



# POLICY BRIEF

## Relief for South Africa's SMMEs and the informal sector in a COVID-19 world

### Introduction

On 23 March 2020, President Ramaphosa announced a three-week national lockdown, just a week after the declaration of a state of disaster in South Africa. The rapid contagion rate and steady spread of the COVID-19 virus have revealed the fault lines of globalisation. For countries such as South Africa, with relatively small open economies, the lock-down was imperative to avoid continued exponential spread of the virus. Nonetheless, the associated economic shut-down of the 'non-essential' manufacturing and trade sectors has really turned the screw on the South African economy, which is already battered by massive government indebtedness exacerbated by a decade of corruption, leading to financially strained SOEs – currently being exposed by mandated Commissions of Enquiry. The international ratings agencies, trailed by Moody's, have all finally agreed on the economy's junk status, and Fitch has, moreover, declared that it doubts South Africa can find a stable route out of this state of debt.

Yet, South Africans have traditionally proven their resilience under the toughest of circumstances. And, international cooperative partners have regularly supported the pioneering and inventive character of individuals and small businesses exhibited, especially since the end of apartheid rule. What will be the case now where industrialised countries are facing the same critical challenges? All countries are now dealing with rising numbers of fatalities caused by the COVID-19 pandemic; dramatic increases in unemployment as companies and factories are forced to shut down; and the redirection of the fiscus towards recovery and stimulus packages to rescue an ailing economy.

### Strategic issues beyond this crisis and the effects on South Africa's SMMEs

Governments around the world are beginning to think about navigating a post-peak in the Coronavirus Disease 2019 (COVID-19) environment, where public and private financial and economic instruments will have to be very different to what we have seen to date. In South Africa, it is difficult to recall a more challenging time in the country's economic history.

Coupled with an existing technical recession, a down-grade to junk status by Moody's has seen the local currency reeling. A week after Moody's, Fitch cut South Africa from BB+ to BB, as it believed the country lacked a credible and "clear path towards" stability in its debt situation. No doubt, this pandemic will only exacerbate South Africa's economic and public finance position. The deep, yet sweeping, disturbance caused by the Coronavirus pandemic has left small- micro- and-medium enterprises (SMMEs) across the world in doubt about their very survival.

## Support from government for Covid-19-affected SMMEs

The overarching public-private assistance platform, the **Solidarity Fund**, allows South Africans to donate money in the fight against COVID-19 to assist vulnerable communities across the country. The Solidarity Fund is administered by independent private sector organisations, with an independent chairperson.

SMMEs require tailored interventions to help them under the current circumstances. The Department of Small Business Development (DSBD) has set aside R500 million as part of an “SMME Support Intervention,” which comprises of a **Debt Finance Relief Fund** and a **Business Growth / Resilience Facility** to mitigate the economic effects that small enterprises will experience because of COVID-19. Thus far, some of the support intervention is structured as follows:<sup>1</sup>

- The **Debt Finance Relief Fund** will provide relief to SMMEs based on existing debts and repayments. Eligibility for assistance requires that SMMEs demonstrate a direct impact or potential impact of the COVID-19 pandemic on its business operations. This fund will also assist SMMEs in acquiring raw materials and paying labour and other operational costs. “All these interventions will be structured to match the patterns of the SMEs’ cash flows, as well as the extent of the impact suffered.”<sup>2</sup>
- The **Business Growth / Resilience Facility** is focused to enable SMMEs to continue to their participation in supply-chains, particularly those that manufacture products locally or supply products that are in demand owing to the pandemic, in accordance with the National Treasury Instruction Note 8 of 2019/2020. The Instruction Note also list prices of goods/commodities in efforts to curb opportunistic use of this disaster to drive profit margins.<sup>3</sup> The Resilience Facility will offer working capital, stock, bridging finance, order finance and equipment finance. The amount required will be based on the funding requirements of each relevant business.

Businesses must be registered with the Companies and Intellectual Properties Commission (CIPC) to be eligible for assistance from the DSBD and must also be compliant with South African Revenue Services (SARS) and the Unemployment Insurance Fund’s (UIF) requirements.<sup>4</sup> To this end, the UIF has made R30-billion available for COVID-19 income support to laid-off workers. In addition, the DSBD will prioritise assistance to businesses run by women, youth and disabled persons, while the Small Enterprise Development Agency (Seda) will assist micro-enterprises to comply and request assistance.<sup>5</sup> Applications for funding and support via these two facilities have only been available since 2 April 2020. Lastly, Seda also has a **Debt Restructuring Facility**, which will provide a grant payment holiday for up to six months to SMMEs supported by Seda, and which are negatively affected by the Covid-19 outbreak.<sup>6</sup>

<sup>1</sup> K Dlothi & Q du Plessis *Relief packages and support to South Africans amid the COVID-19 pandemic*. White and Case, 2 April 2020 <https://www.whitecase.com/publications/alert/relief-packages-and-support-south-africans-amid-covid-19-pandemic>

<sup>2</sup> M Ngalonkulu *Debt relief fund for SMEs amid Covid-19 pandemic*, 20 March 2020. Money Web news, *Moneyweb*, <https://www.moneyweb.co.za/news/south-africa/debt-relief-fund-for-smes-amid-covid-19-pandemic/>

<sup>3</sup> The Instruction Note and MFMA Circular aim to augment and enhance uniformity across organs of state, decisions by Accounting Officers and Accounting Authorities in their emergency procurement, in support of effective and efficient service delivery and curb the possible abuse of Supply Chain Management (SCM) systems during the period of managing this national disaster. See [National Treasury Media Statement COVID-19 Instruction Note](#).

<sup>4</sup> DSBD <http://www.dsbd.gov.za/wp-content/uploads/2020/03/SMME-Business-Growth-Resilience-Facility.pdf>

<sup>5</sup> Ibid.

<sup>6</sup> S Bisset & C Pretorius *Government and banks offer debt relief for businesses affected by COVID-19*, 6 April 2020. Financial Institutions Legal Snapshot, <https://www.financialinstitutionslegalsnapshot.com/2020/04/government-and-banks-offer-debt-relief-for-businesses-affected-by-covid-19/>

The DSBD has also circulated Requests for Proposals (RFPs) to existing South African owned, registered and tax compliant SMMEs, which are in the medical supply and non-food field. The RFPs are aimed at gaining information on SMMEs that have the capability to participate in the manufacture and supply of goods that are needed towards the management of the impact of the Covid-19 pandemic.<sup>7</sup> It is important to note that there are also sector-specific interventions currently underway by other government departments.

**Table 1 – Other government-related interventions**

<p>Ministry of Agriculture, Land Reform and Rural Development<sup>8</sup></p>	<ul style="list-style-type: none"> <li>• The Department has ring-fenced R1.2 billion for assistance to mainly target financially distressed small-scale farmers, of which R400 million has been allocated for farmers within the Proactive Land Acquisition Strategy (PLAS) programme.</li> <li>• Remainder will be channelled towards farmers primarily focused on livestock, vegetables, and poultry sectors.</li> <li>• Mechanisation, infrastructure and overhead costs are not supported.</li> </ul>
<p>Department of Tourism<sup>9</sup></p>	<ul style="list-style-type: none"> <li>• The Tourism Relief Fund, valued at R200 million, will provide a once-off capped grant assistance valued at R50 000 to SMMEs in the tourism sector.</li> <li>• The grant funding can be utilised to subsidize expenses towards fixed costs, operational costs, supplies and other pressure costs items.</li> <li>• Those entities entitled to submit an application for support include accommodation establishments (hotels, lodges, guest houses, etc), conference venues and restaurants not attached to hotels, as well as professional catering companies and travel-related services.</li> </ul>
<p>National Treasury and SARS<sup>10</sup></p>	<ul style="list-style-type: none"> <li>• The introduction of a tax subsidy to employers of up to R500 per month for the next four months for those private sector employees earning below R6500 under the Employment Tax Incentive.</li> <li>• SARS will accelerate the payment of employment tax incentive reimbursements from twice a year to monthly to get cash into the hands of compliant employers as soon as possible</li> <li>• Tax compliant businesses with a turnover of R50 million or less will be allowed to delay 20% of their employees' tax liabilities over the next four months and a portion of their provisional corporate income tax payments without penalties or interest over the next six months.</li> </ul>

<sup>7</sup> Small Business Development publishes intervention measures for SMME's during Coronavirus Covid-19, 28 March 2020, <https://www.gov.za/speeches/small-business-development-publishes-intervention-measures-smme%E2%80%99s-during-coronavirus-covid>

<sup>8</sup> Minister Thoko Didiza announces interventions to assist agricultural sector during Coronavirus COVID-19 lockdown, 6 April 2020 <https://www.gov.za/speeches/minister-thoko-didiza-announces-interventions-assist-agricultural-sector-during-coronavirus>

<sup>9</sup> See <https://smesouthafrica.co.za/the-small-business-covid-19-survival-guide-where-to-get-help/> and South African Government 'Tourism invites eligible companies to apply for the Coronavirus COVID-19 Tourism Relief Fund', 7 April 2020 <https://www.gov.za/speeches/tourism-invites-eligible-companies-apply-coronavirus-covid-19-tourism-relief-fund-7-apr>

<sup>10</sup> Ministry of Finance, Tax Measures to combat the COVID-19 Pandemic [http://www.treasury.gov.za/comm\\_media/press/2020/20200329%20Media%20statement%20-%20COVID-19%20Tax%20Measures.pdf](http://www.treasury.gov.za/comm_media/press/2020/20200329%20Media%20statement%20-%20COVID-19%20Tax%20Measures.pdf)

## How to bring sustainable relief to the SMME socio-economic environment and assist the most vulnerable SMME groups

While political leadership and state-sanctioned interventions are essential for such a state of disaster, support structures require a collaborative effort from government and the private sector. To this end, donations from the Motsepe, Oppenheimer and Rupert families have also attracted great interest. Business Partners are tasked with distributing the Rupert donation to SMMEs, via the Sukhuma Relief Programme, in the form of grants with low-or no-interest loans to those who can resume profitable businesses within a year.

Similarly, the banking sector in South Africa has come together, with Absa, First National Bank and Old Mutual offering a variety of relief measures that include payment holidays and relief options, extended loan periods and short-term credit extensions, instalment cash flow reliefs, waivers of administrative fees, and other tailored solutions.<sup>11</sup> In addition to a preferential interest rate for COVID-19 relief interventions, First National Bank has partnered with the South African Future Trust<sup>12</sup> to provide alternative funding to SMMEs “by extending financial assistance to employees of South African SMMEs who are at risk of losing their jobs or will suffer a loss of income because of COVID-19”.<sup>13</sup>

The COVID-19 crisis is not only about the closure of businesses and the downturn of economic growth but, fundamentally, is a pandemic that will heighten South Africa’s already staggering unemployment levels. Despite paying only 6% in corporate taxes and accounting for only 20% of GDP in South Africa (compared to other countries, where SMMEs can contribute up to 60% of GDP), the SMME sector in South Africa is a critical employer of approximately 47% of South Africa’s workforce.<sup>14</sup> As of 7 April 2020 Business Partners has temporarily suspended the online portal application process (for the Sukhuma Relief Programme) as a result of oversubscription.<sup>15</sup> The oversubscription of applications highlights the severe financial strain facing SMMEs in the country, and raises important questions on how government and the private sector can provide sustainable relief to South African businesses, especially micro-enterprises and those located in the township and rural economies.

The massive negative impact that COVID-19 will potentially have on the informal sector, which supports amongst the most vulnerable members of South African society, is a challenge that requires mitigation efforts from the private sector and government alike. Government efforts towards support for the informal economy includes credit facilities to spaza shops, purchase power and bulk purchasing through pre-selected and pre-approved wholesalers.<sup>16</sup>

Unfortunately, attempts to mitigate the Covid-19 situation also include the *regulation* of spaza shops, which are traditionally not licenced. Covid-19 regulations require businesses to have **temporary permits** to operate

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<sup>11</sup> SME South Africa <https://smesouthafrica.co.za/the-small-business-covid-19-survival-guide-where-to-get-help/>

<sup>12</sup> The South African Future Trust is a Public Benefit Organisation established by Nicky and Jonathan Oppenheimer.

<sup>13</sup> CNBC Africa ‘FNB extends aid for battling SMEs in South Africa amid COVID-19, lockdown’, 6 April 2020, <https://www.cnbc.com/news/2020/04/06/fnb-extends-aid-for-battling-smes-in-south-africa-amid-covid-19-lockdown/>

<sup>14</sup> N Moola ‘South Africa must support SMEs to save jobs.’ *Daily Maverick*, 7 April 2020 <https://www.dailymaverick.co.za/article/2020-04-07-south-africa-must-support-smes-to-save-jobs/>

<sup>15</sup> Business Partners, <https://www.businesspartners.co.za/en-za/media-centre/media-releases/south-africa/covid-19-sukuma-relief-programme-for-sa-smes-hits-capacity-%E2%80%93-temporarily>

<sup>16</sup> SA News *SMME, informal sector relief interventions unveiled*, 31 March 2020, <https://www.sanews.gov.za/south-africa/smme-informal-sector-relief-interventions-unveiled>

if they do not have permits issued by their municipality in terms of the Business Act 71 of 1991.<sup>17</sup> The COVID-19 regulations do not permit foreign owners of spaza shops or similar informal fruit and vegetable traders to operate unregistered businesses as per the Immigration Act 13 of 2002 and, instead, requires them to apply for temporary permits<sup>18</sup> Clearly, there are notable deliberate efforts at regulatory avoidance – from both South African and foreign spaza shop owners. There are also the very small traditional South African spaza owners who cannot afford the costs of formalising the business, yet they provide an invaluable service to poorer communities.

Ensuring ‘regulatory innovation’<sup>19</sup> for informal businesses could introduce efficient and administratively simple requirements that SMMEs can comply with and procure assistance in the shortest time possible. This includes accessing UIF benefits, and support mechanisms available that enable employers to retain employees during the lockdown period. The desire to over-regulate poses a serious challenge to the survival of these businesses, and inhibits access to real-time support to help prevent the collapse of the entire informal supply chains that would also be affected by newly proposed regulation requirements. Contrary to the current approach, business licensing should not be utilised as a tool to organise the informal sector, and is not a proxy for inadequate spatial planning and the absence of adequate business support structures and municipal services to locations, such as townships and rural towns, which support spaza shops.

Sustainability of formal SMMEs will require an understanding from government and private sector alike of the specific industry needs to enable survival and to move into a post-COVID-19 world, and financial response from Banks needs to accommodate this reality – through direct support mechanisms to SMMEs. For example, commercial banks could also make bridge funding to larger corporates conditional upon two things: retention of as many employees as possible and expedited payments to SMME suppliers.<sup>20</sup>

The informal sector sustains a large proportion of the country’s poorest and most vulnerable population group. Over-regulation (and over-taxation) will destroy this sector, or it will simply avoid all attempts to be monitored or formalised. Only through clear incentives for simplified registration processes – for potential benefits of e.g., UIF, or opportunities and support offered by Seda and Sefa – will informal businesses be slowly integrated into the more formal marketplace where growth prospects are open to them.

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<sup>17</sup> Department of Small Business Development. DIRECTIONS ISSUED IN TERMS OF REGULATION 10(8) OF THE REGULATIONS MADE UNDER SECTION 27(2) OF THE DISASTER MANAGEMENT ACT 50 of 2002: MEASURES TO PREVENT AND COMBAT THE SPREAD OF COVID-19.

<sup>18</sup> Ibid.

<sup>19</sup> Also known as ‘smart regulation’ especially in the OECD context, focused on efficient outcomes with minimal regulatory burden.

<sup>20</sup> N Moola, op. cit.