improve township and rural businesses and in order to sustain townships and rural livelihoods in the post Covid-19 era.

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