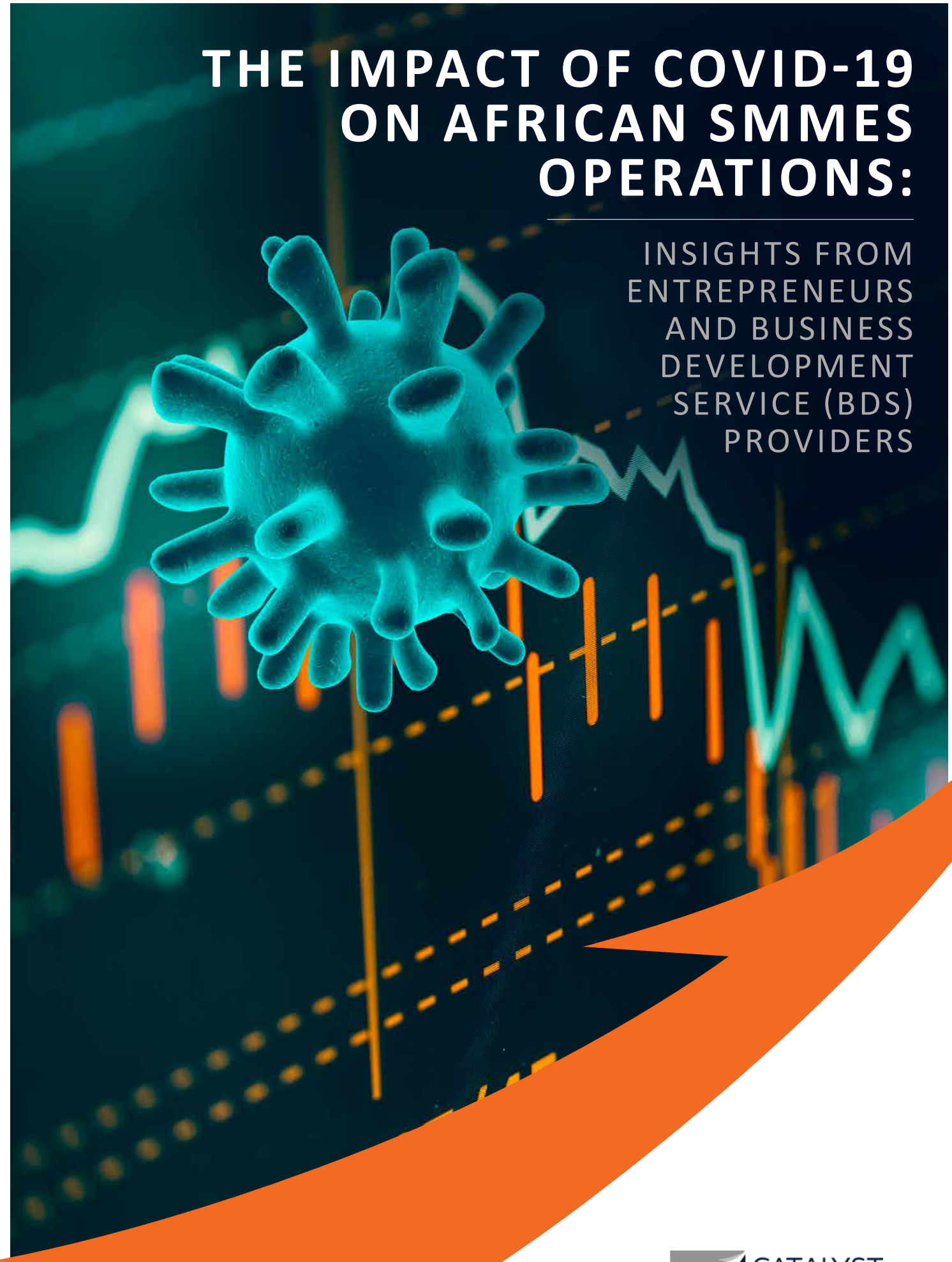

# THE IMPACT OF COVID-19 ON AFRICAN SMMES OPERATIONS:

## INSIGHTS FROM ENTREPRENEURS AND BUSINESS DEVELOPMENT SERVICE (BDS) PROVIDERS

CATALYST FOR GROWTH
BENCHMARKING QUALITY BDS

# ABSTRACT

Covid-19 has been termed the most serious global health crisis since the Spanish flue of 1918, but unlike past pandemics, the level of globalisation in 2020 has meant that any containment policies established by governments would have a great impact on economies, and therefore small businesses in those economies. The impact of the Covid-19 pandemic on small businesses is felt worldwide; however, emerging markets' entrepreneurs are likely to experience the full impact of the economic aftermath far more than those in developed countries. This is due to the notion that most entrepreneurs in these markets, including South Africa, are already faced with institutional inadequacies that contribute to a shortage of resources and persisting turbulent economic conditions. Catalyst for Growth (C4G) conducted a quantitative research to understand the impact of Covid-19 on business operations of SMMEs in Africa. Data gathered from 96 SMMEs shows that Covid-19 had a significant impact on the SMMEs with regard to their daily business operations, revenue, and employment. Some of the SMMEs indicated a possible closure during and post-Covid-19. SMMEs introduced various response strategies such as changing their business model, new product or service offerings, and flexible working hours. The results show that among many challenges, SMMEs would like to receive financial assistance to continue with the business operations. Therefore, this calls for multi-stakeholder involvement in marshalling both financial and non-financial resources to assist SMMEs.

# ACKNOWLEDGEMENTS

We gratefully acknowledge our various partners and clients across the ecosystem in South Africa and in several African countries, including Tanzania and Zambia. Together we strive to learn how best to strengthen the ecosystems that nurture and support small businesses.

We are privileged to be led by a committed and passionate Board of Directors, and we are most grateful for the support we continue to receive from Dalberg Development Advisors and the JP Morgan Chase Foundation. We owe a ton of gratitude to the Southern African Innovation Support (SAIS2) programme for funding our project activities in Tanzania and Zambia.

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# 1. INTRODUCTION

The Covid-19 pandemic has caused huge disruption to business activities, and this is increasingly likely to continue for many months. The Minister of Trade, Industry and Competition (DTIC), Ibrahim Patel, recently told the Parliamentary Committee: "Our work has indicated that the pandemic will affect the South African economy in very deep and significant ways" (Tralac, 2020). The impact will be experienced differently depending on the industry, size of the business, business activities, profitability of the business, and other important business indicators.

A critical component of the South African economy and the remaining African continent is small businesses. Since Covid-19 will have a major impact on the small businesses, this suggests that the economy will also be affected. A study conducted by 22 On Sloane suggests that as much as 55 000 small businesses will not survive Covid-19, with at least 42 350 employees working in these SMMEs set to lose their jobs (GEN 22 On Sloane, 2020).



This paper is an exercise undertaken by C4G to explore the SMME owners' perception of the impact of Covid-19 on their businesses. This study was purposely undertaken in the first few weeks of the lockdown in South Africa and other African countries, and seeks to highlight how SMMEs are experiencing Covid-19, the business functions that are affected the most, and the strategies that were introduced to minimise the impact thereof. The findings of this study will be used to catalyse crucial conversations among SMME owners and SMME ecosystem players. Possible outcomes from these conversations will be used to derive practical steps or strategies to strengthen the resilience of the SMMEs in Africa during and post Covid-19.

With the support of partners in South Africa and other countries on the continent, we have been able to source participants from 16 of countries in Africa. These include Uganda, Tanzania, Kenya, Zambia, and Nigeria. Our key findings show that the perceived negative impact of Covid-19 for South African small businesses is worse than in other non-South African countries. Thirty-five percent (35%) of the enterprises in our study had to indefinitely close their business in March and April 2020, and most of the enterprises that closed indefinitely were South-African based enterprises. It was also interesting to find that enterprises making less than R300 000 (+-$20 000) had the highest number / percentage of enterprises that changed their business models during this season.

The South African Government is collaborating with the private sector and other stakeholders to provide various forms of relief to support small businesses in the South African economy. This is an important national project, designed to build the resilience of our economy by strengthening the ecosystems that support entrepreneurs. This support may lead us to have a solid base for economic recovery and growth after the Covid-19 pandemic.

This paper is only part of the beginning of a story on the devastating impact of Covid-19 on small businesses in South Africa and on the continent. The full story will be evident at the end of the Covid-19 nightmare, when we take stock of survivors and those businesses that would have become collateral damage.

# 2. RESEARCH DESIGN AND METHODOLOGY

## 2.1 RESEARCH DESIGN AND DATA COLLECTION

This study adopted a quantitative research design aimed at understanding the impact of Covid-19 on the business operations of SMMEs across Africa. The C4G Covid-19 White Paper survey was run from 20 March until 21 April 2020. The survey was sent to over 2,000 entrepreneurs on the C4G platform, and to other incubators that are active on the C4G platform[1] who were asked to distribute the survey to the enterprises they support. Since the target sample size was small, the entire population was used as a sample for the study. To be able to include the participation form, other SMMEs who are not on the C4G platform, the survey was also distributed through social media platforms. The survey focused on the demographic data, the impact of Covid-19 on the business operations, and strategies used to minimise the impact thereof. The qualitative data were also gathered from the business development service (BDS) providers to validate the SMMEs' responses, and highlight the key interventions to help SMMEs cope with the uncertain and rapidly changing business environment. At the end of the survey, there were a total of 96 responses, comprising of entrepreneurs from South Africa, Uganda, Kenya, Tanzania, Zimbabwe, and Morocco.

## 2.2 DATA ANALYSIS

The final data sample of 96 was loaded onto the Statistical Package for the Social Sciences (SSPSS), a software used to analyse quantitative data. Before analysis could begin, the final data were examined for errors, which included missing values, and outliers, and these were remediated.

The quantitative data were analysed using descriptive statistics and cross-tabulations to compare the differences between the selected variables. This meant that quantitative questions, particularly those posed to participants in the form of Likert scales and ranking scales, could be exhibited reliably. Many of these questions have been exhibited as frequency distribution tables and graphs, which suits the nature of the majority demographic responses. It was also found that interesting relationships exist between the responses provided by entrepreneurs and therefore, multiple cross-tabulations were run on these answers.

Since there were open-ended questions that required qualitative responses, thematic content analysis was used to derive at codes for the qualitative data. Validity was ensured by having multiple people who analysed the data and had robust discussions of the findings. Furthermore, the rigorous process of validating the data ensured that the final reported findings are accurate and transparent.



## REFERENCE

[1] The C4G analytics platform is a cloud-based SMME support platform for BDS providers and sponsors of BDS programmes, used for monitoring, analytics, and reporting, coupled with independent evaluation that demonstrates programme impact on the SMMEs supported. www.catalystforgrowth.org

## 2.3 LIMITATIONS

Every research has limitations. First, the final sample size of the study is small when compared to the population of the SMMEs that were invited to participate in the study and those operating in the broader African context. Second, since the sample size is small, the results cannot be generalised to the larger population of African SMMEs. Third, the study provides findings of the impact of Covid-19 based on the self-reported data rather than actual financial figures recorded by the SMMEs. Finally, the sample size of the BDS providers is small, indicating a need for future research to explore how they have supported SMMEs during the crisis period.

## 2.4 DEMOGRAPHICS OF THE RESEARCH PARTICIPANTS

Location: The majority (58,3%) of the participants were South African-based entrepreneurs, and 41,7% were from other African countries. Uganda (9,4%) and Kenya (8,3%) had the highest representations outside of South Africa. Over 60% of the participants operate and live in urban areas, compared to 39,6% who operate and live in peri-urban / rural areas.

Gender and age group: There were more female (59,4%) than male SMME owners (40,6%) in the sample pool. The proportion of young (52.6%) (younger than 35 years old) participants was a little higher than older participants (47,4%) (35 years and older). The age distribution was more balanced among the female participants than the male sample, where 55% of the male participants were under 35 years old compared to 45% who were older participants.

Sector of the business: The sector distribution was relatively balanced, although agriculture (15,6%), other sector activities (12.5%), and information and communication (ICT) (11,5%) had the highest percentage of participating enterprises. The least represented sectors in this study were administration and support (1 participant), electricity (1), and wholesale and retail (2 participants). Across both South African and Non-South African participating enterprises, agriculture was the most frequently represented among the participating enterprises. In South Africa, agricultural sector enterprises were represented by 14,3% (8/56), and non-South African countries were represented by 17,5% (7/40).

Business by Age: Most of the enterprises (43,8%) participating in our study had been in operation for between 3 to 6 years. This study had a good representation of mature (older) enterprises in the sector. Newer enterprises that had been in existence for between 0 to 3 years had the second highest number of participants with 33,3%, and enterprises that were older than 6 years accounted for 22,9% of the participants. The oldest enterprise in our sample was older than 25 years.

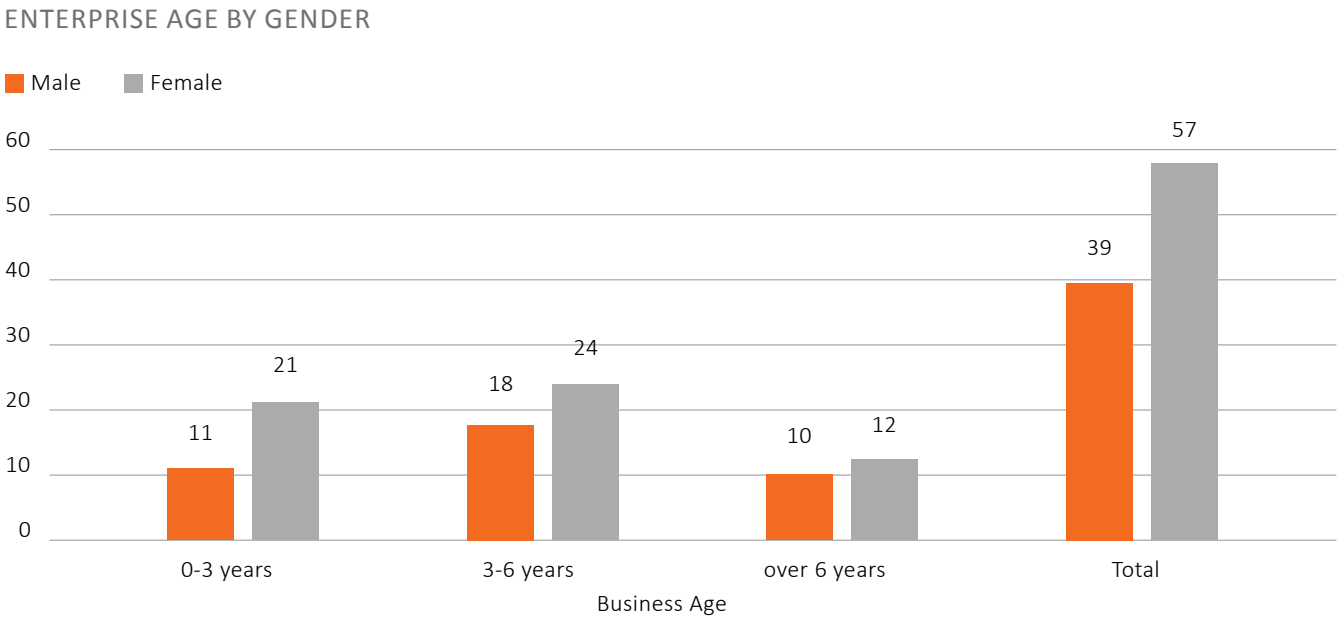


*Figure 1: Business age and entrepreneur's gender*

Annual revenue, and enterprise age: The enterprise size by annual revenue showed a different balance of sizes across the different sizes. As expected, Table 2 shows that enterprises generating R0 to R 300 000 ($0 to $20 000) annual revenue were the highest in number. It was interesting to note that enterprises generating an annual revenue of R1 million ($66 667) or more had the second highest frequency of enterprises participating in this study. It should be noted that most of these larger enterprises were male owned. Enterprises that had been in existence for between 3 to 6 years had at 43%, while enterprises older than 6 years had the lowest frequency of enterprises with 22%.

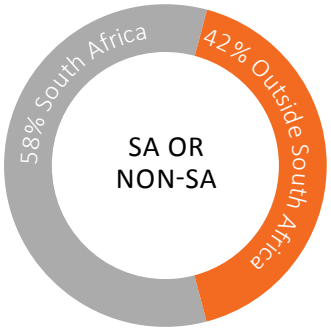


*Figure 2: Country representation*

| SIZE BY REVENUE (RANDS) VS GENDER CROSSTABULATION | | | | |
|---|---|---|---|---|
| | | GENDER | | TOTAL |
| | | MALE | FEMALE | |
| Size by Revenue Rands | 0-300k | 13 | 39 | 52 |
| | 301k-525k | 7 | 8 | 15 |
| | 525k - 1 million | 3 | 5 | 8 |
| | over 1 million | 16 | 5 | 21 |
| Total | | 39 | 57 | 96 |

*Table 1: Gender and enterprise revenue*

| GENDER * COUNTRY: SOUTH AFRICA VS NON-SA CROSSTAB | | | | |
|---|---|---|---|---|
| COUNT | | | | |
| SOUTH AFRICA | | COUNTRY: SA OR NON-SA | | TOTAL |
| | | NON-SOUTH AFRICA | | |
| Gender | Male | 23 | 16 | 39 |
| | Female | 33 | 24 | 57 |
| Total | | 56 | 40 | 96 |

*Table 2: Gender and country*

# 3. FINDINGS

## 3.1 COVID-19 AS THE MOST IMPACTFUL MACRO-ECONOMIC CHALLENGE

Businesses do not exist and operate in a vacuum, and therefore, several factors influence the rate of survival and the level of business performance achieved. These factors can be divided into internal (micro) and external (market and macro) economic or environment factors. Microeconomic factors such as a company vision, its business model, or members of its team, are within the control of the business, whereas macroeconomic factors such as a pandemic, national crisis, inflation rates, and load shedding or economic recession are not. The businesses that survive and achieve great performance levels are those that can manage both the environments and manage to mitigate against the risks that are posed by factors outside their control.

In our study, we asked the participants to rank the general negative impact of macroeconomic factors from a ranking of 1 to 5, where 1 is the worst impact and 5 is having the least impact. When we compared the negative impact of Covid-19 to other macroeconomic factors that had a negative impact on small enterprises in Africa, we found that more than half (58,33%) of the sample in our study ranked Covid-19 as having the worst impact, with an average mean of 1.74. The impact of Covid-19 is demonstrated by the gap between Covid-19 and the closest-ranked economic factor, economic recession with a mean of 2.71. The average ranking for South African enterprises compared to non-South African enterprises is worse [Figure 3]. The impact of Covid-19 on South African enterprises can be seen as being exacerbated by the persistent lockdown restrictions that started much earlier than those applied in other African countries. Stricter trade restrictions have also hampered these enterprises on their ability to trade their products and services, whereas other economic factors do not have restrictions on trade.



CHALLENGING MACRO-ECONOMIC FACTORS

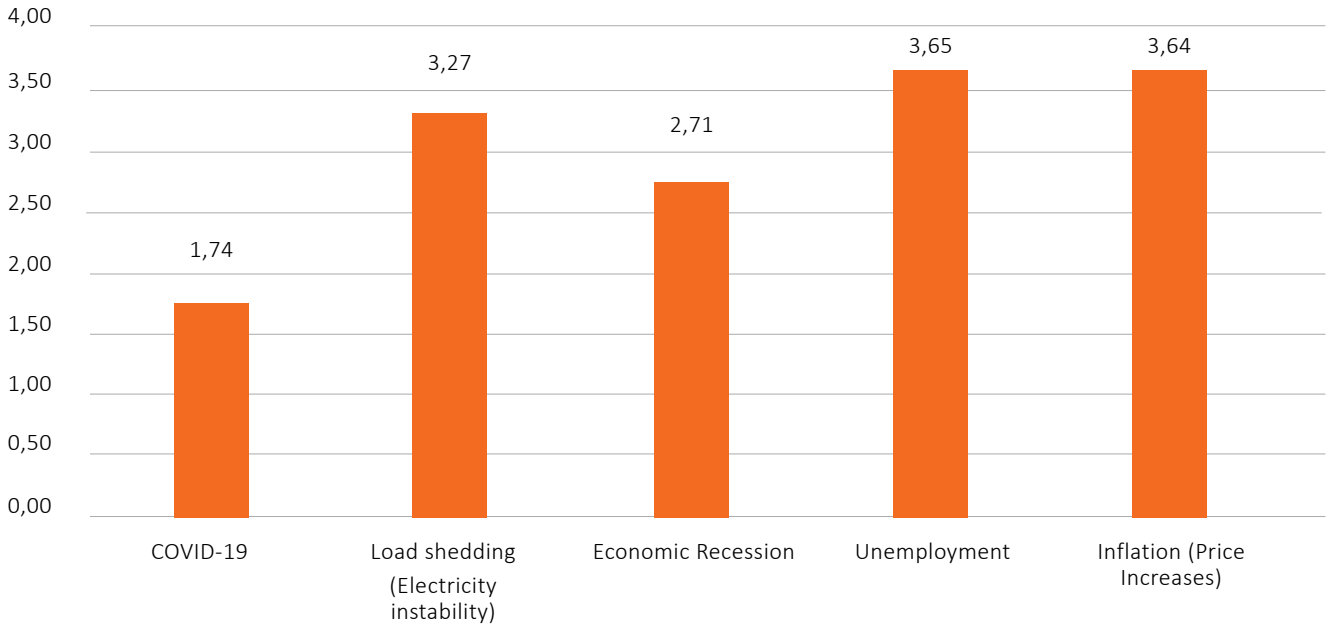


*Figure 3: The Impact of Macro-Economic Factors*

Scale: 1 having the worst possible impact and 5 having the least adverse impact.

In addition to the impact of Covid-19, SMMEs have had a difficult time surviving other additional factors outside of their control. The GEM Report of 2017/2018 reveals that 94,7% of business failures in South Africa were for reasons other than retirement or business sales (African average 96,3%) (Herrington & Kew, 2018). These numbers are against a backdrop of an already dire survival rate of SMMEs in South Africa, which recorded that just a third of businesses that had started being able to survive their first year in existence, and only about 9% of those making it to their 10th year in business (Herrington & Kew , 2018).

Covid-19, as a global pandemic, adds yet another factor that is beyond the control of businesses, with an even bigger impact on the economy through its consequences of illness and lives lost, which has caused an unexpected disruption to our normal way of life, the type of businesses we run, and the way in which businesses are run. In addition to Covid-19, small businesses will have to have had to contend prevailing macroeconomic challenges such as extended and disruptive load shedding, economic recessions, increasing unemployment, and rising import prices.

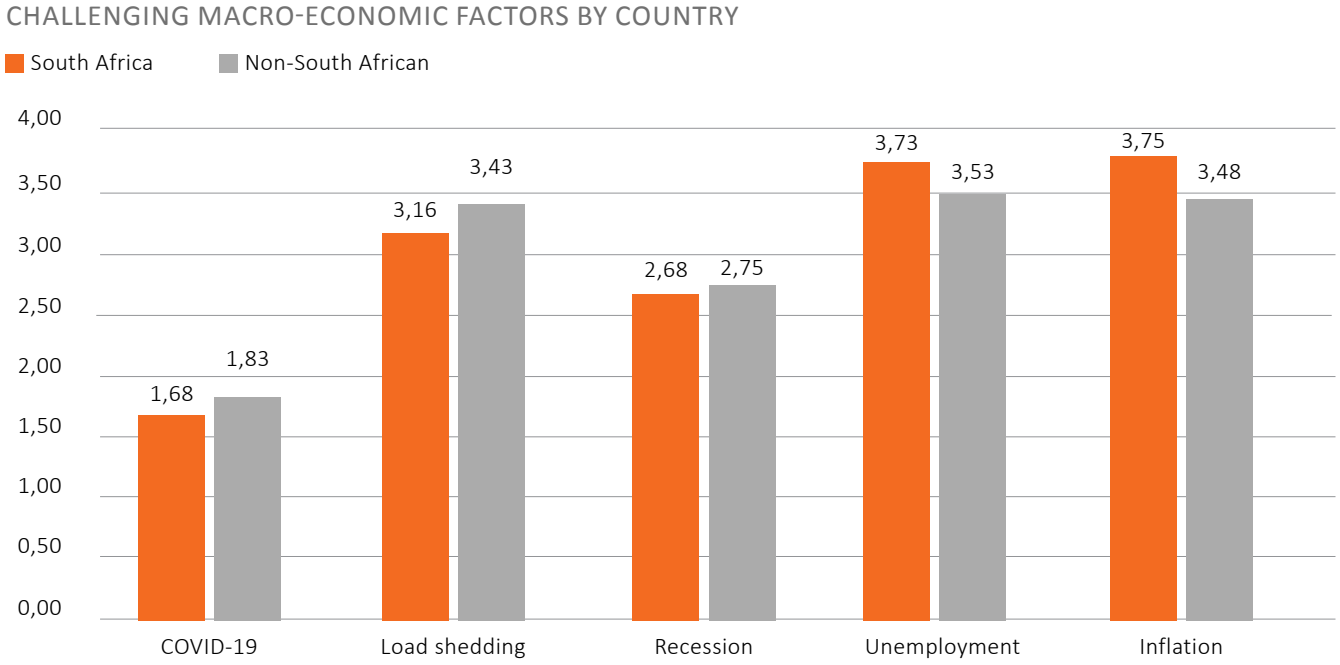


*Figure 4: Challenging Macro-economic Factors by Country*

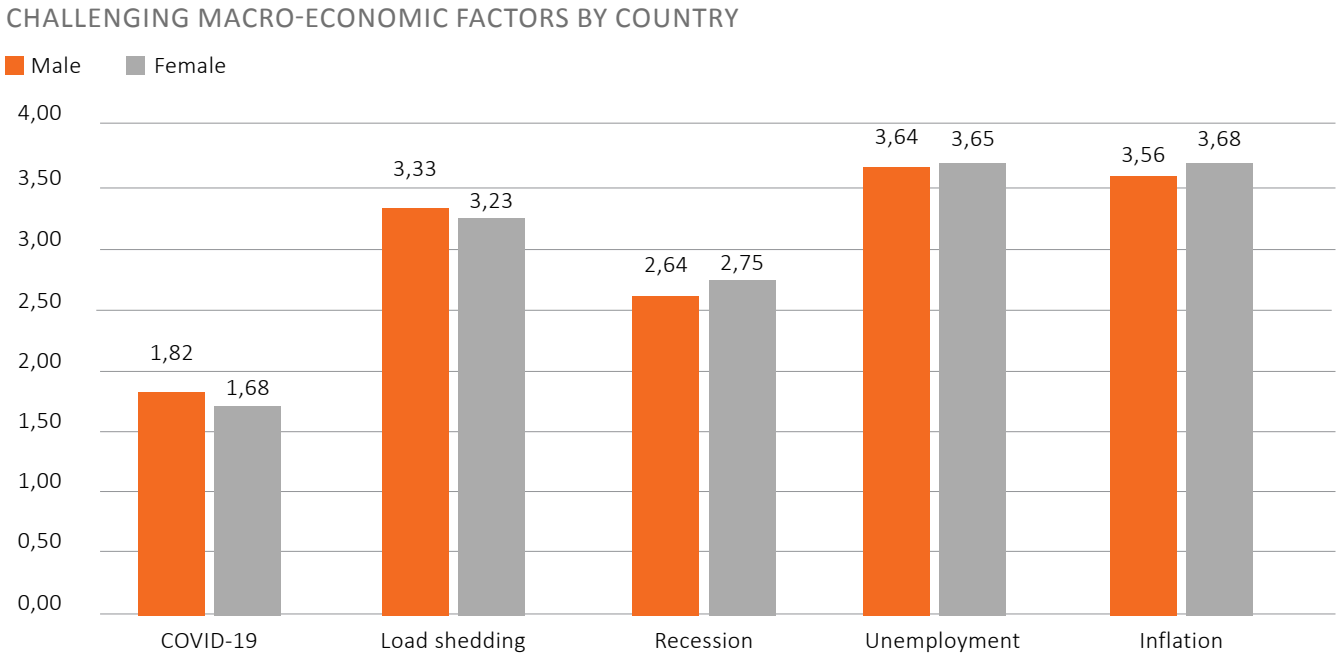


*Figure 5: Challenging Macro-economic Factors by Gender*

### 3.1.1 EXTENT OF COVID-19 IMPACT ON SMALL BUSINESSES

We asked the participants to rate the immediate impact of Covid-19 on their businesses since the beginning of March 2020 on a scale of 1 = "No impact at all" to 5 = "Had to close indefinitely". A noteworthy number (36%) of the participating entrepreneurs had to close their businesses indefinitely. Most of these enterprises were South African based and female-led businesses. In South Africa, the impact of the Covid-19 pandemic was aggravated by the persistent lockdown restrictions that only allowed essential sectors to remain open and active during the lockdown. These sectors were limited to medical and laboratory services; food and beverage production; financial and insurance services; disaster management, fire fighting, and emergency services; financial services necessary to maintain the functioning of banking and payments environment, including the JSE and similar exchanges; electricity, water, gas, and fuel production, supply, and maintenance.

| IMPACT OF COVID-19 SINCE MARCH | GENDER | | COUNTRY | | PERCENT | TOTAL |
|---|---|---|---|---|---|---|
| | MALE | FEMALE | SOUTH AFRICAN | NON-SOUTH AFRICAN | | |
| 1 = No Impact at all | 0 | 2 | 2 | 0 | 2% | 2 |
| 2 | 3 | 9 | 5 | 7 | 13% | 12 |
| 3 | 11 | 14 | 13 | 12 | 26% | 25 |
| 4 | 10 | 12 | 14 | 8 | 23% | 22 |
| 5 = Had to close indefinitely | 15 | 20 | 22 | 13 | 36% | 35 |
| Total | 39 | 57 | 56 | 40 | 100% | 96 |

*Table 3: Impact of Covid-19 since March*

We also wanted to discover the impact of the Covid-19 pandemic beyond March 2020. In emerging economies, where the small business economy is largely informal and already has limited to no access to operational and growth funding, the severe impact of containment measures has led to business closures and job losses. This study's findings show that more than seventeen percent (17,7%) of the enterprises were strongly considering closing their enterprises for the remainder of the year or during the remainder of the year, with another fifth (21,9%) claiming they were forced to reduce their current staff complement to counter the impact of the Covid-19 pandemic on their enterprise's sustainability. This directly contributes to the growing level of unemployment on the African continent. Of the 21 enterprises that were considering reducing their current staff numbers, 61% (13 of the 21) were female-led enterprises. Enterprises making less than R300 000 (+- $20 000) were the hardest hit by the Covid-19 pandemic, and they were the firms that were most likely to close down altogether or at least reduce staff. Of the 21 and 17 enterprises, respectively, that were likely to reduce the number of employees or close their businesses, 43% (9/21) and 53% (9/17), respectively, were from this annual revenue category.

However, at the same time, it is encouraging to see that more than a third of the enterprises' (35,4%) entrepreneurs have looked at alternative business models, products and services to ensure the sustainability of their businesses during this challenging economic time. Most of these enterprises were South African enterprises (21/34), female-led enterprises (22/34), or enterprises that were making less than R300 000 in annual revenue per year (22/34). Smaller enterprises (less than R300 000 annual turnover) had fewer employees and thus also a less formal bureaucratic process, and thus could pivot or adapt faster to challenging circumstances than larger enterprises.

For several enterprises in the South African manufacturing sector, the lockdown restrictions have hampered their productivity, production capacity, and delivery of goods to clients. Enterprises outside of South Africa noted a change in consumer behaviour due to the Covid-19 pandemic, which resulted in a lower demand for their goods and services. The knock-on effects from clients' behaviours also hugely affected the sales for small enterprises.

**"IT IS NOT THE STRONGEST OF THE SPECIES THAT SURVIVES, NOR THE MOST INTELLIGENT THAT SURVIVES. IT IS THE ONE THAT IS MOST ADAPTABLE TO CHANGE."**

— Charles Darwin

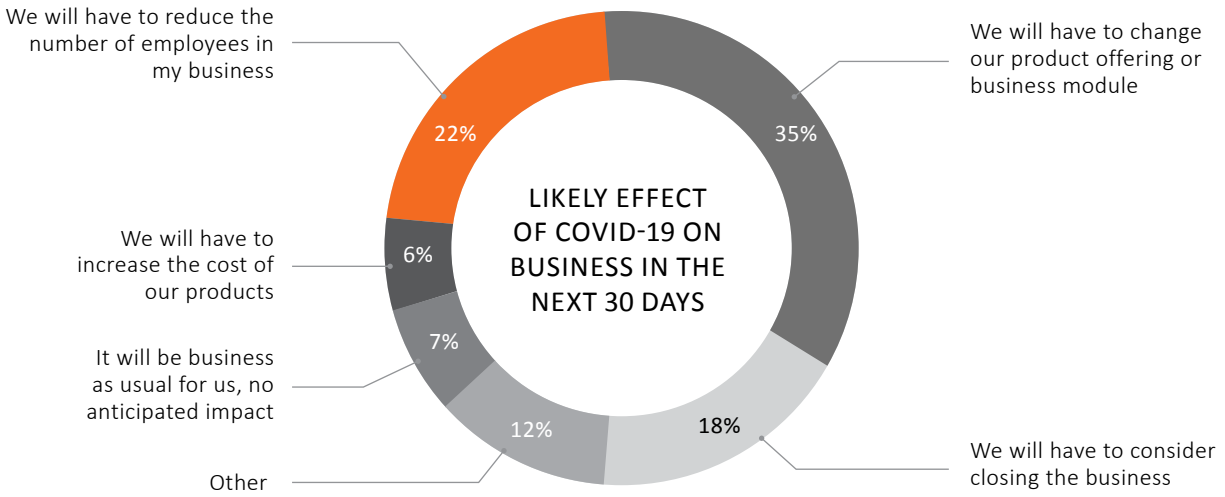


*Figure 6: Likely effect of Covid-19 on business in the next 30 days (fix We'll to We will, fix business a to as)*



| LIKELY EFFECT OF COVID-19 ON BUSINESS IN THE NEXT 30 DAYS | GENDER | | COUNTRY | | SIZE BY REVENUE | | | | PERCENT | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| | MALE | FEMALE | SOUTH AFRICA | NON-SOUTH AFRICA | 0-300K | 301K-525K | 525K- 1 MILLION | OVER 1 MILLION | | |
| It will be business as usual for us, no anticipated impact. | 4 | 3 | 5 | 2 | 4 | 1 | 0 | 2 | 7.3% | 7 |
| We will have to increase the cost of our products | 5 | 1 | 2 | 4 | 2 | 0 | 1 | 3 | 6.3% | 6 |
| We will have to reduce the number of employees in my business | 8 | 13 | 10 | 11 | 9 | 6 | 2 | 4 | 21.9% | 21 |
| We will have to change our product offering / or business model | 12 | 22 | 21 | 13 | 22 | 6 | 4 | 2 | 35.4% | 34 |
| We will have to consider closing the business | 7 | 10 | 10 | 7 | 9 | 0 | 1 | 7 | 17.7% | 17 |
| Other | 3 | 8 | 8 | 3 | 6 | 2 | 0 | 3 | 11.5% | 11 |
| TOTAL | 39 | 57 | 56 | 40 | 52 | 15 | 8 | 21 | 100% | 96 |

*Table 4: Likely effect of Covid-19 on business in the next 30 days*

### 3.1.2 COVID-19 AND REVENUE

It can be safely assumed that enterprises with low annual revenues may have limited savings required to cover operational expenses outside of income earned. The participants in this survey were asked to rate the short-term (less than three months) impact of the Covid-19 pandemic on their business revenue on a scale of 1 to 7, with 1 being a revenue increase of 20% or more, 4 being "No impact to our revenue" and 7 being "a revenue decrease of 20% or more". Table 5 shows that more than 80% of the enterprises will see a decline in their revenue during the Covid-19 pandemic, and 54.7% expect to see a drastic decline (more than 20%) in their revenue. Enterprises achieving an annual revenue of R300 000 ($20 000) fear that they will be losing the most revenue. It is also not surprising to see that even small changes to the revenue for these firms will cause a huge dent on the revenue growth, because of their low starting revenue base. Other groups that are likely to experience revenue losses are the female-led enterprises It was interesting to note that three South African enterprises that had been operational for about 3 to 6 years were the only enterprises that expected to see an increase in their revenue.

The Covid-19 pandemic has caused decreased economic activities, which in turn has resulted in a loss of income for big and small businesses; however, big businesses more often have access to retained earnings from previous profits, find it easier to be granted credit from financial institutions, and capital from current or prospective investors that they can use to survive this period. Small businesses, on the other hand, who mostly rely on friends and family for capital raising or side-hustles, are dealing with the challenge of 'drying up' of avenues as they lose their side jobs, and their friends and families are also experiencing financial difficulties. With a reported 2.44 million SMMEs in South Africa employing one (the entrepreneur) to three people, this loss of revenue means a decline of an already low income for millions of households, which could eventually, without any much-needed interventions taking place, lead to a permanent loss of income (SEDA, 2020).

| LIKELY IMPACT OF COVID-19 ON YOUR REVENUE IN 30 DAY | GENDER | | COUNTRY | | PERCENT | TOTAL |
|---|---|---|---|---|---|---|
| | MALE | FEMALE | SOUTH AFRICA | NON-SOUTH AFRICA | | |
| Increase by 10- 20% | 0 | 0 | 0 | 0 | 0% | 0 |
| Increase by 10- 20% | 2 | 0 | 2 | 0 | 2.1% | 2 |
| Increase by less than 10% | 0 | 1 | 1 | 0 | 1.1% | 1 |
| No impact to our revenue (remain constant) | 3 | 5 | 5 | 3 | 8.4% | 8 |
| Reduce by less than 10% | 4 | 5 | 6 | 3 | 9.5% | 9 |
| Reduce by 10- 20% | 7 | 9 | 7 | 9 | 16.8% | 16 |
| Reduce by more than 20% | 20 | 32 | 29 | 23 | 54.7% | 52 |
| Other (Please specify) | 2 | 5 | 5 | 2 | 7.4% | 7 |
| TOTAL | 38 | 57 | 55 | 40 | 100.0% | 95 |

*Table 5: Likely impact of Covid-19 on your revenue in 30 days by Gender and Country*

| LIKELY IMPACT OF COVID-19 ON YOUR REVENUE IN 30 DAYS | SIZE BY REVENUE | | | | TOTAL |
|---|---|---|---|---|---|
| | 0-300K | 301K-525K | 525K-1 MILLION | OVER 1 MILLION | |
| Increase by 10- 20% | 0 | 1 | 0 | 1 | 2 |
| Increase by less than 10% | 1 | 0 | 0 | 0 | 1 |
| No impact to our revenue (remain constant) | 5 | 1 | 0 | 2 | 8 |
| Reduce by less than 10% | 6 | 1 | 0 | 2 | 9 |
| Reduce by 10- 20% | 9 | 2 | 1 | 4 | 16 |
| Reduce by more than 20% | 28 | 8 | 5 | 11 | 52 |
| Other (Please specify) | 3 | 1 | 2 | 1 | 7 |
| TOTAL | 52 | 14 | 8 | 21 | 95 |

*Table 6: Likely impact of Covid-19 on your revenue in 30 days by Revenue*

### 3.1.3 COVID-19 AND EMPLOYMENT

With a prolonged loss of revenue comes an inevitable loss of jobs as businesses liquidate and close. When analysing the short-term (within 30 days) impact of the Covid-19 pandemic on staff, our study found that two-thirds (66.3%) of the enterprises had to make immediate cuts to the staff level. Although the South African Government has created specific measures and benefits to assist small businesses through the Unemployment Insurance Fund and the Temporary Employee/Employer Relief Scheme, not all small enterprises would qualify for these measures due to various registration and legal reasons. This fact has led to enterprises not accessing the benefits created by government in response to the Covid-19 pandemic. Only twenty-one percent (21,1%) of the enterprises did not make changes to their staff numbers. Almost two thirds (20/31) of the participating enterprises that had to reduce staff by more than 20% were female-led enterprises compared to only 11/31 of their male counterparts. There were no major differences when we compared the impact of the Covid-19 pandemic by country.

Our findings highlight the practitioners' estimations that the world's job security is under threat. For example, the world's strongest economy, the United States, reported 36.5 million unemployment claims over the past eight weeks as at 14 May 2020 (US Labour Department, 2020), and a 9,7% increase in the unemployment rate to 13,3% at the end of May 2020 (Trading Economics; 2020). For emerging economies such as South Africa, a country with limited own financial resources, impacts on job numbers and job security are expected to be much more severe. The impact of the Covid-19 pandemic on employment numbers was predicted by the different governmental departments and organisations. For example, the South African Treasury Department's best-case scenario is a loss of 3 million jobs and an increase in the already high unemployment rate from 29% to 38% (Naidoo, 2020). TransUnion, a credit rating agency in South Africa, has already released results of a survey, showing 14% of people reporting job losses in April 2020; in addition, 37% of people have had to take pay cuts, as businesses are trying to keep afloat in the midst of a closed economy (TransUnion, 2020).

SMMEs employ a significant number of people, with a reported 2 to 5 people being employed per SMME (SME Africa, 2020). Individually, these numbers are insignificant; however, collectively, looking at the SMME economy, the eminent loss of SMME-contributed jobs will be in the millions, and will be catastrophic to the economy, especially in consideration of the nature of those jobs, and the levels of income earned by people employed by SMMEs. The impact on SMME-contributed jobs is likely to be felt fully only in 30 days and more post the implementation of the containment measures by government, due to the limited available savings and access to financial relief for micro and small businesses.

| LIKELY IMPACT OF COVID-19 ON STAFF / EMPLOYMENT IN THE NEXT 30 DAYS | | FREQUENCY | VALID PERCENT | CUMULATIVE PERCENT |
|---|---|---|---|---|
| Valid | Increase by 20%+ | 3 | 3.2 | 3.2 |
| | Increase by less than 10% | 1 | 1.1 | 4.2 |
| | No impact to our employment (remain constant) | 20 | 21.1 | 25.3 |
| | Reduce by less than 10% | 12 | 12.6 | 37.9 |
| | Reduce by 10- 20% | 20 | 21.1 | 58.9 |
| | Reduce by more than 20% | 31 | 32.6 | 91.6 |
| | Other (Please specify) | 8 | 8.4 | 100.0 |
| | TOTAL | 95 | 100.0 | |

*Table7: Likely impact of Covid-19 on staff / employment in the next 30 days*

| LIKELY IMPACT OF COVID-19ON STAFF / EMPLOYMENT IN THE NEXT 30 DAYS | GENDER | | COUNTRY | | TOTAL |
|---|---|---|---|---|---|
| | MALE | FEMALE | SOUTH AFRICA | NON-SOUTH AFRICAN | |
| Increase by 20%+ | 2 | 1 | 2 | 1 | 3 |
| Increase by less than 10% | 1 | 0 | 1 | 0 | 1 |
| No impact to our employment (remain constant) | 8 | 12 | 13 | 7 | 20 |
| Reduce by less than 10% | 5 | 7 | 6 | 6 | 12 |
| Reduce by 10- 20% | 9 | 11 | 10 | 10 | 20 |
| Reduce by more than 20% | 11 | 20 | 16 | 15 | 31 |
| Other | 2 | 6 | 7 | 1 | 8 |
| TOTAL | 38 | 57 | 55 | 40 | 95 |

*Table 8: Likely impact of Covid-19 on staff / employment in the next 30 days by Gender and Country*

| LIKELY IMPACT OF COVID-19 ON STAFF / EMPLOYMENT IN THE NEXT 30 DAYS | SIZE BY REVENUE | | | | TOTAL |
|---|---|---|---|---|---|
| | 0-300K | 301K-525K | 525K- 1 MILLION | OVER 1 MILLION | |
| Increase by 20%+ | 1 | 0 | 0 | 2 | 3 |
| Increase by less than 10% | 0 | 1 | 0 | 0 | 1 |
| No impact to our employment (remain constant) | 11 | 1 | 2 | 6 | 20 |
| Reduce by less than 10% | 8 | 2 | 1 | 1 | 12 |
| Reduce by 10- 20% | 11 | 3 | 2 | 4 | 20 |
| Reduce by more than 20% | 14 | 7 | 2 | 8 | 31 |
| Other (Please specify) | 7 | 0 | 1 | 0 | 8 |
| TOTAL | 52 | 14 | 8 | 21 | 95 |

*Table 9: Likely impact of Covid-19 on staff / employment in the next 30 days by Revenue*

## 3.2 SMES' STRATEGIES TO DEAL WITH COVID-19

There are various strategies that emerging market entrepreneurs can use to deal with the Covid-19 crisis. Entrepreneurs were asked to explain in a qualitative manner what strategies they have used to date to mitigate the impact of the Covid-19 pandemic on their enterprises. A quarter (22.8%) of the entrepreneurs decided to mitigate the impact of the Covid-19 pandemic by ideating with their teams and adjusting their business model. Most these entrepreneurs made adjustments that were likely to ensure some cash flow during the time of the Covid-19 pandemic; this includes selling of PPE equipment or pivoting into business activities that ensure that they are classified as essential services. It is encouraging to see that some enterprises had also already started applying for financial assistance from the various instruments available. Other popular strategies include instruction of flexible working hours, continuing business as usual but with additional precautionary measures for staff, and postponed business activities. Smaller enterprises (annual revenue of R300 000 and less) were mostly operating during the Covid-19 pandemic, because they implemented a number of strategies to ensure the sustainability of their enterprises. They continued with 'business as usual', but with the addition of precautionary measures for staff, they postponed some business activities, and a large number of them changed their business model towards business activities that ensured that they were relevant during the Covid-19 pandemic and allowed to operate.

MITIGATION STRATEGIES THEMATIC

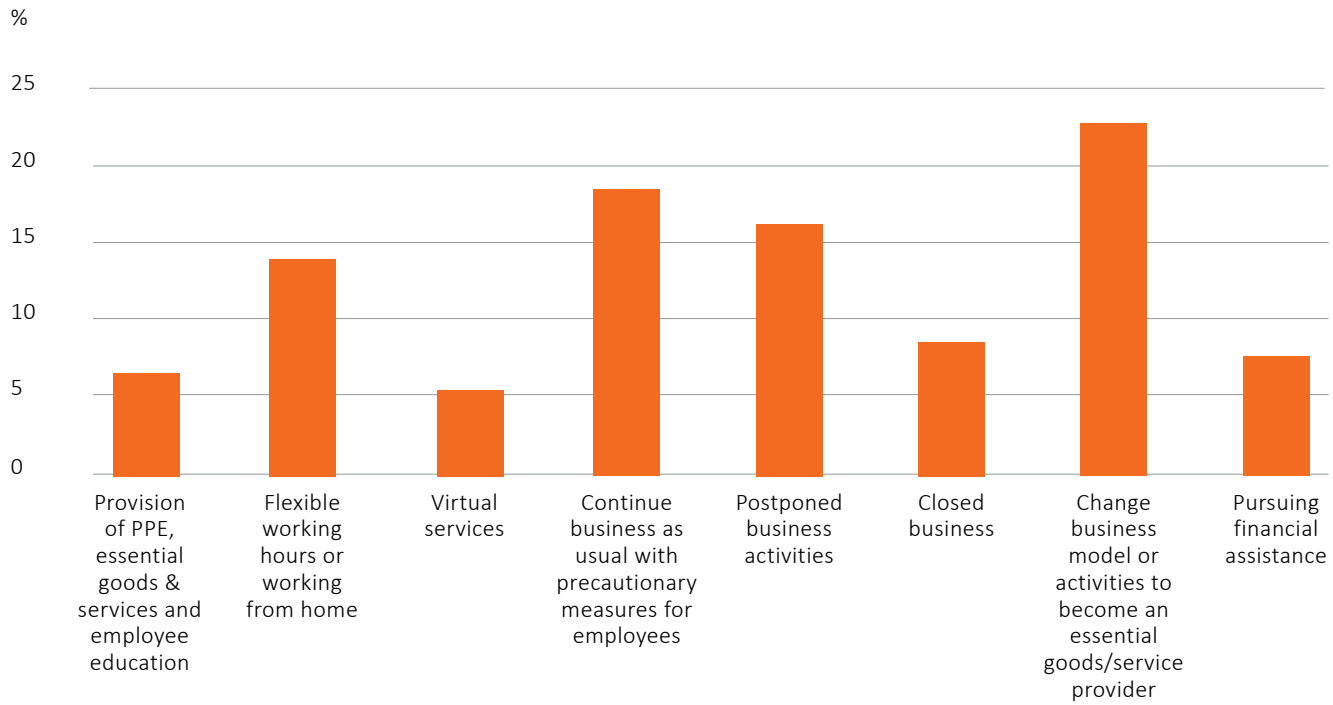


*Figure 7: Risk mitigation strategies adopted by small enterprises, themes*

In addition to business-related strategies, entrepreneurs must incorporate psychological strategies such as including reactiveness, ideally proactiveness, and self-regulation, all factors that influence how they respond to a crisis. If these strategies are in place, then entrepreneurs will be able to implement business related strategies such as organisational agility and adaptability, financial efficiency, technological innovation, and building business networks. Understanding how entrepreneurs deal with uncertainties is important for policymakers, funding organisations, and academic institutions, so that there can be measures put in place to support the small businesses' contribution to economic development (Dinger, Conger, Hekman, & Bustamante, 2019).), venture creation, and the creation of job opportunities (Bullough & Renko, 2013).

| MITIGATION STRATEGIES | SIZE BY REVENUE (RANDS) | | | | TOTAL |
|---|---|---|---|---|---|
| | 0-300K | 301K-525K | 525K-1 MILLION | OVER 1 MILLION | |
| Provision of PPE, essential goods & services, and education | 3 | 0 | 0 | 3 | 6 |
| Flexible working hours or working from home | 6 | 4 | 0 | 3 | 13 |
| Virtual services | 3 | 0 | 1 | 1 | 5 |
| Continue business as usual with additional precautionary measures for staff | 12 | 2 | 2 | 1 | 17 |
| Postponed business activities | 10 | 1 | 1 | 3 | 15 |
| Closed business | 3 | 2 | 1 | 2 | 8 |
| Change business model or activities to become essential goods/services provider | 11 | 4 | 3 | 3 | 21 |
| Pursuing financial assistance | 2 | 1 | 0 | 4 | 7 |
| TOTAL | 50 | 14 | 8 | 20 | 92 |

*Table 10: Mitigation Strategies by Revenue*

## 3.3 SUPPORT REQUIRED BY SMES

SMEs are important to any economy, more so to emerging ones. The vulnerability of SMMEs is also highlighted in a time such as this, where access to credit and short to medium-term operational finance, in the midst of a declined consumer base, will mean the difference between the survival of a business and its permanent closure. However, the lack of access to funding has been the number one reported reason for business failures, even without a global health crisis in effect. Therefore, there must be sufficient support that SMMEs can request from their entrepreneurial ecosystems. At the same time, such support must be offered either as grants or at worst as loans with a very low interest rate being charged, as all other alternatives, where high interest rates are being charged, merely defer the closure of such business, when they are unable to repay the loans.

Our findings show that just more than half (53,1%) of the entrepreneurs felt that they needed financial support to cover operational expenses during the Covid-19 pandemic; they believe that this would improve their chances of the enterprise's sustainability during the crisis, as they would not be able to generate revenue during this pandemic. Twenty-nine percent (29%) of the entrepreneurs needed customers to buy their products and services. Although banks and other financial institutions have made provisions to give small businesses some debt relief during the Covid-19 pandemic, only 7,3% of the entrepreneurs needed a payment holiday. Entrepreneurs who selected other options, stipulated that they needed measures that would ensure that would meet their customers' or contract demands.

| | | FREQUENCY | PERCENT | VALID PERCENT | CUMULATIVE PERCENT |
|---|---|---|---|---|---|
| Valid | I need funding/financing to cover operational expenses | 51 | 53.1 | 53.1 | 53.1 |
| | I need an extension on the debts and expenses I need to repay (payment holiday) | 7 | 7.3 | 7.3 | 60.4 |
| | I need a bank overdraft | 5 | 5.2 | 5.2 | 65.6 |
| | I need people to buy from my business | 28 | 29.2 | 29.2 | 94.8 |
| | Other (Please specify) | 5 | 5.2 | 5.2 | 100.0 |
| | TOTAL | 96 | 100.0 | 100.0 | |

*Table 11: Support for Business Survival*

| WHAT SUPPORT DO YOU SPECIFICALLY NEED AT THIS TIME TO HELP YOUR BUSINESS TO SURVIVE THIS PERIOD? | COUNTRY | | TOTAL |
|---|---|---|---|
| | SOUTH AFRICA | NON-SOUTH AFRICA | |
| I need funding / financing to cover operational expenses | 31 | 20 | 51 |
| I need an extension on the debts and expenses I need to repay (payment holiday) | 6 | 1 | 7 |
| I need a bank overdraft | 4 | 1 | 5 |
| I need people to buy from my business | 11 | 17 | 28 |
| Other (Please specify) | 4 | 1 | 5 |
| TOTAL | 56 | 40 | 96 |

*Table 12: Support required for Business Survival by Country*

Entrepreneurial support across the continent has been largely focused on capacity development, due to the view that many first-time entrepreneurs do not have the skills required to run and grow a business. These micro-environment targeted interventions sought to increase the entrepreneur's capacity to make informed decisions and grow from the inside-out. However, when the biggest threat to a business' growth or survival is external, there is need for external interventions that would help the businesses withstand such external pressures. Actual finance in the form of loans, grants, and finance-related interventions such loan guarantees, payment holidays on fixed expenses, and the government's employment relief programme, which pays salaries for affected businesses by using the UIF fund, are what is required to help businesses continue their operations for the foreseeable future.

It is well-known that one of the worst affected sectors worldwide is the tourism industry, due the local and international travel restrictions. In turn, tourism has a ripple effect on several other sectors that feed directly / indirectly into its supply chain; these include transport, food, entertainment, etc. Regardless of the overwhelming support from lenders extending loans to small businesses, we still found that most enterprises needed two things to ensure business sustainability: funding to cover operational expenses, and customers. The ICT sector was the sector that needed debt extension (a payment holiday) more than other sectors. Most agricultural and manufacturing enterprises needed funding to cover their operational expenses.

## 3.4 BDS PROVIDERS' PERSPECTIVES

The negative impact the Covid-19 pandemic and the subsequent lockdown restrictions had dire consequences for small enterprises in South Africa and the African continent, and the need for assistance has never been as critical as it is today. This pandemic and the lockdown have not only led to a change in how small businesses run their enterprises, but it has also affected how accelerators, incubators, public and private institutions deliver their small business support interventions. Government and private institutions have made available funds to ensure the sustainability of small enterprises. Incubators and accelerators have changed the focus and the way they deliver support interventions towards a response to the Covid-19 pandemic. In this section, we look at the response that some BDS providers (incubators and accelerators) have had to the Covid-19 crisis.

All the BDS providers we surveyed changed their business models and focus towards a response to the Covid-19 crisis. This change in focus was made to alleviate the impact of the pandemic and the lockdown on the small enterprises that they were supporting. They were assisting small enterprises with accessing urgent funding available and developing a new business strategy or pivoting towards the products and services that would not be affected by the crisis, and which would ensure that these businesses have the necessary cash flow, and were able to meet their monthly expenses. This is in line with comments from small businesses that had pivoted towards the provision of essential goods and services. Other strategies included pre-orders (pre-paid) for goods and services.

When asked how other stakeholders could assist during the pandemic, all agreed that finance made available for small enterprises has and will make a huge impact. Others noted that it is also important to support local products, and pay small enterprises on time as this would improve their cash flow. Most BDS providers highlighted better collaborations between all institutions supporting small business as being a key driver to ensure that they alleviate the impact of the Covid-19 pandemic and the lockdown on small business. Collaboration would minimise duplications and ensure the efficient application of the limited resources available.

# 4. RECOMMENDATIONS

Recommendations for entrepreneurs are that they must be resilient by implementing the following strategies:

- Build personal resilience and courage;
- Develop a strategic plan in response to the crisis;
- Be adaptable and flexible to introduce change;
- Implement a pre-written contingency plan;
- Innovate the business model;
- Introduce flexible work schedules and remote working plans;
- Opt for co-opetition rather than competition;
- Seek help and resources from colleagues or informal support networks;
- Seek specialist advice or help to navigate through the difficult challenges;
- Use financial reserves or other financial provision such as a bank loan, and insurance policy; and
- Formalise and follow the necessary labour laws and other related legislations so that they can easily access funding during emergencies.
- Recommendations for BDS providers:
- Understand the SMMEs' key needs and design programmes to meet those needs;
- Introduce subjects on building resilience and agility within the business;
- Help entrepreneurs to rebuild and innovate their business models to be relevant;
- Introduce networks or the community of practice that entrepreneurs can use to get help;
- Provide content that is customised for types of businesses and according to the different industries;
- Create more links for entrepreneurs with funding institutions;
- Collaborate with government and the private sector to have a more targeted approach to empower SMMEs.



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