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**EFFECT OF COVID-19 ON SMME  
PERFORMANCE IN THE EASTERN CAPE**

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## Contents

INTRODUCTION .....	3
THE SOUTH AFRICAN / EASTERN CAPE SMME SECTOR: BRIEF OVERVIEW .....	4
BACKGROUND: THE PRE-COVID-19 PERIOD .....	8
COVID-19 PERIOD .....	9
RESEARCH QUESTIONS .....	12
RESEARCH AIM .....	12
RESEARCH OBJECTIVES .....	12
METHODOLOGY .....	12
DATA PRESENTATION .....	13
Number of SMMEs .....	13
SMME sector output .....	15
Employment .....	16
SMMEs turnover and profitability .....	20
OTHER RESEARCH DONE ON COVID-19 THAT IS APPLICABLE TO THE SMME SECTOR .....	21
Reflections on reported studies .....	28
CONCLUSION AND POLICY RECOMMENDATIONS .....	29
REFERENCES .....	31

## EFFECT OF COVID19 ON SMME PERFORMANCE IN THE EASTERN CAPE

### INTRODUCTION

In 2015, the IMF predicted increase in growth in emerging markets and developing economies, from 4.2% in 2015 to 4.7% in 2016 due to projected improvement in economic conditions such as improvement in commodity prices and improved external financial conditions and geopolitical factors. That of advanced economies was projected at 2.4% (IMF, 2015). Global growth in 2016 and 2017 was projected at 3.1% and 3.4% respectively with a more subdued outlook for advanced economies. By then, international issues such as Brexit and a weaker than expected growth in the US, coupled with weakness in global trade growth caused by a reduction in investment by China, dwindling trade liberalization and trade protectionism practices by some countries were the explanatory factor (IMF, 2016). By 2018, a slow reversal was forecast at 3.7% due to prospective improvements in investment, trade, and industrial production, strengthening business and consumer confidence. Sub-Saharan Africa was also projected to grow at a rate of 2.6% and 3.4% in 2017 and 2018 respectively, country differences notwithstanding (IMF, 2017)

The pressure on the global economy, especially in some major advanced economies, started in 2018 such that the reversal of 2017 that was envisaged to continue into 2018 waned. Protectionist trade measures approved and implemented, tighter financial conditions, geopolitical tensions, and higher oil import costs faced by some key emerging market and developing economies contributed to the receding growth prospects hence global growth forecast was retained at the previous year's 3.7% (IMF, 2018).

A subdued growth was forecast for 2019 following on 2018's pressure, at 3.2% with a reversal projected to commence in 2020 at 3.5%. (these were later revised downwards to 2.9% for 2019 and 3.3% for 2020 respectively) and 3.4% in 2021 but a weakness in manufacturing activity had already introduced some precariousness to the outlook (IMF, 2019; IMF, 2020a). While the outlook projections followed after economic fundamentals, geopolitical and country specific issues, no one anticipated the onset of Covid 19 and the devastation it would cause to the world economy. The onset of Covid 19 altered the world economic outlook and caused it to take a dip at a revised projection of -4.9%, a rate that the IMF believes has derailed the progress made in reducing extreme poverty in the world since 1990 due to its impact on low income households (IMF, 2020b).

In Sub Saharan Africa, the projection for 2020 is particularly worse due to a weaker external environment and differential measure among countries in fighting COVID-19. Economic activity is expected to contract by 3.2% with the greatest impact on tourism-dependent and resource-intensive countries (IMF, 2020c) of which South Africa is one. As a result therefore, South Africa's real GDP growth rate projection for 2020 is among the worst in Sub Saharan Africa, at -8.0% alongside Equatorial Guinea (-8.1%), DR Congo (-8.6), Botswana (-9.6), Zimbabwe (-10.4%), Mauritius (-12.2%) and Seychelles (-13.8%). (IMF, 2020c).

## THE SOUTH AFRICAN / EASTERN CAPE SMME SECTOR: BRIEF OVERVIEW

The South African economy has traditionally been driven by the primary sector because of its abundant natural resources and a well developed agricultural sector but structural changes in the last few decades have brought the tertiary

sector at the forefront of economic activities. Today, besides the mining and agricultural sectors, manufacturing, wholesale and retail trade, financial services, transport, tourism and communication are key drivers of economic growth (Brand South Africa, 2018). One of the country's strategic plans to promote economic transformation and inclusion in order to ensure expanded access to employment opportunities and poverty reduction is through enterprise development vis a vis the SMME sector development. To achieve this, the country utilizes constitutional and legislative mandates to mobilise targeted activities in the sector (Brand South Africa, 2018).

For example, the South African Constitution emphasizes economic development and grants every citizen the right and freedom to choose their trade, occupation and profession (DSBD, 2018) and the organs of state must create policies and environment for this to happen. Various legislative tools among them the Business Act of 1991, National Small Enterprise Act of 1996, Skills Development Act of 1998, Public Finance Management Act of 1999, the Preferential Procurement Policy Framework Act of 2000, Broad-Based Black Economic Empowerment Act of 2003, Cooperatives Development Act of 2005, Companies Act of 2008 and Industrial Development Corporation Act of 1940; have all been enacted to create and foster a conducive business environment through regulating the licensing and operation of businesses, establishment of Councils and Agency of government that provide guidelines on promotion of businesses by state organs, develop skills of the country's workforce and promote self-employment, and the development of SMMEs through facilitation of access to finance (DSBD, 2018).

The Integrated strategy for the promotion of entrepreneurship and small enterprises 2005 is one strategy that specifically targets enterprise development through ensuring adequate and effective implementation of all government policies and strategies which are aimed at enterprise development. This is achieved through improved coordination of efforts within government and support agencies, encouraging private sector participation, ensuring action and support for entrepreneurs from start-up to growth, expansion and turnaround if the need arises (DTI, 2005).

Government entities, departments and parastatals such as DTI, DSBD, Department of Women, Children and People with Disability, National Treasury, SEDA, Gauteng Enterprise Propeller, etc, as well as private sector entities such as PRASA, BUSA, BBC, MTIYA Dynamics, SBDI, ABSA, etc. have all teamed up variously to promote enterprise development and boost the SMME sector (UNDP, 2018). Multilateral entities such as UN Women and UNDP are active participants through the programmes they support and the causes they seek to pursue. The UNDP for example, supports the supplier development programme (SDP) which seeks to support companies at different phases of their development (UNDP, 2018). However, regardless of myraids of support services for businesses and the many players in the sector, research shows that in some cases, SMMEs are not aware of these support programmes, those who are aware have very little information on access to these services, worst still, those who can access are given sub-standard services (Mathibe and van Zyl, 2011).

The country's SMME sector is characterized along the broader economic sectors of the country. These sectors include; Finance and real estate, community services, mining, manufacturing, construction, transport and communication, electricity, gas and water, and trade (Wholesale, retail and motor trade, hotels and restaurants). As at the third quarter of 2019, the trade and manufacturing sector were the largest contributor to business turnover at R 371 242 000 and R 235 251 000 respectively.

The characteristics of the Eastern Cape SMME sector follows after the national. The sector is largely dominated by wholesale and retail trade and it's been estimated that the region probably has the third largest SMME market in the country (DEDEA, 2014). A 2013 survey shows that the Eastern Cape contributes 9.3% (148 672) of informal businesses to the national informal business pool. These businesses also contribute to 11.4% of total employment in the province, with majority of these businesses located in Amathole & BCM (48 709, 32.8%) (ECSECC, 2015). The sector is dominated by adult, female, married black Africans who started the business principally due to lack of employment and are mostly involved in the retail trade (ECSECC, 2015).

Being one of the rural provinces and with an economy that is largely automobile dependent, the government's effort has been concentrated on diversification to make the economy a more widely inclusive one through SMME sector development. Some of the strategies adopted are contained in policy documents such as the Integrated provincial Strategy, 2008 (which is an adaptation of the National Integrated strategy) with a key focus on entrepreneurship promotion, creating enabling business environment and

enhancing the competitiveness of businesses through provision of various key services. Introduction of an innovation Hub at ELIDZ, Innovation Fund through partnership between the department of Economic Development, environmental affairs and tourism and Technology Innovation Agency, and the establishment of database of SMMEs in the Eastern Cape is also at the centre of this strategy (DEDEA, 2015). At municipal levels also, policies and strategies do exist to further support the sector some of which include; Nyandeni local Municipality’s Development of SMME & Cooperative Strategy (Nyandeni Local Municipality, 2013) and Integrated SMME strategy of the Nelson Mandela Metropolitan Area (Nelson Mandela Metropolitan Council, 2013).

### BACKGROUND: THE PRE-COVID-19 PERIOD

SMMEs play a huge role in the general global economy. Similarly, SMMEs in South Africa compare favourably with its global counterparts with regards to their contributions to GDP, employment and percentage of businesses in the country which are SMMEs.

**Table 1**

ECONOMY	SMMEs SHARE OF NO OF ENTERPRISES %	% VALUE ADDED/ CONTRIBUTION TO GDP	SMMEs % OF TOTAL EMPLOYMENT
UNITED KINGDOM	99.00%	51.10%	48.95%
CANADA	70.90%	27.00%	90.43%
BELGIUM	94.40%	61.80%	69.04%
JAPAN	70.40%	38.30%	6.42%
SINGAPORE	99.33%	49.40%	67.74%

MOZAMBIQUE	71.10%	28.50%	42.91%
SPAIN	99.00%	64.80%	74.85%
NETHERLANDS	99.00%	64.70%	66.95%
MALTA	99.00%	71.50%	80.03%
SOUTH AFRICA	98.00%	49.40%	63.76%

Source: Department of Small Business Development, 2018. Strategic plan for the Fiscal years 2015-2019

Clearly, it could be seen from above table that broadly, more than 90% of businesses globally are SMMEs providing more than 50% of jobs as estimated by the ILO (2018). SMMEs in South Africa contribute about half of the country's GDP and provides about 64% of employment in the country. In Sub Sahara Africa, they provide about 89.2% of all employment and these are mostly informal business (ILO, 2018).

### COVID-19 PERIOD

The pandemic which first hit the world in early December 2019 was rapid in its spread. The first Covid 19 case was reported in the Eastern Cape on 21 March whereas on the same date, there were a total of 240 cases in the country. (Dispatch Live, 2020). Being one of the hot spots in the country, the Covid 19 infection was modelled to peak in the region by July/August and show a decline in September, following the trend nationally (nmg consulting, 2020). By September 24, the Eastern Cape was the third in the country with the largest number of Covid death of 3093 (and active cases of 1367) after Gauteng (IOL News, 2020).

To combat the rapid spread and mortality caused by the pandemic, lock down (total or partial) became the popular strategy both in South Africa and

worldwide. The level 5 lockdown which was announced by the government effective from 26 March brought the whole country to a complete standstill. A further easing to level 4 did not bring any significant relief. Statssa's (2020c) May 14 report shows that 90% of businesses responded that the lockdown has impacted on their turnover negatively especially businesses in the gas and water supply; mining; community, social and personal services; trade; transport, storage and communication; and manufacturing industries. 36% of firms had laid off their workers in the short term. 48% of businesses had paused operations while 9% had ceased operations permanently. Changes to these statistics were moderate in the survey conducted during level 4 lockdown. According to Statssa (2020d), the important message revealed by this statistics is the extent to which firms need, and are reaching out for help. By end of May under level 4 lockdown about 40% of businesses were planning to take advantage of government relief schemes to boost their turnover.

As argued by Hamilton (2020a), businesses generally struggle with cash flow to sustain themselves therefore if the lockdown is not properly managed, it would lead to high levels of business failures and insolvencies.

This situation reflects the reality of the SMME sector since they make up about 98.5% of all registered businesses in the country (Small Business Institute, 2018). TIPS (2020) postulates that besides cash flow problems, small businesses would also experience a drop in consumer credit, reduced demand and disruptions of supply chains. These would hamper their productivity, profitability and sustainability as a result of covid 19.

The Eastern Cape region contributes 8% of the country's total GDP (Statssa, 2019e) and SMMEs have made some contributions to the region's economic

output. SMMEs in the Eastern Cape have been showing signs of increases between 2018 and the third quarter of 2019, with a year-on-year increase in the number of SMME owners of 14.9% and quarter-on-quarter increase of 18.1% in the third quarter of 2019 (2020) before the onset of covid 19. This increase is synonymous with increase in the number of enterprises.

Evidentially, the informal SMME sector is larger than the formal ones. Nationally, informal SMME sector accounts for between 68 and 69% of total SMME business (SEDA, 2019; SEDA, 2020)). In the Eastern Cape, informal SMME businesses dominate the sector especially since the post-recession period of 2009 which saw the most decline in formal businesses at -42.99% (ECSECC, 2015) therefore any intervention programme that ignores the informal sector implies a complete abandonment of the SMME sector. Sadly, according to Hamilton (2020b), informal economy is often seen as a “shadow” of the formal economy, easily overlooked or not sufficiently considered during policy formulation, easily associated with illegal activities and unfounded assumption of dealing in counterfeit goods, they have the most vulnerability to external shocks and rarely have built-up reserves or insurance to enable them absorb these shocks. In planning post covid 19 intervention therefore, considerable focus must be given to both the formal and the informal SMME sector for maximum impact.

In May, the Reserve bank forecasts an impending contraction of the GDP by 7% in 2020 due to Covid 19 (SARB, 2020) and in September, Statssa announced a quarter on quarter decline of 51.0% in quarter 2, 2020 GDP (Statssa, 2020i) . This calls for policy action.

As the country and regions scramble for interventions to stem the tide of covid 19, with a multisectoral focus, the Eastern Cape's SMME sector intervention plans could be guided through the provision of anecdotal answer to the following questions and addressing the below research aims and objectives:

## RESEARCH QUESTIONS

What is the effect of COVID-19 on the number of SMME businesses in the Eastern Cape?

To what extent did COVID-19 affect SMME contribution to the GDP in the province?

Which SMME sub-sectors were the most impacted by COVID-19 pandemic?

What policy actions can help resuscitate the SMME sector?

## RESEARCH AIM

The aim of this research is to assess the effect of COVID-19 on the performance of SMMEs in the Eastern Cape

## RESEARCH OBJECTIVES

To assess effect of COVID-19 on the number of SMMEs in the sector.

To evaluate how COVID-19 affected SMME contribution to the GDP in the Eastern Cape

To assess which SMME sub-sectors were the most impacted by COVID-19

## METHODOLOGY

The data used in this study were obtained from SEDA SME Quarterly and from STATS-SA. The data were analysed descriptively using frequency distribution. The major modes of data presentation were graphs and tables.

## DATA PRESENTATION

### Number of SMMEs

Before the onset of Covid 19, contractions in the whole economy was already felt in the SMME sector. In the quarters preceding Q3 2019, the number of SMMEs grew by 3.8% year-on-year (synonymously with national job shedding during the same period) and sectorial employment grew by 15% or 70% of total employment. However, by the third quarter of 2019, SMMEs share of turnover of all enterprises had started showing signs of a decline through a full percentage point shrinkage (SEDA, 2020).

Without a doubt, all evidence points to the fact that businesses have been worst hit by this pandemic. Not only did businesses operate with caution by having a few staff members at work and allowing those with covid 19 co-morbidities to work from, or be at home, but the lockdown at levels 3 to 5 led to a complete shut down of some businesses with no prospects of reopening. In terms of number of SMMEs that would have been affected by Covid 19 lock down, data presented below shows the number of SMMEs in the country before the lockdown and what may have happened as a result of the lockdown.

### **Table 2**

Period	No of SMMEs		% of all Enterprises	EC:Q by Q changes
	South Africa	Eastern Cape		
Q4 2017	2407440	194060	8.10%	
Q1 2018	2443163	212292	8.70%	9.40%
Q2 2018	2440760	215334	8.80%	1.43%
Q3 2018	2556891	210986	8.30%	-2.02%
Q4 2018	2557762	189813	7.40%	-10.03%
Q1 2019	2550540	179908	7.10%	-5.22%
Q2 2019	2667299	205211	7.70%	25.30%
Q3 2019	2653424	242367	9.10%	18.11%

Source: SEDA, SMME quarterly update

Above table shows a stable growth in the number of SMMEs as a percentage of all enterprises in the country. From quarter 3 of 2018, the number of businesses declined, showing significant quarter by quarter declines of -2.02%, -10% and -5.22% respectively. From quarter 2 to quarter 3 of 2019, a positive reversal started showing positive percentages of 25.3% and 18.11%.

With net job losses on the formal sector and the SMME sector serving as social “sponge” that absorbs those who have no jobs but are seeking self-employment, the positive quarter-by-quarter trend was expected to continue into the fourth quarter of 2019 and into the first quarter of 2020. Formal sector job losses have a ripple effect of increasing the number of businesses in the sector because of the “sponge effect”. On the other hand, since most businesses in the country are SMMEs, job losses by small businesses imply a contraction of the sector.

With few job losses in the country at the end of the fourth quarter (Statssa, 2020h), the SMME sector would have continued to show signs of recovery in

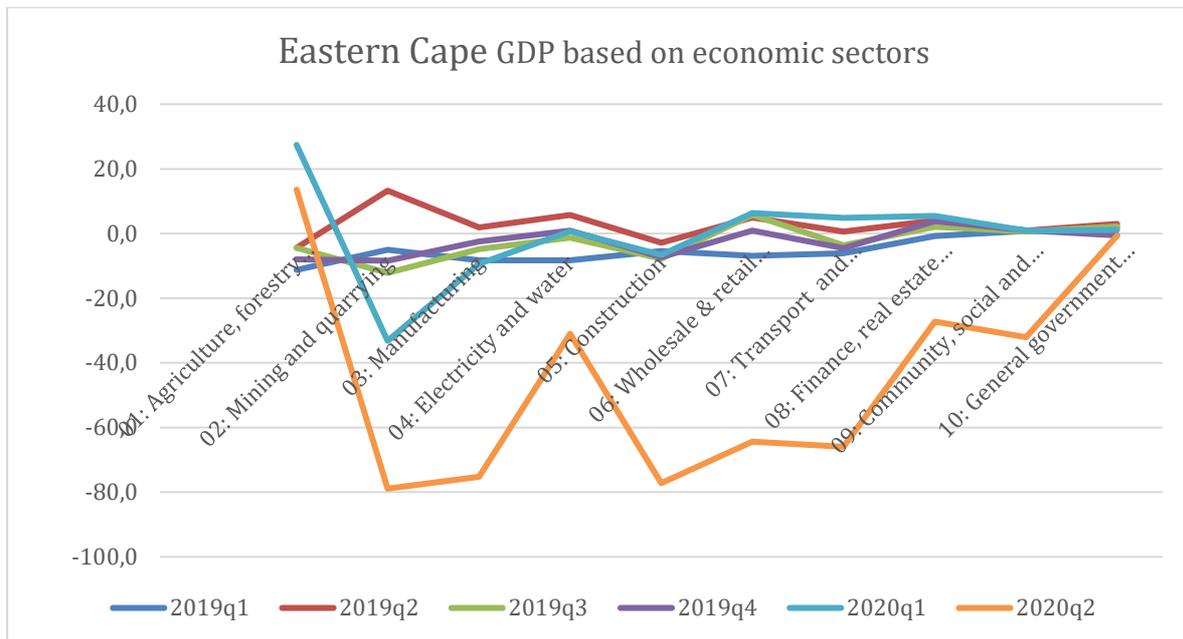
terms of its numbers, however, massive job losses in the first quarter of 2020 (Statssa, 2020g) indicates a contraction in the economy that could lead to a contraction of the SMME sector. As discussed in next section, the devastating socio-economic impact of COVID-19 would have a significant effect on the number of SMMEs both in the country and in the Eastern Cape in particular.

### **SMME sector output**

By the third quarter of 2019, South Africa was in a technical recession, with the GDP falling for the first time in 5 years to -0.8%. Subsequent quarters up to March 2020 showed a further decline of -1.4% and -2.0% respectively (Stats SA, 2020b). The decline in Q3 of 2019 was explained by the decline in the mining, manufacturing, electricity, gas and water, construction and trade sectors; with the mining and trade sectors showing the largest and lowest declines respectively. Q4 drop in GDP was also explained by a decline in agriculture, transport and communication, and construction (Stats SA, 2020a) while that of Q1 was blamed on decline in mining and manufacturing activities caused by a reduction in production, decrease in demand and maintenance stoppages in the manufacturing sector (onset of coronavirus effect).

The Eastern Cape economy followed suit, also experiencing a technical recession with its GDP falling to -0.1% in quarter 3 and -1.6% in quarter 4, mainly driven by contraction in agriculture, construction and transport industries (ECSECC, 2020) as the whole country battled with late rains, heat waves and flooding when it eventually rained. The graph below shows GDP from quarter 1 2019 to quarter 2 2020:

### **Figure 1**



The graph above shows a general decline in output of all the economic sectors of the province but the decline in quarter two 2020 is very glaring and attributable to COVID-19. The only resilient sector is the agricultural sector with a positive change in its period per period GDP. Although the SMMEs exact contribution to the province’s output could not be estimated, there is a general consensus that they contribute a significant portion of the province’s output. This implies that the output of the SMME sector has declined significantly during this same period.

## Employment

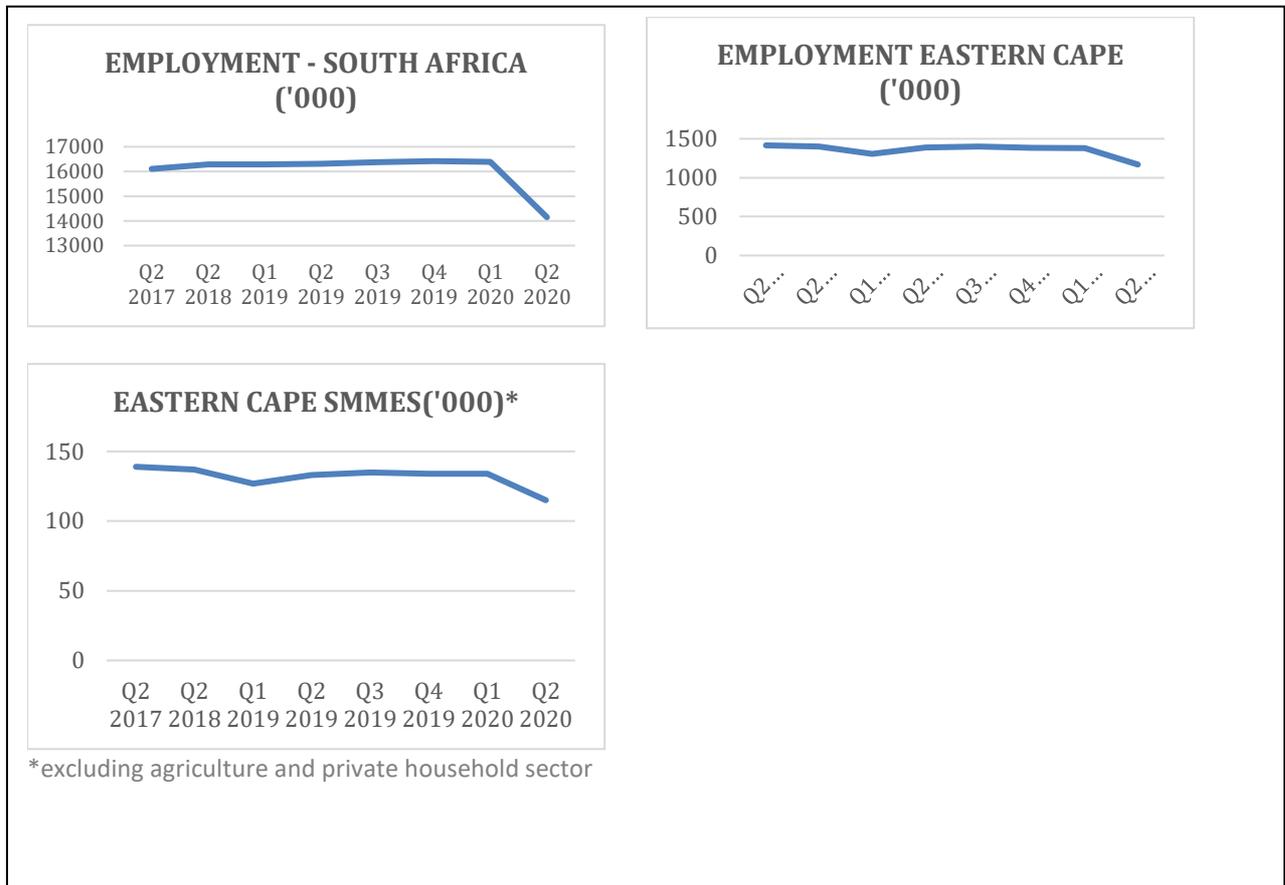
The graphs and tables below show employment in South Africa and by the SMMEs in the Eastern Cape.

**Table 3**

PERIOD	SOUTH AFRICA	EMPLOYMENT		
		EASTERN CAPE	EASTERN CAPE SMMES excl Agric &h/h	EASTERN CAPE SMMES incl Agric &h/h
	(,000)	(,000)	(,000)	(,000)
<b>Q2 2017</b>	16100	1416	139	161
<b>Q2 2018</b>	16288	1402	137	160
<b>Q1 2019</b>	16291	1308	127	149
<b>Q2 2019</b>	16313	1388	133	158
<b>Q3 2019</b>	16375	1402	135	160
<b>Q4 2019</b>	16420	1384	134	158
<b>Q1 2020</b>	16383	1382	134	158
<b>Q2 2020</b>	14148	1169	115	133
	*	*	**	**
<b>Source:</b>				
<b>* From StatsSA QLFS</b>				
<b>** Estimated from StatsSA QLFS</b>				

Above table shows total employment over the quarters 2017 to 2020. The Eastern Cape, is dominated by informal SMME businesses which contributes about 11.4% of employment in the province (ECSECC, 2015:7). Trends in employment over the same period is depicted in the graphs below:

**Figure 2**



Trends in employment shows that by the second quarter of 2019, the Eastern Cape and indeed the SMME sector had started a reversal of decline in employment which was experienced in 2018. The fourth quarter of 2019 and first quarter of 2020 showed a declining but stable levels of employment. Employment in quarter 2 of 2020 in the SMME sector shows a major decline of 14% as expected which is attributable to COVID-19.

**Table 4.**

	SECTORAL EMPLOYMENT BY SMMES IN THE EASTERN CAPE								
	Q2 2017 (thousand)	Q2 2018 (thousand)	Qtr on Qtr changes	Q2 2019 (thousand)	Qtr on Qtr changes	Q1 2020 (thousand)	Qtr on Qtr changes	Q2 2020 (thousand)	Qtr BY Qtr changes
Comm & Soc Serv	42	46	9.50%	43	-6.50%	44	2.33%	39	-11.39%
Finance	19	16	-15.79	17	6.25%	16	-5.88%	13	-18.75%
Transport	8	7	-12.50%	9	28.57%	9	0%	7	-22.22%
Trade	39	34	-12.86%	30	-11.76%	31	3.33%	27	-12.90%
Construction	16	19	15.79	17	-10.53%	20	17.65%	14	-30%
Utilities	0.64	0.46	-28.13%	0.46	0%	0.64	39.13%	0.8	25%
Manufacturing	15	15	0%	14	6.67%	15	7.14%	13	-13.33%
Mining	0.11	0.11	0%			0.23		0.23	0%
Agriculture	10	11	10%	11	0%	9	-18.18%	8	-11.11%
Private Households	12	12	0%	14	16.67%	14	0%	11	-21.43%
Source: Estimated from StatSA QLFS									

By sector, there were significant declines in the quarter-on quarter employment in finance (-15.79%), transport (-12.50%), Trade (-12.86%) and utilities (-28.13%) between Q2 of 2017 and Q2 of 2018. This could be attributable to the post-recession declines in formal sector businesses in the Eastern Cape (at about -45%) which started in 2015. However, some sectoral reversals occurred in the quarters between Q2 of 2018 and Q2 of 2019. By quarter 1 of 2020 most of the sectors excluding the agricultural sector had reversed and therefore increased employment. A quarter by quarter sector comparison between quarter 1 and quarter 2 of 2020 shows a major dip in employment with major declines experienced in the construction (-30%), transport (-22.22%), private households (-21.43%), finance (-18.75%), manufacturing (-13.33%), trade (-12.90%) and community & social services (-11.39%). Clearly, these were the sectors most affected by the lockdown restrictions. Utilities sector on the other hand experienced an increase (at 25%) as demand on utilities increased due to working from home. Major declines experienced in other sectors is synonymous with job shedding embarked upon by businesses as reported in various research

conducted in the SMME sector which is discussed in section..... below. This shows effect of COVID-19 on both the general SMME sector and on the specific SMME sub-sector.

### SMMEs turnover and profitability

Smme profitability determines their growth and sustainability. They also determine ability to withstand shocks such as the current Covid 19 shock. Businesses that are profitable will build up stock of assets that provide a buffer against business and cyclical fluctuations. The table below provides a snapshot of the turnover of SMMEs and their profit before tax.

**Table 5**

Turnover and profitability of SMMEs						
	Turnover	qtr by qtr	Profit	qtr by qtr	Profit as a	
	(millions)	changes in	before tax	changes in	% of turnover	
		turnover	(millions)	profit		
Q1 2018	908999		59260		6.50%	
Q2 2018	911159	-0.23%	57226	-3.43%	5.70%	
Q3 2018	933432	2.44%	66022	15.37%	7.10%	
Q4 2018	944249	1.16%	59266	-10.23%	6.30%	
Q1 2019	912799	-3.33%	59388	0.21%	6.50%	
Q2 2019	933848	2.31%	73130	23.14%	7.80%	
Q3 2019	936279	0.26%	71033	-2.87%	7.60%	
Source: SEDA SMME quarterly update						

As seen from the table above, SMMEs experienced fluctuations in turnover between quarter 1 2018 and Q3 2019. There was a reduction in turnover in quarter 1 2019 by -3.33% and a reduction in employment during the same period (see table 3 above). Quarter by quarter changes in profit shows a sharp reduction in profit in the preceeding quarter 4, 2018. This shows that the shock in q4 of 2018 may have fed into the first quarter of 2019. SMMEs also make marginal profits as a percentage of total turnover. These range between 6.5% and 7.8% as depicted in above table.

To explain the possible reasons for changes in turnover, the table below is presented.

**Table 6**

Period	Turnover (millions)	qtr by qtr changes in turnover	South Africa No of SMMEs	qtr by qtr changes in No of SMMEs
Q1 2018	908999		2443163	
Q2 2018	911159	-0.23%	2440760	-0.10%
Q3 2018	933432	2.44%	2556891	4.76%
Q4 2018	944249	1.16%	2557762	0.03%
Q1 2019	912799	-3.33%	2550540	-2.28%
Q2 2019	933848	2.31%	2667299	5.58%
Q3 2019	936279	0.26%	2653424	-0.52%
Source: SEDA SMME quarterly update				

There was a sharp reduction in the number of SMMEs in quarter 1, 2019 at -2.28% which led to decreases in SMME turnover (-3.33%) and profit as a percentage of turnover during the same period. Business profit before tax is low compared to the amount of turnover they make. In some way, this reflects one of the challenges of the SMME sector which is lack of product/service differentiation which exposes businesses to excessive competition and low profit margins. This makes the sector quite vulnerable to sudden changes to situations such as lockdowns. This scenario also applies to SMMEs in the Eastern Cape. With a technical recession that the country experienced from the 3<sup>rd</sup> quarter of 2019 and a further decline in output up to March 2020 (Stats SA, 2020b), a further reduction in turnover is envisaged and this would be worsened by the Covid 19 effect in quarter two (2).

## OTHER RESEARCH DONE ON COVID-19 THAT IS APPLICABLE TO THE SMME SECTOR

Apart from the direct effect on the health of individuals and society as a whole, another immediate and visible effect of covid 19 was on the economy as

countries embark on shutdowns in order to contain the spread of the pandemic. Subsequently, the pandemic has stimulated a significant amount of research worldwide and in South Africa bordering especially on its impact on the economy and how the economy can be restored back to what it was before the pandemic. Below are the results of studies conducted on the effect of Covid 19.

**22 on SLOANNE - Covid 19 Impact on South Africa's SMMEs , 22-28 March 2020**

This study was conducted mainly on Gauteng SMMEs. Being conducted at the early stages of the onset of covid19 in South Africa, the study reported that with a purposely selected clients for the study, it found out that 92% of businesses had already been affected by the pandemic since most of their business (92%) involves contact with people although most of them (63%) are able to provide their service and products virtually. At the time, some businesses (20%) required help to secure deferred payments, purchase of goods on credit (15%) and rental subsidy (13%). Others had no alternative support mechanism (20%).

Specific ways in which the pandemic affected them include; Low patronage due to customers not being able to operate their own businesses, fear of engaging / exposure to COVID-19, training on hold, no explanation, events/projects postponed, slow decision making, lower revenues, suppliers are closed / Supply chain affected, Clients are closed Events cancelled, Clients are cutting costs/Budget constraints, work from home / drop in productivity, projects on hold Jobs/bookings/projects/meetings/contracts/training cancelled and Travel restrictions that does not allow face-face interactions.

**Statssa – Business Impact survey of the Covid 19 Pandemic in South Africa, 30 March – 13 April 2020**

The study was conducted on businesses that are registered for Vat across all industries, representing formal businesses during lockdown level 5 therefore responses represented views of businesses as the start experiencing effect of the lockdown.

The study shows that majority of responding businesses (85,4%) reported turnover below the normal range. 46,4% indicated temporary closure or paused trading activity. 50,4% expected the size of their workforce to remain unchanged the in the two weeks after the survey, while 36,8% reported that their workforce size is expected to decrease. 28,3% indicated that they have 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 are abnormally high. Access to financial resources decreased by 23,8% while 52,6% indicated that access to financial resources remained the same. 38,2% of businesses applied for financial assistance through government relief schemes. 30,6% indicated they can survive less than a month without any turnover, while 54,0% can survive between 1 and 3 months. 46,3% of the workforce were able to meet business demands, and 43,0% of the workforce were not able to meet business demands (Statssa, 2020f).

### **Inclusive Society Institute – Covid 19 and its Impact on the SMME sector, 9-13 April 2020**

The study was conducted on SMMEs from all sectors. Of the 1084 enterprises surveyed, 98% had experienced a decrease in turnover and also had cash flow issues, however, 68% were confident that they'll survive the lockdown

regardless of these challenges. Enterprises in the services and wholesale sectors were more confident to survive the lockdown than those in the manufacturing sector, only 7.5% of enterprises has retrenched their workers at the time of the study while 21% of businesses who retrenched indicated that they would re-employ their workers should things improve after the lockdown. While businesses were optimistic about surviving the first lockdown, only about 29.5% believed they would survive extended lockdown. As at the time of this study, only 56% of businesses had applied for the lockdown relief support and only 4 had received approval by then (Inclusive Society Institute, 2020).

#### **Statssa – Business Impact survey of the Covid 19 Pandemic in South Africa, 14 – 13 April 2020**

The study was conducted on businesses that are registered for Vat excluding those in financial intermediation, insurance, pension funding, government, education, and business services. Majority of businesses (over 76%) were SMMEs.

Report shows that majority of responding businesses (89,6%) reported lower than normal business turnover. 47,9% indicated temporary closure or paused trading activity. 508 of responding businesses with annual turnover less than R2 million (micro and very small businesses) indicated that they have temporarily closed or paused trading. 8,6% have permanently ceased trading. 36,4% reported the laying off of staff in the short term. 45,6% expected to decrease the size of their workforce in the two weeks following the reference period. 32,9% indicated that prices of materials, goods or services purchased were abnormally high. • 38,3% of businesses indicated a decrease in access to financial resources while 37,7% were still able to access some financial resources

at the time. 30,0% of businesses had applied for financial assistance using government relief schemes. 29,7% indicated they can survive less than a month without any turnover, while 55,3% can survive between 1 and 3 months. 50,4% of the workforce were unable to meet business demands, and 35,7% of the workforce were able to meet business demand. A majority of respondents (56,3%) were planning at the time to operate during the level 4 lockdown period (Statssa, 2020c).

**Nedbank and Consulta – State of SA’s SME sector during lockdown. April and May 2020.**

The study was conducted on SME owners across all industries. Of the businesses surveyed, 70% could not operate at all during the five-week lockdown while 24% were able to operate partially. 96% of businesses were able to make 75% of sales or less. Businesses were less optimistic about recovering from the effect of the lockdown at an average confidence score of 5,4 out of 10. Since they could not generate sales at full capacity, 27% of them had already laid off their staff complement. This number was expected to increase as small businesses remain non-operational for longer. 92% of businesses were in need of and actively seeking some form of financial support to cover operating expenses. 34% had applied to the various relief funds, their bank (33%), as well as friends and family (20%). About 5% had utilized crowd funding. Of the entities applied to, they were more confident of getting support from the bank than anywhere else.

**World Bank: Department of Tourism, South Africa - Tourism Industry Survey of South Africa: COVID-19 , April 2020.**

This study was conducted to specifically assess the effect of COVID-19 on the tourism sector. Although all responding firms (99%) are affected by COVID-19, 64% were still positive that their business will survive and recover. They experiences decreases in revenue by more than 50% (83% of firms) compared to the same period last year while 34% of firms reported almost a 100% loss in revenue. 58% of firms were unable to service their debts and 54% of firms were unable to cover fixed costs in March 2020. 50% of respondents had reduced wages for more than 50% of their staff, and 36% of firms have reduced wages for all staff. 11% of firms have made more than 50% of their workforce redundant, while 53% had still managed to keep their staff. All businesses indicated the need for financial support to ease their cash flow, assist their recovery and tax relief. Interestingly, micro enterprises needed financial support to assist with their cash flow situation, small firms needed financial support to help them recover and get back to business while medium and large firms needed tax relief. At the time of the study, the support facilities that most businesses were aware of were the UIF scheme and the Tourism Relief Fund of the Department of Tourism (World bank, 2020).

### **Statssa – Business Impact survey of the Covid 19 Pandemic in South Africa, 30 1-30 May 2020**

The study was conducted on businesses that are registered for Vat across all industries, representing formal businesses during level 4 lockdown, excluding businesses engaged in financial intermediation, insurance, pension funding, government, education, and business services ‘not elsewhere classified’. More than 50% of respondents were SMMEs.

The majority of responding businesses (84,3%) reported below normal business turnover 20,2% indicated temporary closure or paused trading activity. 51,6% continued to trade partially. 25,8% reported the laying off of staff in the short term. 26,8% expected decreases in their workforce size during level 3 lockdown period. 39,0% indicated abnormal increases in prices of materials, goods or services purchased. Access to financial resources: 59,0% indicated that access to financial resources remained the same, while 20,3% indicated a decrease in access to financial resources. 39,8% of businesses responding to the survey indicated that they have applied for financial assistance using government relief schemes. 54,9% of businesses indicated they can survive between 1 and 3 months without any turnover. Majority of the workforce (61,6%) were able to meet business demands, 30,2% of the workforce were unable to meet business demands. A majority of respondents (86,4%) indicated that their businesses would be operating during the level 3 lockdown period.

In an effort to try and adapt their businesses to trying times, businesses in this survey, among other things, increased the use of virtual connections and other adaptations to reach customers. (Statssa, 2020e).

### **Small Business Development - Covid 19 SMME Scenarios, May 2020**

SMMEs, complained that their major difficulty was staying connected with customers (58.1%), non availability of components and materials needed for business operation (54.4), decrease in productivity because of working from home (53.8), reduction in corporate spend (47.5%) and issues with employees morale (44.6%). Most SMMEs surveyed did not apply for any government assistance. Of the 20% of SMMEs that are receiving support, 95% either received from the Unemployment Insurance Fund (UIF) or Temporary

Employer/Employee Relief Scheme (TERF) or both. Two SMMEs respectively indicated that they have been helped through SEFA Debt relief and SEDA National Gazelles Programme. A scenario modeling of what could happen to the country if the lockdown were to continue for an extended period of time and different lockdown rules apply at different times into year 2025 and at different levels of intervention was conducted. The result shows that Gauteng, the Western Cape, Eastern Cape and KZN would be worse off than the other provinces, because they each have at least two of the projected ten worst performing companies.

### **Reflections on reported studies**

All of the above research result shows that the first impact of COVID-19 on the business sector was on employment and turnover. Although most researches were conducted during the early stages of the lockdown, results show the precariousness of businesses and the threat to their sustainability in terms of their ability to withstand sudden and unexpected shocks. Some businesses were already in dire need of help which shows the lack of sufficient asset accumulation which has always been identified as one of the challenges facing businesses especially in the SMME sector. This notion is confirmed by the financial assistance needs of Micro enterprises, small firms and medium to large firms as reported by the department of tourism. There is increased likelihood that firms that reported to have closed down permanently even at the early lock down stages of the pandemic covered by the various studies reported above, would have been micro and small firms who had not built up cash reserves. The optimism of some businesses in the various reported research towards recovery

would have been tested had the studies been conducted at the later stages of the lockdown. Besides, it would have been interesting to know how businesses fared at the time the country entered lockdown levels 3 and 2.

## CONCLUSION AND POLICY RECOMMENDATIONS

Indeed the COVID-19 challenge facing the business sector is daunting. Besides inability to operate in the short term as was the case previously, the challenge of cash flow problems, inability to meet all business liabilities that fall due, inability to meet business commitments, strained employer/employee relations through retrenchments and payment of half salaries in some cases, low employee morale and sluggish demand for services and products could be overwhelming. Besides, despite the country returning to full economic activities in the future, some businesses may have closed down permanently. To others who are back to business, the road to full recovery may be very long given the fact that the pandemic is still very real and businesses are still trading with caution.

Output of SMMEs have decreased, there is loss of employment by workers in the sector, the number of SMME businesses has reduced due to permanent closure of some businesses and business turnover has also been affected.

The response of government, both National, provincial and municipal, to the pandemic follows the institutional and legislative mandate bestowed on them to ensure a stable economy. For example, the National Development Plan was instituted by government to eliminate poverty and reduce inequality by 2030 through growing an inclusive economy and building capabilities. To build an inclusive society and poverty reduction, the Support for small businesses

becomes centre stage, through better coordination of relevant agencies, development finance institutions, and public and private incubators (National Planning Commission, 2012). This plan is closely related to the New Growth Path (NGP) plan that was set for the country. Although the government assumed a lion's share of the responsibilities embedded in the plans, it recognizes the role of partnerships with the private sector in order to achieve the plan's objectives.

The provincial development plans of the Eastern Cape stem from the national development plan and among other things, emphasize industry and enterprise support through utilization of public resources to support industry and all enterprises whether micro, small, medium and large businesses and cooperatives. It is also mandated to ensure the development and supply of skills to growth sectors and to also strengthen the capabilities of regional and local economic development among others (ECSECC, 2014).

In light of the challenges posed by COVID-19, government, at both national and provincial levels has a duty to act to curb the socio-economic impact of the pandemic. This has been the basis of government response since the onset of the pandemic to support businesses and individuals. Data presented in the foregoing sections on the Eastern Cape SMME sector and the general challenges faced by SMMEs as reported in other studies together guide the following policy recommendations:

1. Develop e-commerce capabilities of small businesses
2. Train small businesses on positive asset accumulation
3. Support and promote home-based businesses

4. Promote agri-based businesses, and also provide finance and training, as this is the sector that was most resilient in the face of the COVID-19 crisis and suffered the lowest job losses.
5. Provide interest-free loans and ease loan repayment terms to both existing businesses and promising new businesses.
6. Create markets and linkages for for SMME goods.
7. Since the Eastern Cape SMME sector is largely informal, demands for small businesses to adopt formal measures in accessing government support should be made with extreme caution as this could have unintended consequences of excluding most businesses.
8. Strengthen mentoring support to businesses on financial management and marketing, and avoid making such support a once-off activity
9. Remove procurement stumbling blocks, and ensure that small businesses that service government departments are paid timeously.
10. Procedures for new business registration should be shortened.

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