COVID-19: THE IMPACT ON SMALL BUSINESSES AND GAPS IN CURRENT SOLUTIONS

THE CASE FOR BETTER SOLUTIONS TO SUPPORT ENTREPRENEURS IN TOWNSHIPS
THE LIFE BLOOD OF OUR ECONOMY
THE IMPORTANCE OF SMALL BUSINESS

IN SOUTH AFRICA...

There are over 5 million micro and small businesses. Most are located in the informal sector. The National Development Plan envisions that by 2030, 9 out of 10 new jobs will be generated by micro, small and medium businesses.

But, the way we define small and micro businesses leaves a

HUGE GAP

Informal
Informally employed workers
Not registered
Small Asset Base

We're worried about these businesses

Employ between 1 & 20 people
Turnover ranges from survivalist to less than 2m

Small
Under 50 employees
Turnover R2m - R25m (based on industry)
Assets R2 - R4.5m (based on industry)

Likely registered but often not fully complying
WHO ARE THESE ENTREPRENEURS?
THE MISSING SEGMENT

WE SURVEYED 233 ENTREPRENEURS FROM 6 PROVINCES ACROSS 17 INDUSTRIES

77% ARE FEMALE
EMPLOY 6 PEOPLE ON AVERAGE
85% DO NOT RECEIVE ANY GOV GRANTS

AND ASKED THEM HOW COVID-19 IS IMPACTING THEIR BUSINESS

95% CAN'T AFFORD TO PAY EMPLOYEES
50% DO NOT THINK THEIR BUSINESS WILL SURVIVE
93% DO NOT HAVE ANY OTHER INCOME SOURCES
## EXISTING SOLUTIONS
### WHAT IS CURRENTLY AVAILABLE

### Public Sector

<table>
<thead>
<tr>
<th>Business Growth/Resilience Facility</th>
<th>SMME Relief Finance Scheme</th>
<th>Sefa-Debt Restructuring</th>
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</thead>
<tbody>
<tr>
<td>Various forms of assistance targeted at businesses that locally manufacture or supply hygiene or medical products intended to address the COVID-19 virus.</td>
<td>Soft-loan funding for businesses negatively impacted by the COVID-19 virus.</td>
<td>Businesses that are currently Sefa-funded are able to apply for a moratorium on loan repayments if they have been negatively impacted by the COVID-19 virus.</td>
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<tr>
<th>Spaza Shop Support Scheme</th>
<th>COVID-19 TERS</th>
<th>Tourism Relief Fund</th>
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<tbody>
<tr>
<td>Package including assistance in network purchasing or bulk buying, seed capital and access to business support tools such as bookkeeping.</td>
<td>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.</td>
<td>R200 million available to assist SMMEs in the tourism and hospitality sector who are under particular stress due to the new travel restrictions.</td>
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<th>Tax System Relief</th>
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<td>Tax subsidies are being provided for employees, payments of employment tax incentive reimbursements have been accelerated, and delays in specific tax payments have been allowed.</td>
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## EXISTING SOLUTIONS
WHAT IS CURRENTLY AVAILABLE

### Private Sector

**South African Future Trust**
- Interest-free loans paid out directly to employees. Employees themselves will not be liable to pay the money back, but companies will be.

**Sukuma Relief Programme**
- R25,000 grants for formal sole proprietors. Loans and grants for close corporations, companies, and trusts.

**The Banks**
- Offering payment holidays to their small enterprise customers. Payment is deferred for 90 days.

### NGOs

**ygap**
- Developed a Business Resiliency Toolkit to support entrepreneurs.

**Open Road**
- Providing charitable grants to organizations responding directly to COVID-19 and four loan products for organizations affected by COVID-19.

**Miller Center & Bertha Center**
- Created a webpage that contains links to resources on business resilience, disaster recovery and various funding opportunities for organizations and SMMEs.
BUT ARE THESE HELPING?
THE NUMBERS

86% of respondents do not know where to go to access emergency funding.

87% of respondents cannot run their business from home.

87% of respondents cannot support themselves or their families during the lockdown.

WHO Qualifies for Funding in Our Sample of 233 Businesses?

24 The number of businesses that qualify for SEDA and SEFA funding.

1 The number of businesses that qualify for Spaza shop funding.

46 The number of businesses that qualify for Tourism Relief funding.

95 The number of businesses that qualify for COVID-19 Disaster UIF funding.
GAP #1: ELIGIBILITY
Most funding platforms require businesses to be registered, tax compliant and UIF compliant, with further requirements being 6 months of bank statements and financial projections.

GAP #2: ASYMMETRIC & MISLEADING INFORMATION
There is a gap in funding information. Entrepreneurs do not know where to find assistance. Funding requirements are often ambiguous. Business owners think that many funding options are grants, when they are actually loans - which can be misleading.

GAP #3: EXCLUSION OF FOREIGN OWNED BUSINESSES
There is no funding available for foreign owned small businesses that employ South Africans.

GAP #4: TIME LAG
The waiting period between the funding application and the disbursement is too long for businesses in distress.
**INSPIRATION FROM ABROAD**

**HOW HAVE OTHER COUNTRIES RESPONDED?**

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**EUROPE & THE AMERICAS**

**WAGE RELIEF IN CANADA, FRANCE, UK**

Many countries have offered a reimbursement wage-subsidy ranging from 70-90% of worker’s wages gross-income for employees affected by COVID-19 for up to 4 months to alleviate the burden faced by small business owners.

**GRANTS AND ALLOWANCES IN UK, GERMANY AND ITALY**

Governments have also offered once-off grants or monthly allowances to help small-businesses with their ongoing costs during this time. These range in value and often limited to businesses with up to 5 employees.

**SICK PAY LEAVE AND SUBSIDIES IN SWEDEN AND UK**

In order to assist workers who fall sick during this time, some governments have opted to temporarily take on the full-cost of sick leave in April and May and compensate self-employed persons with a standardised sickness benefit for 14 days.

**SUSPENSION OF BILLS AND TAXES IN FRANCE**

France has suspended water, electricity, gas and rent bills and certain taxes, in an attempt to increase liquidity and cash-flow to small businesses.

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**OCEANIA**

**WAGE SUBSIDIES AND LEAVE IN NEW ZEALAND**

Small businesses struggling to pay their employees and who show at least a 30% decline in revenue, shall receive a subsidy of $585.80 per week per full-time employee or $350 per week per part-time employee. Employees who are not able to work because they are sick or caring for dependents will receive the same amount.

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**ASIA**

**TAX RELIEF IN CHINA AND SOUTH KOREA**

Countries have tried to give small-businesses more cash-flow by lowering income taxes and exempting them from Value-Added Tax (VAT).

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**LOANS IN CANADA**

Canada has offered small businesses interest-free loans up to $40,000.

**COMPENSATION IN CASE OF CLOSURE IN NETHERLANDS**

Small businesses that are forced to close down due to the loss of income due to COVID-19 shall be compensated 1500 euros per month for the next 4 months.
RECOMMENDATIONS
SOLUTIONS TO THE GAPS AND PROBLEMS

1. Eligibility requirements for assistance need to be relaxed.
   - Application requirements must be less stringent
   - Businesses owned by foreign nationals need to be included in the assistance

2. Funding needs to be as accessible as possible.
   - 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
3. Funding needs to be deployed efficiently and urgently.
   - Turnover from application to funding should be within 7 days

4. More assistance needs to be in the form of grant funding.
   - Loans saddle small business entrepreneurs with extra debt.
     Within practical parameters, grants should be the preferred form of assistance

5. Small businesses need representation.
   - One recognised representative body or council that understands the interests of small businesses and is easily accessible.
   - This representative body can voice the concerns of small business owners and assist in identifying issues with the current assistance system
THE STORIES THAT WERE TOLD TO US

The whole situation is severe to my business, my family and my employees' families. It happened exactly when I was expecting to recover from a quiet January and February into the busy Easter time. I feel shuttered and hopeless. I do not qualify for a business grant either because my documents are not up to date. - Fashion Designer from Khayelitsha

It is with sadness that I am telling you this. All our tours got cancelled and we currently have no work. We can’t afford to pay our drivers or our insurance. For the first time ever we missed our debt payments. Our company is going down solely because of Covid. We need help urgently. - Tourism business in Mmabatho

My business stopped when the lockdown was announced. I am a baker and so people started cancelling orders. If the lockdown is extended it means that I can’t pay rent and will have to find somewhere else to stay. I am worried, my business might shut down. - Baker from Katlehong

I operate a restaurant/spaza shop in Soweto township. I’ve been forced to stop all operations. I employ 4 people full time and they have stopped coming to work as of when the lockdown began. I’m not generating income so I will not be able to pay these employees unfortunately. I will not even be able to sustain myself during this lockdown. - Spaza shop owner in Soweto
THE STORIES THAT WERE TOLD TO US

Currently most businesses are concerned about many things such as loss of income based on cancelled bookings, deposits paid and they will be forfeited, salaries to pay staff, stock that will expire because events are cancelled, money to pay for fixed operational costs, losing assets, the future of our businesses beyond 21 days, our projections for 2020. These concerns exclude our personal commitments and how our family lives will be affected. As much as we hear about all the funding opportunities out there, are we in a position to make sound decisions to commit to loans? Is there anyone that can advise? - Transport Company Founder from Philippi

I had 3 shoots cancelled, 1 pending which starts on the 17th of April and there has not been any confirmation on how we will work around it. I can work online; however most of my clients are people that need to work in order to be able to afford my services. Reporting news is essential but I cannot get a permit to go out as an essential worker because we are a small business and I cannot find the permit link on the Cipro website. The relief funds available do not speak to businesses such as the ones most of us at the Yib operate. - Filmmaker from Salt River

We are fruit and veg business delivering to restaurants, so the market and farms are closed. Also government said all the restaurants must close down so it’s a total shut down to our business. We we already struggling for the past few months and it’s worse now; I think that’s the end of our business – Fruit and Veg Business in Philippi
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