



IMPACT OF COVID – 19 ON SMALL MEDIUM AND MICRO ENTERPRISES SINCE LOCKDOWN

Survey Report: National Youth Development Agency Unit
September 2020

A PRESIDENTIAL
YOUTH EMPLOYMENT
INTERVENTION





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Waseem Carrim
Chief Executive Officer

Foreword by CEO

The COVID-19 pandemic is an unprecedented global crisis, affecting human health and economic welfare across the globe. It is first and foremost a health crisis, with governments around the world taking measures to prevent the spread of the virus. Yet the pandemic has also resulted in a planet-wide economic slowdown, affecting trade, investment, growth and employment.

Although the pandemic has affected every corner of the world, the economic earthquake unleashed by COVID-19 does not affect everyone in the same way. With fewer resources to ride out the storm, Small Medium and Micro owned Businesses have been particularly vulnerable to the repercussions of the crisis.

The experience and evidence collected during the past six (6) months of the lockdown have been compiled in this report. We hope it will serve businesses, business support organisations and governments to understand better the economic effects ahead and to design the most effective responses. The report goes beyond the immediate crisis response by looking into the future.

The economic ramifications of the pandemic have been felt a great deal, with workers and customers staying indoors, and major global disruptions in supply chains by lockdown. The NYDA Business Survey analyses the impact of the pandemic on SMMEs, by assessing the 1000 Businesses in 100 days beneficiaries' companies.

The research provides action plan for businesses, government policymakers and business support organizations to weather the crisis – and gear up for a 'new normal' that needs to be resilient, digital, innovative inclusive and sustainable.

Executive Summary

Small companies tend to be vulnerable during an economic crisis, in part because they have fewer resources with which to adapt to a changing context.

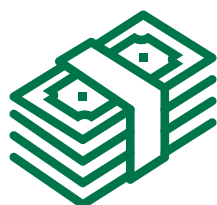


There are over 2 million micro small businesses. Most are in the informal sector. The National Development Plan (NDP) envisions that by 2030, 9 out of 10 new jobs will be generated by micro, small and medium businesses.

The NYDA Small Business Impact Survey gathered evidence from 54 youth owned small businesses across South Africa, sampled from the 1000 Business in 100 Days beneficiary's initiative pronounced by the President during the State of the Nation Address (SONA).



Analysis of this data, collected in the month of August 2020, shows that the pandemic has strongly affected 88% of respondents. The survey was conducted telephonically to capture the essence of the views of the enterprise business owners and the impact of Covid -19 on their business performance.



Business Challenges as a result of Covid-19:

26% of respondents indicated lack of generating revenue.

22% indicated cash – flow challenges

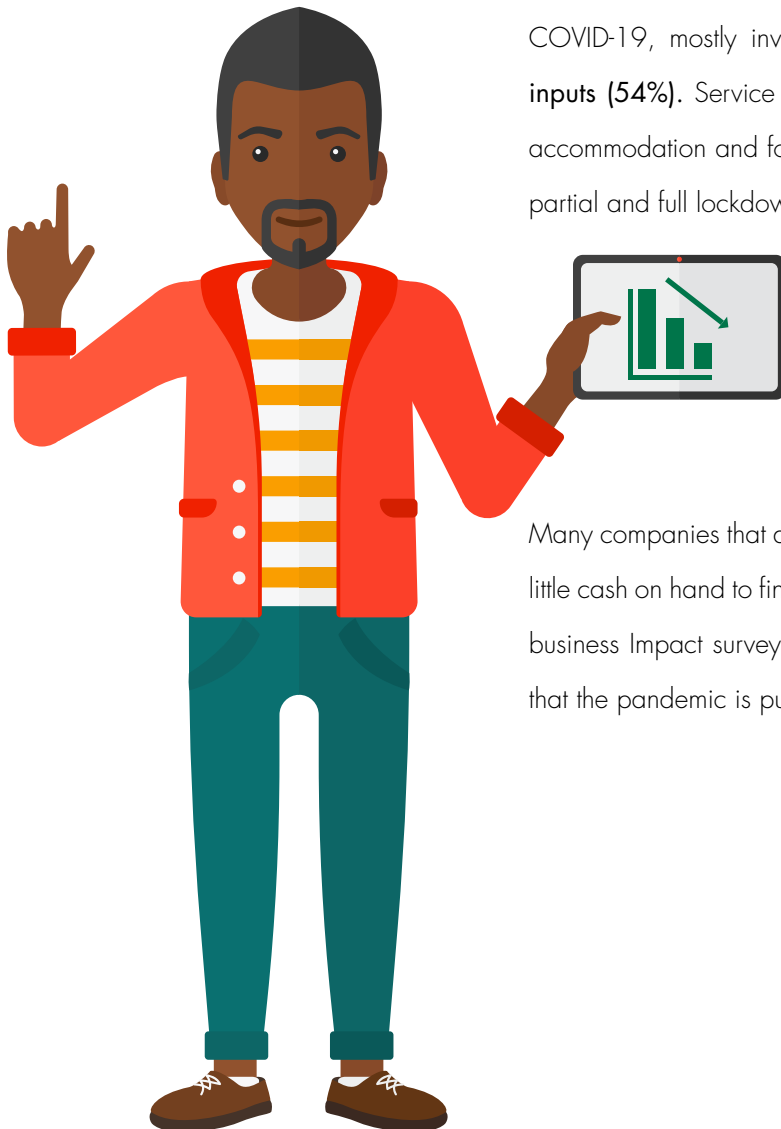
14% inability to generate Sales



More than 42% of the survey business operate in the townships, followed by 18% in rural communities, 12% in the Suburbs, 8% in the city and 2% International. The gender split of the participants comprised of 44% women and 56% males.



FOOD FOR THOUGHT



Tourism, Manufacturing, Services (Hospitality and Events), Agriculture and the Arts sector make up the bulk of the respondents, at over 70%. Over 32% of companies have indicated that they have already retrenched their staff. The other companies that have not retrenched have placed staff on rotation and paying less in salaries.

96% of the Business employ 1-10 people.
4% employ over 10 people within their businesses

One-fifth of SMMEs said they risked shutting down permanently within three months. In Africa, two out of three businesses said they had been strongly affected by COVID-19, mostly involving **reduced sales (75%) and/or difficulty accessing inputs (54%)**. Service companies have been the hardest hit around the world. In accommodation and food services, for instance, 80% of surveyed companies said partial and full lockdowns **strongly affected their business operations**.

Many companies that are not registered with national authorities are small and have little cash on hand to finance themselves when operations are shut down. The NYDA business Impact survey found that informal enterprises are **32% more likely** to say that the pandemic is pushing them towards impoverishment.

Executive Summary

Abbreviation	Meaning
DfID	Department for International Development
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IEL&P	Innovation, Entrepreneurship, Leadership and Participation
NYC	National Youth Council
NYP	National Youth Policy
NYDA	National Youth Development Agency
NYS	National Youth Service
OECD	Organisation for Economic Co-operation and Development
PPP	Public Private Partnerships
R&D	Research and Development
SADC	Southern Africa Development Community
SAIS	Southern Africa Innovation Support
SETAs	Sector Education and Training Authorities
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
STI	Science, Technology and Innovation
STISA	Science, Technology and Innovation Strategy for Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats
TVET	Technical Vocational Education and Training
UN	United Nations
WHO	World Health Organisation



Term	Definition
Innovation	<p>Innovation is “a new way of doing something” [social or economic] or the development of new customer value through solutions that meet new needs, or existing customer and market needs in new ways (SADC Youth Strategy and Business Plan 2015-2020). The Organisation for Economic Co-operation and Development</p> <p>(OECD) defines four types of innovation as follows:</p> <ul style="list-style-type: none"> • Organisational innovation – “A new organizational method in business practices, workplace organization or external relations”.
Entrepreneurship	<p>Is the pursuit of opportunity (social, economic, business, cultural, spiritual or political), without regard to resources currently controlled (Stevenson & Jarillo, 1990: 23) or risks involved, in order to derive an individual or collective benefit or profit. The entrepreneurial spirit is characterised by innovation, pioneering change, generating or introducing new technologies or products and services, and increasing efficiency and productivity, and is an essential part of an individual or a nation’s ability to succeed in an ever-changing and increasingly competitive global marketplace (SADC Youth Strategy and Business Plan 2015-2020).</p>
SMMEs	<p>Small Micro, Medium Enterprises (SMMEs) have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. Government has prioritised entrepreneurship and the advancement of SMMEs as the catalyst to achieving economic growth and development</p>
1000 Businesses in 100 days Initiative	<p>The 1000 in 100 projects, a collaboration between the Presidency, The Department of Small Business Development and the NYDA, aims to support businesses operated by young people in the township and rural economies stimulate township-rural economies</p>
Sector	<p>A sector is one of a few general segments in the economy within which a large group of companies can be categorized. An economy can be broken down into about a dozen sectors, which can describe nearly all the business activity in that economy. Such as such as telecommunications, transport, healthcare, and financial</p>
Youth	<p>The UNICEF/WHO defines youth as every person between the ages of 15 and 24 years and young person as aged between 10 and 24 years; the African Youth Charter defines youth or young person as aged between 15 and 35 years. This assessment adopts the African Youth Charter definition of youth.</p>
Income	<p>Income is the consumption and saving opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary term.</p>
Profit	<p>Profit, in accounting, is an income distributed to the owner in a profitable market production process. Profit is a measure of profitability which is the owner’s major interest in the income-formation process of market production</p>




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1. Executive Summary

With each survey, the organisation learns something new that challenges the agency and the broader entrepreneurial ecosystem in South Africa. Armed with concrete new insights the agency is better equipped to make significant changes to the way its support entrepreneurs.

In addition to its impact on public health, Coronavirus 2019 (COVID-19) has caused a major economic shock. In this report, we explore the impact of COVID-19 on the Small Micro and Medium Enterprises (SMMEs) business landscape in the South Africa (SA), focusing on three questions. Firstly, how did small businesses adjust to the economic disruptions resulting from COVID-19? Secondly, how long did businesses expect the crisis to last, and how do expectations affect their decisions? Thirdly, how might alternative policy proposals impact business and employment resilience?

To explore, we sampled the businesses from the 1000 Business in 100 days project pronounced by the Presidency during SONA1. The survey was conducted during lockdown regulations. The timing of the survey allows the organisation to understand the expectations of business owners and assess the challenges the business owners face. The results suggest that the pandemic had already caused massive dislocation among small businesses .

Across the full sample, 43% of businesses had temporarily closed, and nearly all of these closures were due to COVID-19. Respondents that had temporarily closed largely pointed to reductions in demand and employee health concerns as the reasons for closure, with disruptions in the supply chain being less of a factor.



¹The 1000 in 100 projects, a collaboration between the Presidency, The Department of Small Business Development and the NYDA, aims to support businesses operated by young people in the township and rural economies stimulate township-rural economies

On average, the businesses reported having reduced their active employment by 39% since the lockdown commenced.





2. Research Methodology



The essence of survey method can be explained as questioning the selected population of entrepreneurs and then describing their responses, in relation to the effect of Covid-19 impact on their businesses due to lock-down regulations, with a specific view to NYDA grant beneficiaries. In business studies survey method of primary data collection is used to test the following: test concepts, reflect attitude of people, establish the level of customer satisfaction, conduct segmentation research and a set of other purposes.

A data collection method approach in this study was telephonic interviews as well as online survey distributed to the entrepreneurs electronically and they provided feedback through filling in questions posed to them by the interviewer. The reason for this study method is because surveys can be conducted efficient and effective manner compared to other methods of primary data collection such as observation and experiments.

2.1. Limitations

The research aims and objectives is to try and understand youth owned businesses impact caused by Covid- 19 during lockdown and to what extent has that affected their day-to-day operations. The feedback provided by entrepreneurs regarding their business cannot be generalised holistically to all business across SA landscape, this is due to the sample size of the participants. This is a purposive study and it aims to draw insights, and to assist the agency to capture a snapshot of the reflection of the youth cohort it serves.

3. Profile of the Respondents

The organisation interviewed 54 entrepreneurs during the survey to solicit their input or feedback of the impact of Covid-19 on their businesses. Small Micro, Medium Enterprises (SMMEs) have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. Government has prioritised entrepreneurship and the advancement of SMMEs as the catalyst to achieving economic growth and development and its very critical to get an understanding of this sector to be able to make informed decision on how to further assist them, as they are the back-bone of the economy.

a) Gender Split:



Most respondents were Males (54%) and Female (46%). The South African Government has prioritised the advancement of businesses owned by women and youth through various initiatives including policies, preferential funding schemes and targeted support. The gap in entrepreneurial participation between male and female entrepreneurs is narrowing and might be an indication that these initiatives and other similar initiatives have started to bear fruit.



b) Provinces:

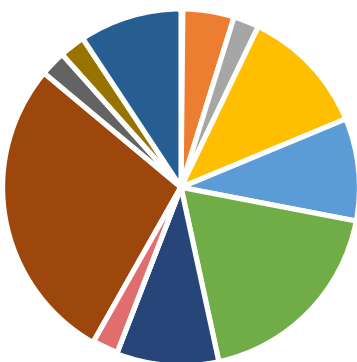


A total number of respondents were 54 across South Africa, below summarises provinces split of participants:

Gauteng = 17; Kwa - Zulu Natal = 8; Free State = 7; North West = 1; Western Cape = 1; Mpumalanga = 4; Eastern Cape = 8; Limpopo = 8; Northern Cape; and Northern Cape = 1. From the number of participants, Gauteng had a greater number of respondents at 31% followed by Kwa- Zulu Natal, Limpopo and Eastern Cape respectively at 14% each.

3.1. About the Business

Industry/Sector Split



- Manufacturing (14%)
- Arts, Cul & Events (8%)
- Construction (2%)
- Professional (2%)
- ITC (8%)
- Other (8%)
- Retail (4%)
- Tourism (16%)
- Automotive (2%)
- Agriculture (2%)
- Services (26%)
- Sales (10%)

The sectors represented by respondents are Business Services, Tourism, Manufacturing, and Arts, Culture and Events respectively. These four sectors combined represent 35% of the total number of respondents.

a) Number of Employees



Majority (over 95%) of businesses represented have less than 10 (ten) employees. Majority (70%) of businesses employ between 1 – 5 employees. This is expected as, the agency mainly assists businesses that are small enterprises and mostly start-ups.

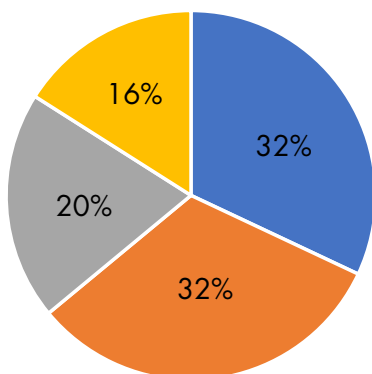


Food for thought:

All respondents have indicated they have not received any other funding offered by government and or the private sector during lockdown

B) No of Years in Operations

Number of Years in Operation

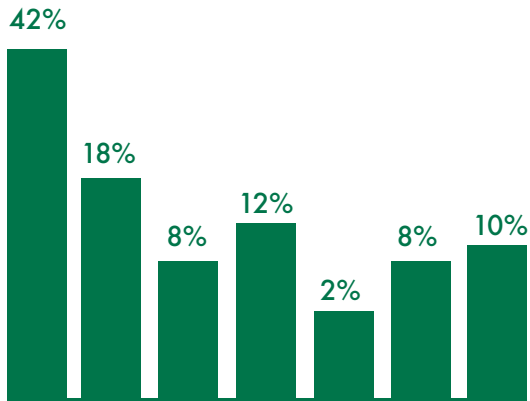


■ 0 - 1yrs ■ 1 - 3yrs ■ 3 - 5yrs ■ 5 - 10yrs

The age of businesses represented by respondents indicates that majority of business have been operating under **three (3) years**, at a combined percentage of **64%**.

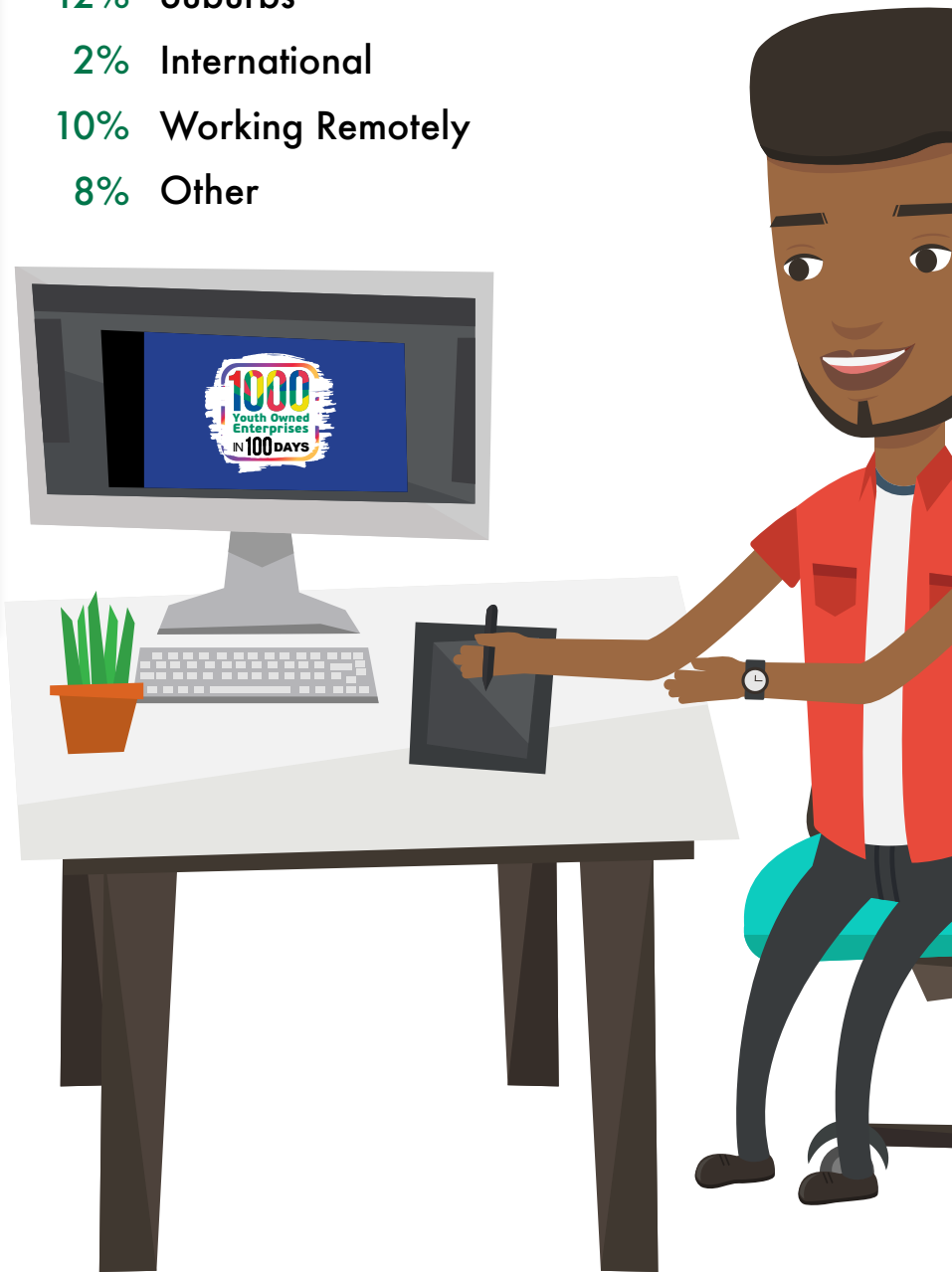


C) Operating Environment



42% of entrepreneurs' business is in the townships, with 18% located in the rural areas and 12% located in the suburban areas. The entrepreneurs in the ICT and Services sector have indicated that they are not based in a specific location as their business is conducted anywhere.

- 42% Township
- 18% Rural
- 8% City
- 12% Suburbs
- 2% International
- 10% Working Remotely
- 8% Other



4. Impact of Covid -19

The full economic damage caused by COVID-19 and the lockdowns is difficult to measure. It will take several months, indeed years, to have a better understanding of where the damage has occurred and how severe it is. While the magnitudes are uncertain, it is already clear that the country see a sharp decline in incomes, rising unemployment, and widespread business closure, this has affected Youth owned businesses.

4.1. Impact on Employees



38% of respondents indicated that they have **retrenched** their staff. Number of business seem to have managed to keep employees however there seem to be a relationship between the retrenchment and salary cut. Over **80%** of the respondents have had to institute **salary cuts**





Below are some of the comments or feedback from the respondent when asked to clarify further on the impact of Covid – 19 on its employees:

Bad effect because I could not get clients cause of social distancing.

Since lockdown there's a challenge reaching clients

Inability to work during lockdown, resulted in salary cuts and lay - offs

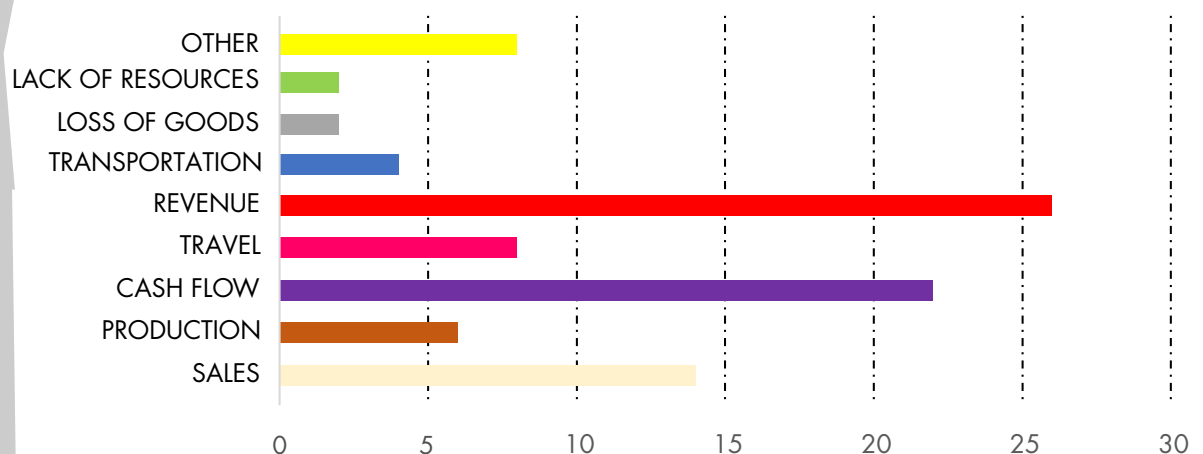
I could not access my clients because of lockdown regulations

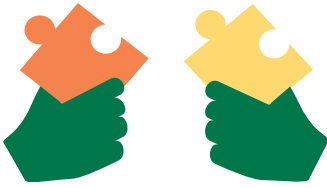
I am unable to pay salaries, some employees have not been able to return

4.2. Lockdown Impact on Business

Operation is key part of the any business, any impact can either induce growth or closure.

BUSINESS CHALLENGES





26% of respondents and 23% of respondents have attributed their challenges on generating revenue and lack of cash flow for their businesses

4.3. Possible Interventions

The respondents were asked what other interventions government and private sector should embark on to reduce the negative impact of the Covid - 19 pandemic on SMMEs. Below is a snapshot of some of the responses from the business owners themselves:

"The amount of the relief fund should be higher and consider business that are mobile"

"Online systems to market our business and more grants should be issued".

"Government should allow SMME's to operate during the lockdown with easier restrictions"

"Provide financial help as well as mentorship opportunities"

"More funding opportunities, especially from the private sector"

"Requirement for relief fund from government is too stringent"

"Support Youth in farming with funding opportunities and equipment"

"Allow events to take place, as the industry has lost money"

"Better funding opportunities for small business".



5. Recommendations

The impact of COVID-19 has been devastating for small businesses of every kind, around the world. From loss of business entirely to finding ways to shift to e-commerce rapidly, entrepreneurs in South Africa are being forced to adapt fast.



Funding and Applications:

- Applications need to be available in all official South African languages
- The application process needs to be executed in a manner that minimizes costs for business owners
- Clear communication on the nature of the funding must be given. If it is a loan, there needs to be emphasis on the terms and implications for the business
- The various sources of funding should be centralised and well-advertised



What is available?

- **Business Growth Fund:** Various forms of assistance targeted at businesses that locally manufacture or supply hygiene or medical products intended to address the COVID-19
- **SMME Relief Scheme:** Soft-loan funding for businesses negatively impacted by the COVID-19 virus.
- **Sefa Debt Restructuring:** Businesses that are currently Sefa-funded can apply for a moratorium on loan repayments if they have been negatively impacted by the COVID-19 virus.
- **UIF Covid Relief:** Emergency relief for employers to be able to pay employees who have been temporarily laid off as a result of the COVID-19 lockdown measures.
- **Tourism Relief Fund:** R200 million available to assist SMMEs in the tourism and hospitality sector who are under stress due to the new travel restrictions.

The above assistance for SMME has also been backed by the banking sector offering payment holidays as well as tax system relief.



Recommendations for businesses to Prepare immediate response to the crisis:

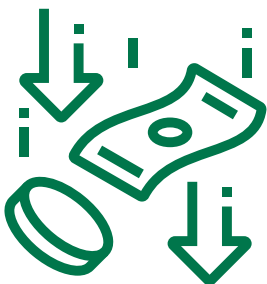
- 1) Adapt business processes by applying common-sense precautions and restructuring operations.
- 2) Optimize cash management and identify efficiency gains.
- 3) Reorient activities and resources to ensure business continuity during the lockdown.
- 4) Foster relationships by improving communications with partners and employees. Get ready for the new normal
- 5) Build business models that foster resilience, inclusiveness and sustainability and that ride the digital wave.

Government



REPUBLIC OF SOUTH AFRICA

The government, in addition to addressing the health crisis, they have scrambled to alleviate the impact of COVID-19 on small businesses, introducing policies to help them cope with the short-term financial risks and long-term business implications. This will, it is hoped, reduce layoffs, prevent bankruptcy, encourage investment and help economies get back on their feet as soon as possible in the aftermath of the crisis.



Prepare immediate response to the crisis:

- 1) Resist trade protectionism and facilitate trade to enable the movement of essential products.
- 2) Expand and facilitate access to finance for SMMEs, including those run by women or young entrepreneurs.
- 3) Improve border management of trade to streamline access to essential products.
- 4) Accelerate progress towards the digitalisation of trade documents and procedures, in collaboration with the private sector.



Funding

Most funding platforms requires businesses to be registered, tax compliant and UIF compliant, with further requirements being 6 months of bank statements and financial projections. Companies that participated in the business survey said that funding for businesses should be increased (the relief fund especially from NYDA), government to reduce the red tape for funding application, temporary tax relief and financial programmes would be the most helpful government measures.

Most SMMEs retrenched employees, or scaled down salaries of employees, all of which may hurt their long-term viability. Other companies followed a strategy of resilience, scaling down or adjusting the business temporarily in a manner that will allow it to resume fully later. The most important message is that small companies must adapt in an agile manner or collapse.



Access to Information

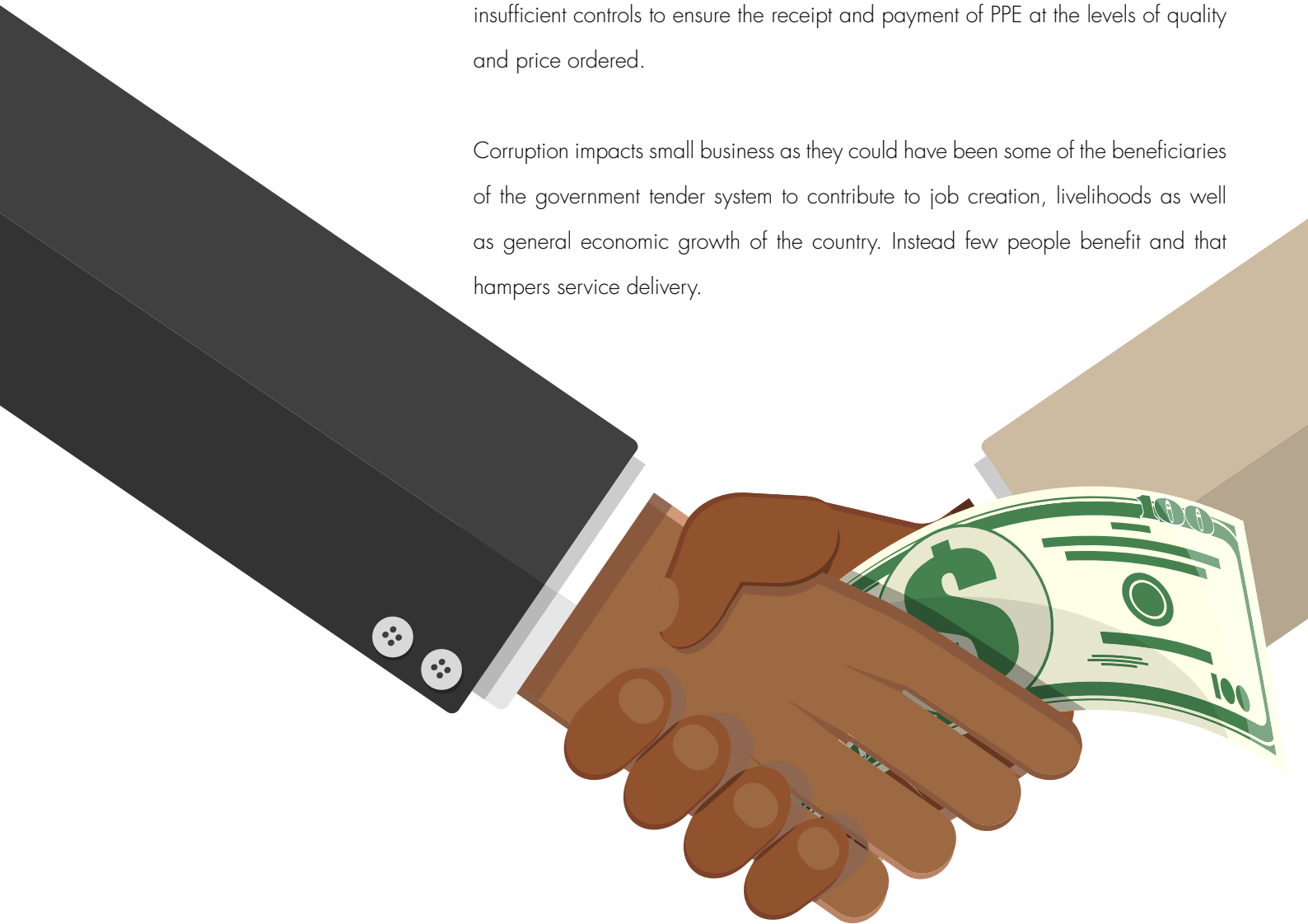
Transparency and information are vital for firms to benefit from government assistance programmes. It is therefore worrisome that more than half of survey respondents found it difficult or very difficult to access information and benefits from government COVID-19-related assistance packages.



Corruption Perception

Auditor-general (AG), published a report on the multi-billion-rand Covid-19 relief package and how it was spent by various government departments. The AG report states that pre-existing deficiencies” in the supply chain processes of government, such as corruption, were ‘amplified’. Further the report highlighted that there are insufficient controls to ensure the receipt and payment of PPE at the levels of quality and price ordered.

Corruption impacts small business as they could have been some of the beneficiaries of the government tender system to contribute to job creation, livelihoods as well as general economic growth of the country. Instead few people benefit and that hampers service delivery.





Innovation and the “New Normal”

Although there has been job losses in the short-term caused by the pandemic, innovative starts ups will be on the rise as they seek to leverage the disruption created by the pandemic, this will likely be in the area of Artificial Intelligence, Big Data, general ITC sector as well as manufacturing sector.

Small businesses will be more agile, and responsive to change in the future, having learnt from the impact of Covid-19. More business will also be operating virtually and using co-working structures. Online learning and telecommunications will increase.



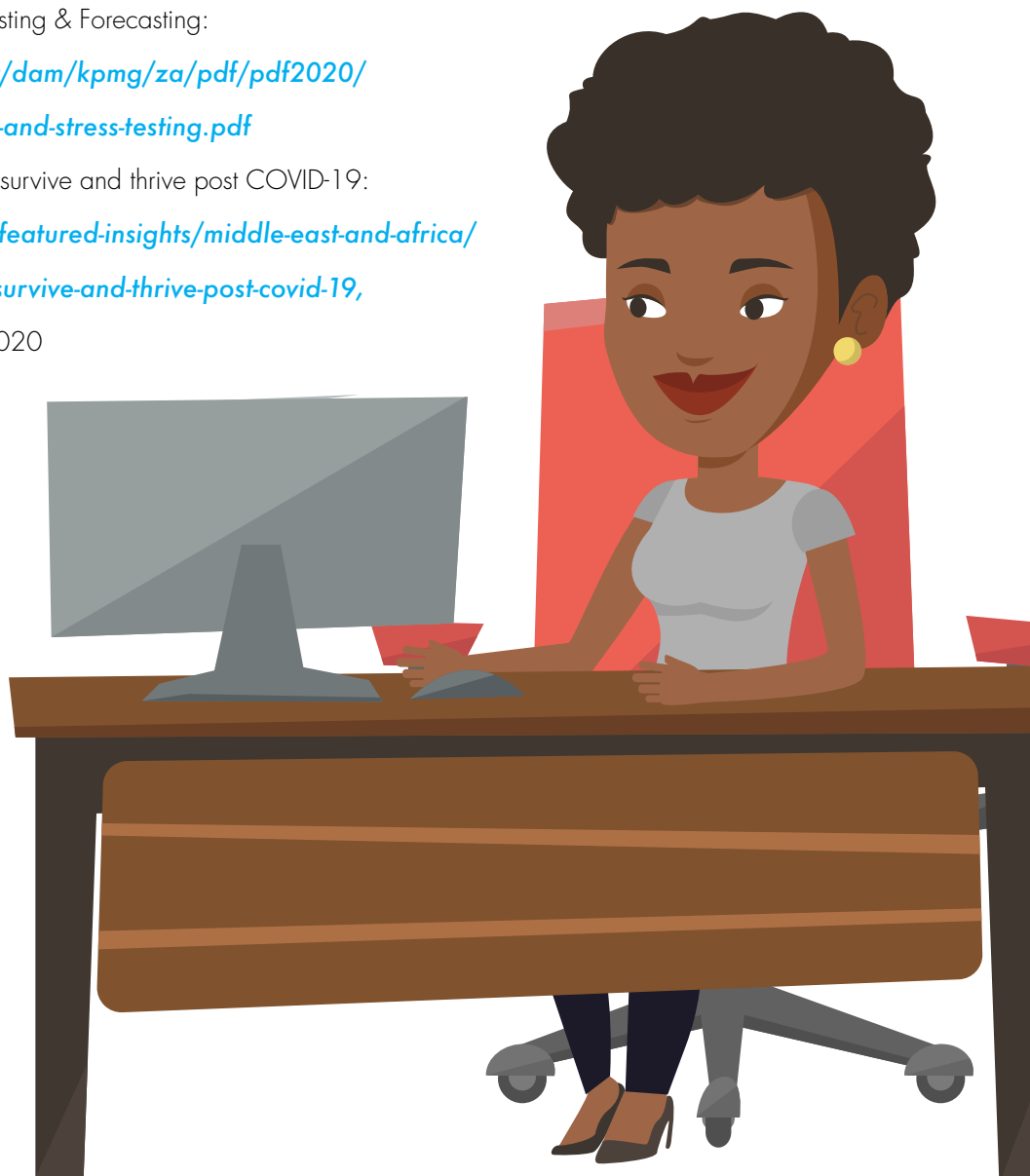
6. Conclusion

As is often the case with crises, COVID-19 has put the spotlight on those who are economically disadvantaged, such as informal sector workers, and people in microenterprises. Inclusiveness globalisation was already a concern before the pandemic. There is now a unique opportunity to rebuild the international order together, in a way that leaves no one behind. It will be crucial to ensure that the recovery phase lifts all the boats to maintain popular support for open economies.

Because of their critical role in job creation and growth, protecting and enabling SMMEs during this period of economic turbulence is important not least because their survival and recovery is likely to be a bellwether for the economy. Government could also focus on raising awareness among SMEs as to what support—financial or otherwise—is available to them.

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Mckinsey & Company, June 2020





NOTES

The logo features the number '1000' in a large, multi-colored font (red, yellow, green, blue, purple) with a white outline. Below it, the words 'Youth Owned Enterprises' are written in a green, sans-serif font. At the bottom, 'IN 100 DAYS' is written in a bold, black, sans-serif font. The entire logo is set against a white, brush-stroke-like background.

1000
Youth Owned
Enterprises
IN **100** DAYS



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The logo consists of a stylized sun or hand icon with five colored rays (red, yellow, green, blue, black) above the lowercase text 'nyda' in a white, sans-serif font.

nyda

NATIONAL YOUTH DEVELOPMENT AGENCY
OUR YOUTH. OUR FUTURE.