

# The impact of Covid-19 on small and micro businesses in SA

By [Lindiwe Kunene](#)

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In almost all the messages, strategies and press conferences we have seen in these tough times of a global pandemic, one thing is clear in the world of SMMEs - some animals are more equal than others.



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We listened with excitement as the powers that be made announcements and plans for assistance to small businesses. There was going to be a relief fund for SMMEs. Industry players breathed a sigh of relief in potentially averting disaster. However, sentiments also turned to fear of being left out for the underprivileged and usually, but not always, black-owned small and micro-businesses.

Most of this article draws on observations from this race group. I was on the phone and in my social media space sharing the good news after learning about the changes, the government was putting in place.

For those who know me, my work, research and solutions are always centred in the SMME space. It is no surprise then that I had many startup entrepreneurs, and some established ones call me to discuss what this pandemic, legislation and responses meant and how I thought this would work?

Since 7 April 2020, when the Minister of Small Business, Khumbudzo Ntshavheni, announced the implications of the Disaster Management Act, 2002 (Act No. 57 of 2002) for SMMEs, it has been a rollercoaster experience for most SMMEs and more so for the Small and Micro businesses (DSBD, 2020).

Although guidelines have been provided, there has been confusion around essential goods, and the loopholes in the definition of what constitutes these essential goods. Tenderpreneurs have found themselves chasing PPE supply to no end, out of desperation.

On the one hand, the informal sector has been left with no consumer, and on the other hand, the small business has woken up to what was meant by business compliance which they had, historically, not complied to.

The creative industry businesses which operate as micro businesses have been left in limbo and vacillating between the Department of Small Business Development and the Ministry of Sports, Arts and Culture for directives.

By and large, there has been misinformation in most spaces, and the Department of Small Business Development (DSBD) has been silent in communicating and translating their message to some of the small and the microbusiness practitioners.

According to the above Act, as of 7 April 2020, all SMMEs who are in the business of providing essential goods (which are inclusive of groceries), can acquire a permit to trade. In the micro-business space this includes the informal traders who are mostly selling on the pavements and the spaza shops. The 7 April was in response to the cries from the micro industries who found themselves unable to make ends meet as their businesses were 'closed down' on the 26 March when the lockdown period began.

Big established, essential goods businesses, however, were not as affected as they could continue to trade. During this time, most citizens who are working received their salaries and the grant system paid out as per usual. By the time government woke up to the need to include the micro traders, the first wave of spending had passed. This meant that some informal businesses would not rise again.

### **The Informal Traders**

Not every informal trader sells essential goods. There are mechanics, electricians, restaurants, muthi (traditional medicines and spiritual consultations), shebeens, food stalls, etc. the list is endless. All of them have been working and had a market. Suddenly they are no longer allowed to work, there is no income, and their families are going hungry. There has been a rise in illegal trade.

These individuals, and usually their team of 1-3 individuals, are not eligible to apply for any of the funding relief because they have never applied for or contributed to UIF, not paid tax or even registered their businesses. Informal traders receiving support for relief is strongly opposed by those who comply as they point out 'We complied, therefore we should be first in line for any relief. Why should they get anything for failing to be upstanding citizens?'

This is the debate that is prevalent across social media platforms and in different webinar discussions. It reeks of failure to

understand the dynamics of our country. It also shows that many who live in South Africa are not aware of the realities of being South African and living in South Africa. It does not dawn on them that if these businesses fail, they too will be affected by the economic impact that will follow and other socio-economic ills, such as crime that will be part of the outcome.

What these individuals fail to comprehend is that this micro trading space, which is not counted in any of the official economic indicators is worth billions and feeds millions.

## **The Tenderpreneurs**

Over the years, the term tenderpreneurship in this country has been marred by racial slurs and insinuations of fraudulent behaviour and questionable service quality. It cannot be denied that South Africa has had many cases where failed control measures and unscrupulous individuals have created this unfortunate perception.

It is, however, important to note that this does not define all procurement processes observed in the country. A tender is simply an outsourcing strategy practised the whole world over. It is not true that a tender is synonymous with fraudulent behaviour. Tenders exist in both the public sector and the private sector as part of the procurement strategy.

Unfortunately, in the current state, most black tenderpreneurs do not own the factors of production that they are procured for. There are however some who become involved beyond the 'middle man' title and become the manufacturer of that which they supply. The number of such tenderpreneurs, unfortunately, is quite low.

In reality, the big tenders available in business will always be procured from the fewer big companies, who have somehow avoided being labelled tenderpreneurs even though in principle they are. The smaller tenders are left to the masses to fight over. In this article, I refer to the latter.

Many families are fed by individuals who participate in tender businesses. You realise how big the tenderpreneurship business form is when a big organisation publishes a call for tender and the number of people who pitch to the briefings is overwhelming. It is no wonder we have started seeing regional territorial wars when it comes to tenders because they have become an integral part of our socio-economic definition as a country.

Tenders serve a purpose for big business and government. We cannot afford to suddenly shut them down. We do however need to find solutions of how to better manage their existence in such a way that it adds value to the tenderpreneurs themselves and they are able to participate as Small and Micro Entities they are meant to be.

Many tenderpreneurs have become a jack of all trades and master of none, which hurts their credibility immensely and makes each contract they participate in a cash cow transaction. There is no sustainability, more so now in the time of Covid-19 when the best solution as the 'master of none' is to secure a PPE manufacturer in China and locally and hope for the best as you kneel and pray that you do not starve for eternity. Sustainability, business acumen and credibility will have to take centre stage for most tenderpreneurs.

## **The Small Businesses**

Small businesses in the scope of SMMEs suffer from middle child syndrome. The informal sector views them as the blue-eyed boy whilst the powers that be, make decisions for them as if they are fully-fledged like the small businesses.

In truth, not all small businesses are performing as they were expected to even before Covid-19 hit. There is too much red tape, they cannot keep up. They do not have enough infrastructure and market to warrant the hiring of personnel and in some instances, they lack the maturity required to be formidable businesses. The stresses of being responsible for the full supply chain hits them and they usually do not know how to react and act when problems hit.

In most instances, they do not have the skill and knowledge to deal with the position they find themselves in. It is only after

years of trying, failing and giving up that we see them morph into more mature medium business form. Unfortunately, many get left in the vortex of not reaching this level due to lack of compliance, innovation, networks, skills and knowledge.

In the time of Covid-19, almost all of the rescue funding schemes that have been made available require some business compliance, proof of business operations and income generation. As such, many of these businesses do not make the cut.

The list of business relief schemes so far are as follows: Debt Relief Finance Scheme; Business Growth /Resilience Facility; Covid-19 Agricultural Disaster Support Fund; South African Future Trust (SAFT); Tourism Relief Funding; IDC Covid-19 Essential Supplies Intervention; Old Mutual Insure business financial relief measures; MCEP Covid-19 Programme; Covid-19 Temporary; Employer/Employee Relief Scheme (TRS); The Sukuma Relief Programme; Solidarity Fund; Motsepe Family Contribution; Mary Oppenheimer's donation; Covid-19 SMME Emergency Funding Package and Giving for Hope.

It should be noted that contrary to popular belief, all of these are not purely reserved for black-owned businesses. Yes, there will be some organisations that are BBBEE centric, but not all of them are. The racial narrative has taken centre stage, mainly due to failure to clarify and provide information to the public by the relevant government divisions. There has to be corrective communication from the DSBD and any other body before this blows out of proportion.

### **The Creative Industries**

The Howkins Creative Economy Theory identifies just over 15 industries that fall into this category. Some of these have thriving business models and strategies, however, many of them operating specifically in a micro context like the arts, music, fashion and film spaces are ignored. The practitioners in this space run households through their art.

There has been a realisation that this industry has a positive impact on the country's economy, however, there has been waning support to build and improve the industry to make its contribution more formidable. Beyond their contribution to the economy, they support families through their arts and with COVID-19 they find themselves unable to continue with the work they used to do.

Unfortunately, for too long, the creative industries have not been viewed as businesses. As such, most of the interventions in this space are not designed to help them with treating their creativity as a way to monetise their craft into a business. Many performances as we know them, have been shut down. New innovative methods of availing creative products and services are shifting. The relief that was spoken of by the Minister of Sports, Arts and Culture has left many confused and lamenting.

A society that supports the creative industries is in a better position to have innovative growth. According to Florida (2002, p. xiii) "human creativity is the ultimate economic resource". South Africa, therefore, cannot afford, in its economic reengineering taking place during Covid-19, to leave this industry behind.

### **Crime and Corruption**

It would be disingenuous to discuss businesses in South Africa and fail to talk about the issue of crime and corruption. Many Small and Micro businesses do not have insurance because they cannot afford to have it. As such, stolen goods, vandalism and funds are not replaceable.

Many of these businesses are expected to pay kickbacks to some officials they are thus unable to develop to their full potential. In Mpumalanga, a councillor was found selling permits for the informal traders to trade. He probably is not the only official who has found underhanded ways to benefit from the Covid-19 regulations at the expense of small and micro enterprises, he just got caught.

### **Solutions for the future of SMMEs**

One thing Covid-19 has done is to expedite change in the SMME sector as a whole. It has made the gaps clearly visible and it has allowed the powers that be to change research and strategies towards the construction of an SMME industry that is robust, and sustainable.

We may not all agree on what the solutions are, but a good start is considering different options and weighing them up. Below are some suggestions given the current situation, which could help businesses and government in carving out the SMME path post-Covid-19.

**Innovation:** It cannot be denied that SMMEs who constantly are innovative will survive post-Covid-19. Innovation should no longer be a subheading that simply exists in business plan documents and never practised. This means for a business to truly exist and be sustainable it has to adapt to the ethos of entrepreneurship which embraces change and the need for innovation to forge forward. Failure to do so by SMMEs will lead to their demise. Bail outs will not always be available for everyone but that should not have to spell out the end.

The call for more innovation-driven organisations also suggests that there is a need to use a multidisciplinary outlook to societal problems, and include and/or work with creative industries where need be.

**Glocalisation and Local Content Manufacturing:** These two strategies are going to ensure that economic activity is increased within the borders of the country. Government has to make it mandatory for a percentage of the manufacturing of goods sold in South Africa to be made in partnership with South African based businesses. This could be passing certain supply chain activities to South Africa. Quality controls would have to be strengthened as part of the agreements between international businesses and their local manufacturing partners, this is not impossible. Industries that do not exist would have to be developed by investing in knowledge building and infrastructure.

**ESD and Big Business:** The Enterprise Supply Development (ESD) like all other BBBEE solutions have been met with resistance. So far, in most instances, ESD has presented training after training, year after year with no supplier role realisation. All of this happens whilst big corporate earns BBBEE points they are after.

The ESD recipient in the meantime becomes frustrated as they at times have to put certain activities of their business on hold to fulfil the requirements of the ESD programme. You find that many end up dropping out as they do not see how it helps. The training is commendable, however, DSBD must consider the inclusion of a mandatory minimal supply benefit for those in the programme.

This means corporates need to invite into their programmes SMMEs that fit their business model. There should be stipulated years to spend on the ESD programmes allowing the recipient to graduate and compete as a fully-fledged supplier.

**Virtual Teams:** The use of Virtual Teams, is going to have to be the new normal for most businesses. During the Covid-19 pandemic, we are seeing many businesses continue working without employees going into the office. Physical infrastructure and resources are becoming a thing of the past for some. Where there is no need to have a physical office there should be no physical office.

Before Covid-19 hit there was a slow rise in virtual PA's, and functional managers. There is credence in reviewing your organisation's structure to see what can be done remotely.

**Business Compliance:** Small and micro-businesses, as well as creative industry businesses, need to ensure they begin to comply with the different requirements legislated for businesses. Even when not necessarily required for some, being compliant comes in handy. However, having said that, this speaks to the government to urgently review their compliance systems for businesses.

These need to be streamlined. There is also a need to look at how they can benefit from the informal industry worth billions, which is not taxed (except for VAT) and will most likely never be taxable using the tax models we know.

**Economic Indicators for the Informal Sector:** Economic decisions and strategies are concluded on what we know forms

part of the calculations. In truth, the economic indicators we use are flawed. They completely ignore the consumer whose grocery shopping is from this sector and undermine the micro trader who fulfils this demand. We have comfortably accepted that we simply ignore them and the billions they carry in our calculations.

**Cooperation and Consortiums::** In 2019 a student of mine, a colleague and I published work that delved into the understanding of the success of foreign-owned spaza shops in the townships. One of the factors that were found that set these spaza shops in a higher level of performance than their local counterparts was their ability to work together. They were able to take advantage of opportunity costs, as they were bulk buying and solving problems as a unit (Lamb, Kunene, Dyili, 2019).

**Training and Development:** This should go beyond 'how to write a business plan'; training needs to be changed completely. Outcomes of the training programmes that are offered should translate into actual plans and strategies, with business compliance completion forming part of the training programmes.

Innovative, creative thinking has to be socialised as early as Grade R to ensure it almost becomes innate in how our society reasons in their decision-making processes, especially during a crisis. Failure to do this will almost guarantee that in 100 years' time when humanity faces a pandemic forcing the closure of businesses, we will still have a society that seeks government to help them because their own models are not robust, adaptable or responsive to the environment and are not sustainable.

**Tenderpreneurs:** These individuals as defined above should be given the opportunity and training to turn their ventures into legitimate small business entities. All suggestions above should form part of their re-engineering strategy now and post Covid-19.

As long as corruption and crime are not dealt with and consequences are not felt by the wrong-doers, the MMEs will always be stagnant. Growth will be reserved for those who are on the inside track and well connected.

Not all businesses will come out on the other side of Covid-19, which is a fact we must accept. Only those businesses willing to accept change and make the necessary adjustments will prevail. As long as the bottom half of Small businesses and the Micro businesses are grouped together, and blanket decisions are made for them, they will always trail behind and their worth never truly attained. The existence of Small and Micro Enterprises boosts the economy immensely and the country cannot afford to lose them.

*\*Note that Bizcommunity does not necessarily share the views of its contributors - the opinions and statements expressed herein are solely those of the author.*

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