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Analysis of the impact of COVID-19 on micro, small and medium-sized enterprises in South Africa

FINAL REPORT

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1. Introduction

The coronavirus pandemic has resulted in a significant global economic downturn, with severe socio-economic impacts on nations across the globe (UNDP South Africa, 2020). By April 2021, South Africa had recorded more than 1 560 000 positive coronavirus cases since 5 March 2020¹; and the country has undergone its second wave of cases, with expectations for a third in the coming months. The first wave of the pandemic forced the country into a nationwide lockdown, resulting in severe impacts on the economy, businesses, and the livelihoods of South Africans. South Africa's economy was estimated to have contracted by at least 8% for the year 2020, compounded by the unemployment rate reaching a record high of 32.5% in the fourth quarter of 2020 and youth unemployment recorded at 63.2%.² Importantly, the pandemic made landfall at a time where the economy had been challenged with slow economic growth; having already experienced two consecutive quarters of a recession, sustained low levels of investment and growth, and a series of credit rating downgrades.³ The COVID-19 pandemic has therefore deepened an economic crisis that South Africa was already facing.

The effects of the pandemic have been particularly heightened for South African Micro, Small and Medium-sized Enterprises (MSMEs), who were already contending with a contracting economy (McKinsey & Company, 2020).⁴ The additional shocks caused by the pandemic through the national lockdown have put further pressure on the operations of these businesses, causing disruptions within value chains and in terms of accessing customers. MSMEs play a critical role in job creation and economic growth. In South Africa, MSMEs represent more than 98% of businesses, employ between 50% and 60% of the country's workforce across all sectors, and are responsible for a quarter of job growth in the private sector (McKinsey & Company, 2020). It is therefore important to not only protect but develop these entities during periods of economic turmoil as their survival is imperative for economic recovery.

The South African Economic Reconstruction and Recovery Plan launched in October 2020 sets out the need to build a sustainable, resilient and inclusive economy through interventions such as

¹ <https://www.nicd.ac.za/latest-confirmed-cases-of-covid-19-in-south-africa-18-apr-2021/>

² http://www.statssa.gov.za/?page_id=1854&PPN=P0211&SCH=72942

³ https://www.gov.za/sites/default/files/gcis_document/202010/south-african-economic-reconstruction-and-recovery-plan.pdf

⁴ For the current research, the researchers apply the classification as applied by the Department of Small Business Development in South Africa. There are differences by economic sector (See DSBD, 2019). Generally, microenterprises are those with less than 10 employees, small enterprises have between 11 and 50 employees, and medium enterprises are those with 51 to 250 full time equivalent of paid employees. There are also corresponding turnover-based classifications.

strategic localization, reindustrialization and export promotion.⁵ In doing so it is important to recognize that there is a crucial role for the facilitation of economic transformation and empowerment through the inclusion of MSMEs in the mainstream economy. There is increasing appreciation in the South African policy discourse that competition policy has an important role to play in achieving economic inclusion, participation and consumer welfare more widely (Alves et al., 2020). This is because the process of competitive rivalry can stimulate improved products and services, innovation and investment (Roberts, 2020). However, the benefits of this process can only be realized if market entrants and smaller firms can bring their goods and services to consumers and compete fairly. Stimulating rivalry is all the more pertinent in South Africa, where there has been growing concern over increased concentration and market power in key economic sectors (Bell et al., 2018). Competition agencies have an important role to play in this regard.

The Competition Commission of South Africa (CCSA) has done extensive work on various issues related to the pandemic, particularly in terms of addressing pricing related conduct and exemptions for companies working together in the COVID-19 period. An overview of this work is provided in section 4.2 of this report. While this report does not focus on the various cases of anticompetitive conduct which have been covered in various public debates in South Africa, we do highlight the broader role that the CCSA could play in terms of advocacy and coalition building as well as some key areas that the authority has continued to focus on in addition to pricing related conduct; which both have wider impacts for MSMEs. In considering these issues, the core of the analysis here is focused on the role of competition policy in other emerging issues such as enabling greater access to markets particularly for MSMEs.

High barriers to entry in particular have been shown to significantly limit the opportunities for smaller rivals to contest markets effectively (Goga and Vilakazi, 2020). The dramatic decreases in demand and the inability of businesses in non-essential industries to operate once the pandemic made landfall came with the expectation that the challenges faced by small rivals will be more pronounced going forward, due to COVID-19. The aim of this study is to analyze the impact of COVID-19 on MSMEs in South Africa through a competition policy and market access lens. The need to reduce barriers to entry and stimulate rivalry for economic recovery means it is important to think about the role of competition agencies in helping to analyze and address the differential impacts of the pandemic on MSMEs. In particular, there is a need to focus on the

⁵ https://www.gov.za/sites/default/files/gcis_document/202010/south-african-economic-reconstruction-and-recovery-plan.pdf

differential impacts on MSMEs of different parameters such as funding, market access, digitalization and the role of large firms.

As the sections to follow will highlight, there have to date been various studies focusing on the impact of COVID-19 on South Africa's MSMEs. However, these studies have focused mainly on the financial distress that the pandemic has brought on smaller market players. In-depth interviews were carried out with selected MSMEs in South Africa for the purposes of this research. Amongst other issues, MSMEs have indicated that the effects of the pandemic are nuanced and go beyond financial distress. For instance, of the interviewed firms, the effects of the pandemic varied depending on the various business models and the ability of these firms to adapt to changing economic conditions and consumer behaviour. Importantly, not all experiences have been negative. Some experiences have been about growth and resilience, which to a large extent speaks to the critical role that these firms play in the economy. The study identifies opportunities for policy and competition agency support for these firms.

The main objective of this study is to assess the challenges faced by MSMEs in South Africa during the COVID-19 pandemic. This assessment has been conducted with a focus on various sectors in the South African economy including the agriculture, construction, food and beverages and manufacturing sectors. The study looks at the impact of COVID-19 on competition and market dynamics in each of the selected sectors as well as the role that competition policy can play in addressing the challenges faced by MSMEs. This is part of the implementation of UNCTAD's activities of Phase 2 within the United Nations COVID-19 Response focusing on MSME recovery (Pillar 3).

The study also considers the measures that have been taken by the government, competition authorities and other institutions to protect MSMEs and competition before, during and after the pandemic and whether these measures have been sufficient. Furthermore, the analysis seeks to determine how market access, access to finance and competitiveness of MSMEs can be strengthened.

In order to achieve the objectives of the study, the research addresses the following questions:

1. How has the COVID-19 pandemic impacted MSMEs in the identified economic sectors in South Africa from market access and competition policy perspectives?

2. What measures have been taken by competition authorities and other government institutions to protect MSMEs and competition during and after the pandemic and have these measures been sufficient and/or effective?
3. How can market access and competitiveness of MSMEs be strengthened during and beyond the pandemic?

The study commences with a review of existing studies on the impact of COVID-19 on MSMEs in South Africa as well as the nature and extent of initiatives from government and the private sector. This served as the basis from which to begin to assess whether competition and market access issues to protect MSMEs have been considered in the currently available support programmes.

The primary data gathering activities involved conducting multiple, semi-structured online interviews with 12 selected MSMEs in various sectors as explained further below and in Annexure 1. Within a relatively small sample, MSMEs were selected specifically to ensure that various different sectors of the economy were represented. The goal of the interviews was to understand the practical experiences of MSMEs during the pandemic; particularly to draw out insights about whether the incentives and initiatives available to them have been able to protect and enhance their ability to continue to participate in the economy. Practical insights from the experiences of the MSMEs were used to identify recommendations that competition agencies and other policy makers can employ to support MSMEs. Throughout the research process, there has been collaboration with UNCTAD and the Competition Commission of South Africa (CCSA) where possible to gather information and ultimately develop materials to disseminate and test the results of the study.

The sample size for this inquiry is relatively small, with a focus instead on providing more detailed insights on particular types of firms and initiatives. As such, the companies considered in this study are analysed as case studies to test specific economic phenomena occurring as a result of the pandemic, and to augment the findings of wider survey-based studies as reviewed in the following section. The approach adopted has enabled the researchers to answer causal questions and identify very specific mechanisms at play in different markets, including the specific ways in which market access conditions have changed and why. This approach has allowed the researchers to identify if market access has deteriorated because of specific changes in terms of trade, or conditions offered by larger buyers, or changes in credit terms and payments terms, or other quality requirements that can affect the ability of businesses to earn and maintain production.

2. Context: The impact of COVID-19 on MSMEs in South Africa

The study will present a review of existing studies that have been conducted on the impact of the COVID-19 pandemic and the subsequent lockdown on small businesses in South Africa. This section offers an overview of findings from the main studies that have considered the impacts of COVID-19 on businesses.

A study by McKinsey & Company⁶, which focuses on businesses with a turnover of more than R15 million and less than R500 million across 12 different industries, outlines the challenges that SMEs are facing due to the COVID-19 lockdown measures (McKinsey & Company, 2020). SMEs are less resilient during times of crisis typically because they have limited cash reserves, smaller client bases and less capacity to manage commercial pressure.

The study identified six main challenges that MSMEs have faced (McKinsey & Company, 2020). The first challenge is having limited access to low- and medium-cost funding which constrains business growth. Secondly, there is the challenge that even when funding is made available, SMEs fail to access the required support because of low awareness of opportunities as well as the lack of financial knowledge. The third issue is that the decrease in consumer demand has led SMEs to limit expansion plans and identify alternative channels to sell their products or services. Another challenge is the struggle to access the right markets in order to sell these products. In addition to this, owners face difficulties in empowering their staff to lead and drive the business. Finally, the sixth challenge is that liquidity and cash flow management has not been possible or effective.

In November 2020, FinFind, an online platform that was developed to address the finance challenges of MSMEs in South Africa, released the South African 'SMME COVID-19 Impact Report' in partnership with the National Department of Small Business Development as well as other key role players, including the government's Small Enterprise Development Agency (SEDA) (FinFind, 2020).⁷ The study included a financial assessment of businesses before and after the pandemic, COVID-19 relief funding applications and rejections, the effect of the lockdown on employment and on business operations, online functioning before and after the pandemic, key challenges for SMEs and business owners' perceptions of the future.

⁶ <https://www.mckinsey.com/featured-insights/middle-east-and-africa/how-south-african-smes-can-survive-and-thrive-post-covid-19>

⁷ <https://knowledge.finfind.co.za/the-sa-smme-covid-19-impact-report>

The survey was conducted with a sample of 1489 MSMEs across different economic sectors in all 9 provinces of South Africa. In this sample, 42.7% of businesses had closed by November 2020 due to the pandemic and lockdown which began in March 2020. Overall, 60% of full-time jobs were lost across all MSMEs and 76.8% of part-time jobs were lost. The sectors with the most closures due to the pandemic were: construction (14.2%), food and beverage (9.9%) and hospitality (9.7%) (FinFind, 2020). The sectors with the highest percentage of businesses that remained open were: retail and wholesale (10.5%), information technology (10.4%) and business consulting (9.9%) (FinFind, 2020).

Most of the businesses that managed to remain open during lockdown had been operating for more than 3 years. Start-ups and early-stage businesses struggled the most and businesses earning below R120 000 per annum had the highest closures, largely due to their expenses exceeding their income. These businesses are also least likely to qualify for funding - the primary reason for commercial banks rejecting MSME funding applications is poor consumer credit score and records or history. Of the businesses that remained open, 73.9% could not service their debt during lockdown. Only 19.6% of these received payment holidays from formal lenders, while 41% of them were able to find alternative ways to generate income (FinFind, 2020). Interestingly, 10% of these businesses intended to replace their original income stream with the new income stream, a theme which recurs in the assessment of interview data to follow.

Businesses faced additional costs due to lockdown such as the costs of personal protective equipment, data for online work for employees working from home, internet connectivity equipment such as mobile routers and Wi-Fi, licenses for online meeting software such as Zoom, purchasing business cell-phones and laptops for employees working from home, as well as providing IT support for remote workers. However, there were also savings that were reported including savings on travel and accommodation, staff and office supplies and client entertainment.

Of the businesses that remained open, 21.1% experienced an increase in their expenses, with 70.8% being concerned about their ability to pay expenses in the month following the survey (FinFind, 2020). 30.5% of businesses that remained open could not pay staff salaries, 53.1% could not pay the owner's salary, 37.6% could not pay any of their suppliers, and 34% could not pay property rental (FinFind, 2020).

In terms of business funding, 47.9% of MSMEs applied for relief funding and, of these, 91% were rejected (FinFind, 2020). Funding was requested from the government, banks, formal lenders (other than government and banks) as well as informal lenders, family and friends. 99.9% of businesses that closed down had applied for funding and were rejected. In most cases,

government did not provide reasons for rejecting relief fund applications. In some cases, the following reasons were given by the government: the business was not generating enough revenue to qualify, could not produce financial documents, poor consumer credit score/report/history, and no tax clearance certificate (FinFind, 2020).

Lockdown magnified the challenges that small businesses already face. The challenges identified in the FinFind survey include not being able to get access to funding; being unable to pay some or all salaries; struggling to find new clients while working from home; customers not paying their invoices; high cost of data working from home; reduced staff numbers or staff hours; not being able to travel nationally or internationally for work purposes; not being able to pay the rent for the work premises; not being able to pay suppliers; internet connectivity issues while working from home and lack of equipment for staff. Additionally, many small businesses were not adequately prepared for the challenges of working from home as 57.8% of businesses had never had an online meeting before and 59.8% of businesses that remained open had never paid for digital marketing (FinFind, 2020).

In April 2020, '22 on Sloane', an organisation that offers programmes that are specifically designed to help entrepreneurs to develop and grow their businesses, released the results of an online survey of 120 small businesses, start-ups and stakeholders that assessed their needs and expectations during this pandemic.⁸ The survey respondents represented all 9 provinces, with Gauteng (South Africa's main economic hub) making up 83% of the sample. The industries include services, ICT, manufacturing, financial services, education, health, energy, agriculture, tourism, logistics, mobility, mining, and other unnamed sectors.

The 22 On Sloane study predicted in April 2020 that over 55 000 SMEs would not survive the coronavirus pandemic. As a result, between 42 350 and 423 500 people employed by SMEs could lose their jobs. 92% of the respondents said that COVID-19 has affected their business because their business involves contact with people. 37% of the respondents said that they are unable to provide their product or service virtually.

The most prevalent impact of COVID-19 across the sample was the effects of limited to no physical interaction with clients because of travel restrictions. Other ways in which business operations were affected include the cancellation and postponement of jobs, bookings, meetings, contracts and training; a decline in productivity as a result of working from home; budget

⁸ <https://www.22onsloane.co/wp-content/uploads/2020/11/COVID-19-Impact-on-South-Africa-SMMES-April-2020-22-ON-SLOANE.pdf>

constraints from clients cutting costs; the supply chain being affected; lower revenue; low patronage; slow decision-making; fear of exposure to the virus, and uncertainty about how long the regulations pertaining under the National State of Disaster would be in place.

Salaries and wages, sales, rentals, debtors, investments, and assets have all been affected, with 71% of the businesses not having enough cash to stay operational in the 3 months following the survey. Many businesses had to use reserves and loans to stay afloat. This has led to 56% of the businesses indicating that there is a 10% likelihood that they may have to retrench some of their staff. The decision to retrench would be influenced by low sales, liquidity and scaling down. Future business opportunities would require virtual working, diversifying offerings and thinking of disruptive approaches.

The Centre for Development and Enterprise published a report on the COVID-19 impact on small businesses and gaps in current solutions in April 2020.⁹ The study surveyed 233 micro enterprises in townships across 17 industries from 6 provinces to evaluate how their businesses were affected by the pandemic. On average, the businesses surveyed employ 6 people. The results indicate that 85% do not receive any government grants, 95% cannot afford to pay their employees, 93% do not have any other sources of income and 50% do not think that their business will survive the pandemic (CDE, 2020). Furthermore, 86% do not know where to go to access emergency funding and 87% cannot run their business from home.

The gaps in the interventions that have been identified in the CDE survey are, firstly, eligibility for funding from the public and private sector. There are strict compliance requirements for small businesses, including but not limited to the requirement that the business has to be registered, tax compliant and compliant with the requirements of the Unemployment Insurance Fund which had been identified by the government to provide relief funding relating to loss of employment. The second is asymmetric and misleading information. There is a gap in funding information with some entrepreneurs not knowing where to find assistance and the misunderstanding that some funding options are grants when they are actually loans (CDE, 2020). The third gap is the exclusion of foreign-owned small businesses due to the limited availability of funding for foreign-owned businesses. Lastly, the time lag between the funding application and when funding is received is too long for businesses that are already in distress.

⁹ <https://www.cde.org.za/covid-19-the-impact-on-small-businesses-and-gaps-in-current-solutions/>

From the problems identified above, the following possible solutions were proposed: eligibility requirements for assistance could be relaxed, funding channels need to be as accessible as possible, funding needs to be deployed efficiently and urgently, more assistance needs to be in the form of grant funding, and small businesses need a representative body. Relaxing some of the eligibility requirements includes accommodating foreign business owners and not excluding them from access to finance.

Finally, the Small Business Project, an institution that designs and implements enterprise development programmes, conducted a review of 22 surveys that all look at the impact of COVID-19 lockdown measures on SMEs.¹⁰ The underlying surveys were conducted between April and September 2020. The study identified common threads between the surveys and provides findings according to two broad categories, namely, “impact” and “expectations”. The impact is assessed in terms of drop in revenue, staff layoffs, applications for relief, approval and receipt of relief, digital uptake as well as permanent closure. The expectations are assessed in terms of survival for one month or less, survival for between one and three months and survival for between three and six months.

The combined survey results indicate that in the impact category, up to 96% of SMEs experienced a drop in revenue, up to 91% will lay off staff, up to 92% applied for relief funding while only 32% were approved for and received it, up to 63% experienced digital uptake and up to 9% had to permanently close down (SBP, 2020). In the expectations’ category, up to 30% expected to survive for a month or less, up to 86% expected to survive for a time period of between one and three months and up to 17% expected to survive for between three to six months.

Table 1 summarises the cross-cutting issues that were reported in the business surveys reviewed. The recurring theme in all of the studies is that COVID-19 deepened challenges that already existed pre-COVID. The main challenge that is referred to in all the studies reviewed is the challenge of access to funding. The need for SMEs to identify alternative channels to sell their products or services and also to find alternative ways to generate income is also a recurring theme in the studies. Furthermore, the studies highlighted the massive challenge of relief funding applications of SMEs being rejected, ultimately resulting in the closure of the businesses. However, there are currently no studies that explicitly assess the impact of the pandemic on SMEs

¹⁰ <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/02/Reflections-on-the-impact-of-COVID-19-on-small-businesses-SMEs-in-South-Africa-September-2020.pdf>

from a competition policy perspective. While some studies do highlight market access as an issue, the main focus has been on the financial burden faced by SMEs before and during the pandemic.

Table 1: Summary of issues faced by SMEs from business surveys

Survey	Financial challenges	Funding challenges	Access to markets	Employment of staff
'How South African SMEs can survive and thrive post COVID-19' – McKinsey & Company, July 2020.	Liquidity and cash flow management has not been possible or effective due to lockdown	Having limited access to low- and medium-cost funding which constrains business growth	Struggling to access the right markets in order to sell their products	
'The SA SME COVID-19 impact report' – FinFind, November 2020	Of the businesses that remained open, 21.1% experienced an increase in their expenses, with 70.8% being concerned about their ability to pay expenses in the month following the survey	Start-ups and early-stage businesses are least likely to qualify for funding	Struggling to find new clients while working from home	60% of full-time jobs were lost and 76.8% of part-time jobs were lost across all SMEs
'COVID-19 impact on South African SMEs' – 22 on Sloane, April 2020	Facing budget constraints from clients who are cutting costs as well as lower revenue. 71% of the businesses do not have enough cash to stay operational in the 3 months following the survey		37% of the respondents said that they are unable to provide their product or service virtually	Between 42 350 and 423 500 people employed by SMEs could lose their jobs
'COVID-19: The impact on small businesses and gaps in current solutions' – CDE, August 2020	93% of the sample do not have any other sources of income and 50% do not think that their business will survive the pandemic	86% do not know where to go to access emergency funding		95% cannot afford to pay their employees
'Reflections on the impact of COVID-19 on small businesses (SMEs) in South Africa' – Small business research specialists (SBP), September 2020		Up to 92% applied for relief funding while only 32% were approved for and received it		Up to 91% will lay off staff

3. Market access challenges faced by MSMEs during the COVID-19 pandemic

The various studies reviewed above point to a range of interlinked challenges facing MSMEs as a result of the pandemic. Of particular interest for the current study are issues related to market access, funding and non-financial support. These issues, along with the ability of MSMEs to adapt to the challenging business environment, were the focus of the interviews with businesses conducted as part of this study. This section unpacks the insights from the in-depth interviews carried out for this study with selected MSMEs operating in various economic sectors including food manufacturing, professional services, and construction as set out in Annexure 1. It draws from the extensive anecdotal information provided by companies in the interviews, as well as the findings of the larger business surveys conducted in South Africa to support the observations.

The inability of MSMEs to access markets has been shown to be a significant factor that hinders these firms from participating sustainably in the economy and from becoming effective rivals (Vilakazi, Goga and Roberts, 2020). For instance, research done by the Centre for Competition, Regulation and Economic Development found that various recipients of the Black Industrialists Scheme (BIS) (South Africa's flagship funding scheme for black-owned medium-sized businesses in manufacturing) struggled with securing public and private clients (Bosiu et al., 2019). In particular, these firms expressed facing biases towards established businesses (against smaller firms) along with poor responsiveness and complex procedures in supplying government departments and agencies (Bosiu et al., 2019).

The nationwide hard lockdown that was imposed in South Africa in March 2020 resulted in no business activity for firms in various sectors aside from those that were considered to provide essential services. While this had significant consequences for the cash flow of businesses as highlighted above, this also came with the expectation that smaller and medium-sized firms will also face difficulties in accessing customers during the lockdown, and even as restrictions eased. As various government and private sector participants face financial strain during this time, there has also been a reasonable expectation that this will transcend into some contracts not being honoured, trading terms becoming more onerous, and an even more difficult economic landscape for MSMEs to contend with. That is, barriers to entry and participation could be even higher due to the pandemic than historically understood.

3.1. Contracts and engagements with buyers and suppliers

Interviews of MSMEs in sectors such as food and beverages, furniture and fitting as well as professional services indicated that the effects of the value chain disruptions have been varied.

For instance, Makhamisa Foods, a manufacturer of sauces and packaged relishes, indicated that the pandemic presented a massive opportunity for their business.¹¹ Disruptions in imports meant that retailers struggled to secure products of international brands on their shelves in a timely manner, thus freeing up ‘space’ that local brands could negotiate for.¹² Furthermore, the manufacturer noted changes in the way larger retail firms were open to negotiating contracts. Given the disruptions in value chains and imports of products and inputs, larger firms have also shifted their orientation to outsourcing some production activities to local manufacturers – Makhamisa, for example, has been able to secure contracts with one of South Africa’s leading food manufacturers as well as a large restaurant chain during the pandemic.¹³

It is noted however, that the extent to which retailers and larger manufacturers have been willing to enter into contracts with MSMEs has been highly dependent on their history and association with large firms and retailers before the pandemic. In securing a contract with one of South Africa’s largest retailers during the pandemic, Makhamisa found that having partnerships and contracts with recognised brands in the past played a significant role in proving the reliability of their brand.¹⁴ This sentiment has been shared by other MSMEs. The Matogoni Group, which is a waste management firm and a manufacturer of plastics and polymers, indicated that extensive experience with retailers was instrumental for the business to secure contracts during the pandemic.¹⁵

Similarly, a medium-sized furniture and fittings manufacturer, wholesaler and retailer, The FX Group, found that disruptions in value chains and the inability of firms to import products and inputs also worked in favour of their business. The pandemic and lockdown has resulted in an increase in demand in the building and interior finishing industry (owing in part to a rise household demand) coupled with furniture retailers in South Africa beginning to increasingly rely on the domestic market for sourcing.¹⁶ The industry has seen an increasing desire from retailers to have local alternatives even where these are available at a premium in terms of price.¹⁷ This has resulted in a significant increase in both finished and unfinished wood furniture and fittings manufactured by the company.

¹¹ Interview with Makhamisa Foods, 22 January 2021.

¹² Interview with Makhamisa Foods, 22 January 2021.

¹³ Interview with Makhamisa Foods, 22 January 2021.

¹⁴ Interview with Makhamisa Foods, 22 January 2021.

¹⁵ Interview with Matogoni Group, 3 February 2021.

¹⁶ Interview with The FX Group, 2 February 2021.

¹⁷ Interview with The FX Group, 2 February 2021.

While demand has largely been sustained and increased in some sectors, businesses have had to adjust their strategies to adapt to shifts in the primary channels and the nature of consumer spending, which is in line with some of the key areas of action proposed by the McKinsey & Company (2020) report discussed above. In some businesses, retail sales have become more important relative to wholesale channels, not least because of the cash flow advantages of direct sales. In the case of The FX Group, the business has had to balance its increased exposure to upfront payment for imports of certain key inputs owing to local supply shortages, with an emphasis on retail sales locally in order to enable sufficient cash flow in the business.¹⁸ That is, the payment terms faced by businesses of this nature have changed not due to changes made by suppliers themselves which can also reflect an exercise of market power, but rather due to a shift in the balance in terms of the primary channels for reaching customers, and obtaining supplies.

Some MSMEs indicated that the pandemic adversely affected the extent to which they could access markets. One would expect that for firms that operate within the food and beverages industry, for instance, the effects of the pandemic would be mitigated because the industry was largely able to continue operations owing to its designation as supplying essential goods. However, in practice this was not necessarily the case and not all firms in different parts of the food production and supply ecosystem benefitted, and the outcomes have been mixed. This finding is also in line with those of broader firm surveys, which highlight that the food and beverages sector was one of the most hard hit sectors due to the pandemic despite some firms being presented with growth opportunities (FinFind, 2020). The common feature is that smaller producers of various food products have found it difficult to obtain listings on supermarket shelves in South Africa, or with major food product suppliers – challenges that pre-date the pandemic and remain largely unresolved in policy or by the competition authorities (Vilakazi et al., 2020).

Differences in outcomes for firms during the pandemic are shaped by various factors, including the nature of the product supplied – smaller suppliers of more niche or high end products have seemingly found it more difficult to sustain their supply arrangements or enter new retail markets.¹⁹ In particular, these suppliers, often not producing at very large scale, have found it difficult to respond to downward price pressure from larger retailers or buyers, and have had to explore other channels to sell their products. A useful illustration of this challenge is the case of The Village Market Africa, a raw honey producer and provider of organic fresh produce. Large volumes of the

¹⁸ Interview with The FX Group, 2 February 2021.

¹⁹ Interviews with The Village Market Africa, 1 February 2021, and Makhamisa Foods, 22 January 2021.

company's organic produce had been planted and intended for supply to restaurants and hotels during 2020.²⁰ However, the closure of the tourism industry meant that they did not have clients to sell this produce to, and some of the products, which are not necessarily household staples in South Africa, had to be diverted for sale at the Tshwane Fresh Produce Market. The challenge in this regard is that the producer has been exposed to a more competitive market in which they are a price taker, one in which large buyers exert significant downward pressure on producer prices and typically opt to buy large volumes at cheaper prices from more established producers and those that they have prior relationships with. There are no regulations relating to offtake from small producers or the prices applied in these markets and so smaller producers are subject to the superior bargaining power of major traders, without recourse or outside options.

Given its detailed understanding of markets, and the ongoing monitoring of food prices during the pandemic, the Competition Commission and responsible trade, industry and competition ministry can play an important role in facilitating a dialogue and intervention with major retailers and traders in food markets in particular. The ongoing state-business discussions on economic recovery strategies for South Africa and sector-specific policy masterplan programmes provide an important, existing vehicle for engagement on the issues raised, leveraging the good reputation and advocacy capacity of the Competition Commission in particular, and the recent Buyer Power provisions that have been introduced in South Africa, which are discussed further in section 4.2.

We also note that an initiative involving the agriculture ministry that aggregates smaller producers in different geographic markets to sell to the mass market, as well as the development of new township markets for emerging players can create much needed channels for smaller producers.

3.2. Government as a critical buyer during the pandemic

Providing funding for MSMEs in times of crisis is necessary, however it is not a sufficient condition for the success or survival of businesses. Most of the business owners interviewed in this and previous studies confirm that it is more impactful for the sustainability of their businesses that government and private sector organisations trade with them and purchase their goods and services, rather than simply offering MSMEs various forms of debt and equity funding support.

One mechanism of mitigating issues around gaining access to markets is through leveraging the buying power of government as a client in some sectors and sub-sectors of the economy. This is especially important during the pandemic period – while government procurement is not the only

²⁰ Interview with The Village Market Africa, 1 February 2021.

channel for many firms, it can be a large and important client and source of revenue for some companies to the extent that the state has continued to purchase many consumer and capital goods from the private sector through tenders even in the pandemic. Supporting firms in this way can also alleviate pressure on the national budget in terms of funding that is required to provide direct cash support to companies.

There are at least two channels through which government can exert influence using its strength as a buyer to directly or indirectly support MSMEs. The first is through *direct purchases* of goods through various tenders for state departments, municipalities, and agencies. Here market participants suggest that it is especially important that the terms of procurement are adequately framed to accommodate applications by smaller entities, and that recipients are paid timeously and in advance tranches where feasible. A key recommendation in this regard was for certain types of tenders including for essential products and protective equipment to be disaggregated or 'broken up' in a way that allowed for more small enterprise participants to compete, with potential to ring-fence portions for these entities.²¹

In other instances, firms said that they would be able sustain their investments and jobs, and grow their businesses even in the current business environment if they were given an opportunity to bid under more open state tenders in their industry.²² It was particularly notable to learn of a firm that had previously been funded by the government through the BIS programme to build a manufacturing plant that was still not able to access government as a potential client after various attempts over a number of years. This speaks to limited coordination and integration of the different well-meaning initiatives to support entrant firms and MSMEs – that is, *it is not only a funding issue, but more about how the ecosystem of government and private sector support measures can work cohesively together to help firms to sustain themselves in the current environment and in turn build longer term economic resilience.*

The second channel relates to the terms placed by government on firms that are awarded contracts – particularly large firms – which can provide incentives or requirements for smaller enterprises to be incorporated as partners in the execution and proceeds of projects. Some companies, such as in civil engineering and construction, are especially exposed to government demand and tenders, with one entity reporting that 70% of its revenue is derived from government contracts.²³

²¹ Interview with Trezistar, 21 January 2021.

²² Interview with Bokone Gas, 8 February 2021.

²³ Interview with Atang ECR Group, 1 February 2021.

While the government has procurement rules that direct departments and agencies to award tenders to capable MSMEs, mechanisms or rules to ensure effective implementation need to be considered along with the appropriate oversight that these rules are adhered to. Where MSMEs cannot reasonably meet the demand of a specific department and there are opportunities for contracts to be split to accommodate MSMEs, these opportunities should be leveraged.

3.3. Business models and adaptability

The issues raised above regarding market access indicate that the different impacts of the pandemic on MSMEs are in part explained by the nature of the sector a firm operates in, the different business models used by firms (even in the same sector), and the clients that they target. For instance, in our sample, the businesses that fall broadly within the same sector such as food production and food services, have to a large degree not had similar experiences in terms of the effects of the pandemic on their businesses, as discussed below. This outcome illustrates that different business models and the nature of client relationships and contracts matter.

This section discusses the role that different business models and the ability of firms to adapt in challenging times have played in the way MSMEs have dealt with the effects of the pandemic. The approach in analysing these issues, which are a critical practical aspect of market access, has been to obtain details of specific experiences of companies to better understand the nature of the changes that have taken place, which enables better policy and competition agency intervention, where relevant. That is, a key gap in the previous assessments (surveys) of MSMEs during the pandemic is that studies have stopped at understanding the loss of revenues or market access at an aggregate level (typically at the level of lost revenues), without exploring whether there are nuanced experiences by sector or type of firm, and/or whether any adverse outcomes can be linked to the exercise of market or bargaining power by large firms in particular.

The discussion so far has highlighted that the pandemic impacted MSMEs in varying ways and degrees. However, it is just as important to understand the specific distinctions that set firms apart within and across sectors in relation to the effects of the pandemic and the lessons that can be drawn from a policy perspective.

The experiences of Makhamisa Foods, Morish Cuisine Catering and The Village Market Africa are compared to highlight that the nature of clients of businesses and the business models themselves have played an integral part in the way that the pandemic has impacted specific firms. All three firms participate in the food and beverages market broadly; however, they have different types of clients. For instance, Makhamisa Foods manufactures bottled sauces and relishes and

relies on retailers, food manufacturers, eateries and restaurants as the main route to market.²⁴ On the other hand, Morish Cuisine Catering, a corporate caterer, has corporate entities as major clients, and therefore relies on corporate spaces and office parks, events and gatherings as the primary route to market.²⁵ The Village Market Africa targets mainly corporate clients for its raw honey offering as well as hotels, restaurants and eateries for its fresh organic produce offering; and relies on its own retail and marketing efforts as the route to market.²⁶

As discussed earlier, disruptions in value chains across the globe including on the ability of retailers to import products in a timely manner, have opened up opportunities for firms such as Makhamisa Foods to accelerate their presence on retail shelves. What has been important here is both their ability to engage with large retailers and food manufacturers, combined with these larger firms being forced into sourcing from local alternatives as lockdowns were imposed in different countries and regions from which they would normally import.²⁷ Importantly, Makhamisa Foods notes that the process of listing with a large retailer is stringent and onerous for an MSME.²⁸ Previous business relationships with large well-known brands, which many other MSMEs do not have, went a long way in proving the company's credibility and reliability, along with obtaining a food safety standard certification to meet buyer requirements.²⁹

On the other hand, for catering, food service and hospitality entities there have been challenges during the pandemic because their main clients are corporate entities and many business premises and corporate gatherings were closed down as staff worked from home.³⁰ Moreover, even as lockdown restrictions eased, corporate offices decided to remain closed despite an allowance by the government for a percentage of staff to work from business premises on rotation.³¹ For specific businesses, such as Morish Cuisine, the significant decline in demand led to a sharp contraction in the number of employees of the company to around a quarter of the staff complement in early 2020, and business property such as vehicles had to be sold off.³² Similarly, food companies such as The Village Market Africa have not been able to reach key corporate clients in the hospitality and food services industry which meant exploring alternative routes to

²⁴ Interview with Makhamisa Foods, 22 January 2021.

²⁵ Interview with Morish Cuisine Catering, 22 January 2021.

²⁶ Interview with The Village Market Africa, 1 February 2021.

²⁷ Interview with Makhamisa Foods, 22 January 2021.

²⁸ Interview with Makhamisa Foods, 22 January 2021.

²⁹ Interview with Makhamisa Foods, 22 January 2021.

³⁰ Interview with Morish Cuisine Catering, 22 January 2021.

³¹ Interview with Morish Cuisine Catering, 22 January 2021.

³² Interview with Morish Cuisine Catering, 22 January 2021.

market such as public fresh food markets which have not been as lucrative because of a bias towards larger farmers and suppliers.³³

The discussion above illustrates the simple point that MSMEs are highly vulnerable during the pandemic to the changes in procurement and buying strategies of larger, corporate entities. This suggests that there may be a role for agencies such as the Competition Commission, which has already made significant progress on food pricing and value chain issues during the pandemic (section 4.2), and business groups such as Business Unity South Africa (BUSA), in advocating for favourable contracting and retention arrangements for MSMEs that typically do not have the bargaining power to negotiate their own terms with corporate clients. A similar campaign, Pay-in-30 was launched by the SA SME Fund in 2020 to encourage large companies to pay MSMEs within 30 days during the pandemic to support their business cash flow.³⁴ *Where resources are available, larger entities can be encouraged to play a significant role in supporting MSMEs within their supply and value chains during and after the peak periods of the pandemic and national lockdown periods, including in the way they pay and contract with these smaller entities.*

There are also existing Supplier Development Programmes (SDPs) that can be leveraged (despite pressures on firms to reduce the scale of these interventions) – recent evidence in Southern Africa demonstrates that SDPs are shifting from a narrow focus on short term corporate social investment initiatives to meaningful incorporation of MSMEs in major supply chains in the region (das Nair and Landani, 2020).

3.4. Contracting arrangements and adaptation of business activities

The experiences of MSMEs have been mixed with respect to any changes in their contracting arrangements with suppliers or customers as a result of the pandemic. In some cases, external partners have honoured their contracts with the businesses analysed here, while in others partners have withdrawn from existing arrangements. The implication of the latter is that substantial portions of turnover have been lost by the MSMEs, with significant adverse impacts on their businesses. Two important cross-cutting insights emerge from the analysis of these issues:

³³ Interview with The Village Market Africa, 1 February 2021.

³⁴ <https://sasmefund.co.za/2020/11/17/cash-flow-critical-for-sme-survival-over-50-ceos-commit-to-paying-sme-suppliers-within-30-days/>

- In most cases, the MSMEs have had a favourable experience in terms of the willingness of their suppliers, buyers or external partners to make various allowances to accommodate or help their businesses during the pandemic.
- The MSMEs demonstrated a high level of business agility and adaptability in the pandemic environment, so-called “pivoting”, particularly in instances where their terms of trade, routes to market, or external contract arrangements have been adversely affected during the economic slowdown.

The various examples, discussed below, also demonstrate that MSMEs with pre-existing, longer term contractual agreements with their suppliers, buyers or customers have benefited from those arrangements being in place and honoured during the pandemic period. Competition agencies and responsible ministries can play a key role in advocating for a continuation of these practices in industry.

- Landlords have in some instances allowed for grace periods in the payment of rental fees by MSMEs, with successive extensions being provided to allow the businesses to recover.³⁵ As rental commitments for business premises are a significant part of the expenses of smaller businesses, allowances of this nature have had a significant positive impact on a number of the businesses studied here.
- There appears to be a benefit from MSMEs having in place contract arrangements which accommodate a retainer or fixed fee component. For example, for Morish Cuisine, a business that operates corporate office park canteens, their contract includes a standard monthly management fee component which has meant that the business has been able to collect management fees from its two corporate clients (with one client paying in full and the other paying 50%) despite the corporate premises not being operational during lockdown.³⁶ This model ensures that some of the baseline costs that the operator faces are covered.
- Suppliers cancelling or reducing their commitments can have a very damaging impact on MSME businesses, particularly where the business is dependent on a small number of local suppliers. Having alternative options in terms of the ability of the business to source from other suppliers, or to repurpose existing equipment or capacity is critical for the

³⁵ Interview with Morish Cuisine Catering, 22 January 2021.

³⁶ Interview with Morish Cuisine Catering, 22 January 2021.

survival of MSMEs.³⁷ For example, The FX Group was able to respond to local supply cuts by switching to imports, albeit it at significant operational cost³⁸; while Bokone Gas responded to supply cuts by leasing out its equipment to other businesses to earn additional revenues.³⁹ Another business used its existing contacts and network to start offering protective equipment to various existing clients.⁴⁰

The latter issue is especially important and highlights a critical area of vulnerability for MSMEs. Many MSMEs do not have relationships with multiple suppliers because their offtake quantities are typically smaller, and it can be difficult to manage relationships with multiple suppliers. Furthermore, in some industries in South Africa upstream supply or production markets tend to be highly concentrated in product market and/or geographic dimensions, such that there are very few, if any, viable supply alternatives.⁴¹ It can also be a lengthy and difficult process to acquire new supplier contracts or arrangements with clients despite the track record of the company, and especially in instances where a lesser-known product or brand is being introduced.⁴²

In these adverse contexts, the ability to adapt is critical, albeit that it leads to suboptimal business outcomes in the short term. Repurposing of capacity has provided some short term reprieve and has allowed MSMEs to sustain salaries and wages to some extent.⁴³ Several MSMEs have introduced new lines of business that are related or adjacent to their traditional core business.⁴⁴ This signals a capability of MSMEs that is perhaps less replicable by larger, established firms particularly in traditional upstream production industries. That is, *an important feature of more resilient economies and businesses is likely to be greater openness in markets to diversity and plurality in business models and meaningful participation by MSMEs.*

Businesses that have relied on sales in retail-format outlets have needed to develop new strategies for reaching clients, including pursuing online channels such as Takealot, South Africa's largest online shopping site.⁴⁵ While listing requirements can be cumbersome, meeting

³⁷ Interviews with The FX Group, 2 February 2021, and Bokone Gas, 8 February 2021.

³⁸ Interview with The FX Group, 2 February 2021.

³⁹ Interview with Bokone Gas, 8 February 2021.

⁴⁰ Interview with Trezistar, 21 January 2021.

⁴¹ Interview with The FX Group, 2 February 2021.

⁴² Interviews with Makhamisa Foods, 22 January 2021; and Bokone Gas, 8 February 2021.

⁴³ Interviews with Motso Designed Interiors, 2 February 2021; and Bokone Gas, 8 February 2021.

⁴⁴ See, for example, interview with Motso Designed Interiors, 2 February 2021.

⁴⁵ Interviews with The Village Market Africa, 1 February 2021; and Motso Designed Interiors, 2 February 2021.

these requirements or exploring different online channels does mean that some businesses can compensate for losses in physical, store-front sales.

An important development in the pandemic is that some of the businesses are now considering adoption of online channels as a permanent component of their business strategies going forward. The implication from a policy perspective is that terms of access for small businesses to list on various platforms can be a critical barrier to entry that stifles businesses, and so there may be an important role for competition authorities in monitoring and intervening in these new markets, particularly in terms of *unjustifiable high listing fees, unduly onerous requirements, and potential abuses of buyer power.*

The above discussion has explained the differential impacts that the pandemic has had on MSMEs depending on the nature of their arrangements with clients and suppliers, and their ability to adapt their businesses. There is evidence of a significant degree of accommodation by suppliers and clients of MSMEs to help smaller businesses to endure the depressed economic environment, as well as evidence of significant adaptability and resilience on the part of MSMEs. Indeed, most of the firms interviewed expect to continue operations (albeit in reduced form) in the short term, which is due in large part to their existing arrangements with external partners. We note, however, that not all businesses have been able to adapt, as demonstrated in the findings of various MSME surveys in South Africa (SBI, 2020; CDE, 2020; On Sloane, 2020; FinFind, 2020). Nonetheless, the strategies for resilience shown by some firms speaks to the critical role they can play in job creation, economic growth and the rebuilding of the South African economy post COVID-19 (see McKinsey & Company, 2020).

By their nature, MSMEs are often dependent on a few contracts or supply relationships. This means that they are especially vulnerable to changes in these relationships either through changes in their business environment or the leveraging of market power and buyer power by large external suppliers or clients. *In the latter instance, there is a critical role for competition agencies in monitoring and advocating for favourable conditions for MSMEs, given the unique and in-depth knowledge that competition agencies (and other regulators) have about specific markets and sub-sectors. This applies also to digital platforms that are emerging as important routes to market for MSMEs.*

Protecting supply and customer relationships of MSMEs, or at least making them aware of their rights and available recourse through competition laws and other channels is also indirectly valuable in that it can allow many vulnerable businesses to maintain their place in value chains, earn revenues, and thus relieve the significant pressure that has been placed on government

resources in terms of emergency relief funding. The lack of funding and other forms of non-financial support, as discussed below, has been a critical challenge in South Africa.

4. Government and private sector responses to address MSME challenges

The interventions of the South African government and the private sector in response to the challenges faced by MSMEs during the pandemic have been wide ranging. Our assessment focuses on those measures relating to financial and non-financial support, as well as competition agency interventions in this period to the extent that they relate to market access challenges and MSME sustainability generally.

4.1. Overview of funding and non-financial support initiatives

There is an overwhelming number of support initiatives that have been developed for MSMEs in South Africa to provide relief during the pandemic. Relief initiatives have been provided by both the private and public sectors, spanning across industries, and encompassing financial and/or non-financial support.

A total of 31 support initiatives are listed in Table 2 below. While these are not exhaustive of all initiatives, they provide an overview of initiatives that are specifically available for small enterprises in South Africa, and in particular those that are relevant for the analysis in this study. Information on initiatives and support programmes was sourced from the Small Business Institute, which provides information on private and public support programmes throughout the pandemic.

The Department of Small Business Development (DSBD) is the Ministry mandated to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, small businesses, and cooperatives, and ensure an enabling legislative and policy environment to support their growth and sustainability.⁴⁶ It is therefore expected that the DSBD would have initiatives specifically for small businesses. In partnership with the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA) (which are both agencies of DSBD), the DSBD developed a COVID-19 response programme containing various relief initiatives, which are listed below. Initiatives that have been provided by DSBD have been targeted toward MSMEs in both the formal and informal sector.⁴⁷ For instance, the SMME Relief Finance Scheme provides a soft loan facility to assist existing businesses in keeping them afloat during

⁴⁶ <http://www.dsbd.gov.za/>

⁴⁷ In this study, the researchers were unable to explore the issue of the informality of businesses further. This is an important area for further research.

the COVID-19 pandemic for a period of 6 months from April 2020. The dedicated spaza shop support initiative aims to strengthen spaza shops (small informal stores) in the informal sector and facilitate bulk buying opportunities.

There are other government departments and institutions that developed funding relief mechanisms for South African registered businesses. These include from government departments and institutions such as National Treasury, the Industrial Development Corporation (IDC), the Department of Tourism and the National Empowerment Fund.

Table 2: COVID-19 relief interventions for MSMEs by government and private sector

Institution	Scheme	Description
National Treasury, South African Reserve Bank and commercial banks	COVID-19 Guaranteed Loan Scheme for Small and Medium Enterprises	The purpose of this scheme is to help small and medium-sized businesses and the economy. In terms of this scheme, R200 billion will be ultimately made available for new loans to existing customers. The initial phase has been R100 billion. Loans are available from banks to eligible businesses in good standing with their commercial banks with an annual turnover of less than R300 million.
Department of Small Business Development	SMME Relief Finance Scheme	A soft loan facility aimed at assisting existing businesses in order to keep them afloat during the COVID-19 pandemic for a period of 6 months from April 2020.
Department of Small Business Development	Business Growth and Resilience Facility	To fund SMMEs who produce or supply health care and related products that are required to combat the spread of COVID-19.
Department of Small Business Development	Restructuring of SEFA funded loans	A payment holiday given to SEFA funded SMMEs for a period of a maximum of 6 months to reduce the installment burden of loan obligations during the COVID-19 pandemic.
Department of Small Business Development	Informal sector	Tailor made facilities to the informal sector.

Department of Small Business Development	Debt Relief Finance Scheme	Small businesses that are negatively affected, directly or indirectly, due to the COVID-19 pandemic
Department of Small Business Development	Dedicated spaza shop support	To strengthen spaza shops as locals' convenient access to basic goods and facilitate bulk buying opportunities and realise the potential for spaza shops to serve as market for locally manufactured goods.
Department of Tourism	General business support for the hospitality and tourism sector	R200-million fund for businesses with an annual turnover of <R2.5-million.
Department of Sports, Arts and Culture	General business support for the sports, arts and culture sector	R150-million fund for cancelled events, digital solutions and projects.
Department of Agriculture, Forestry and Fisheries	General business support for the agriculture, forestry and fisheries sector	R1.2-billion fund for agricultural support and relief.
IDC	IDC working capital support	Provision of short-term working capital for the mining and minerals, agriculture and agro-processing, and automotive sectors.
IDC	IDC COVID-19 essential supplies intervention	<p>Soft loan for companies for the acquisition and/or the manufacturing of essential supplies on an urgent basis to combat the Covid-19 pandemic.</p> <p>Three-month loans for once-off contract or import funding; must have contract orders or proof of demand, limited to R30 million per applicant.</p>

IDC	MCEP COVID-19 funding programme	Companies that manufacture and provide essential supplies and have been in existence for more than one year.
Department of Labour	Temporary Unemployment Insurance Fund (UIF) relief fund	For businesses that suffer distress directly due to Covid-19; claims for three months or less.
SARS	Pay-as-you-earn (PAYE)	Businesses with a turnover of less than R50-million will be allowed to delay 20% of their PAYE liabilities over four months.
SARS	Employment Tax Incentive (ETI)	All businesses, regardless of size, can apply for extended and increased ETI claims.
National Empowerment Fund	Funding for working capital, machinery and equipment to manufacture and supply a range of medical products	A R500 000 to R10-million concessionary loan for black-owned businesses with existing retail supplier relationships. Up to 60 months repayment; 0% interest in first year.
National Empowerment Fund	COVID-19 Black Business Solution Funding	Have more than 50% black shareholding and management control. Must be directly involved in the day-to-day running of the operation and must have required expertise in the sector. Owned by black South Africans as defined by the BBBEE Act. Limited to R10 million per applicant for working capital, machinery and equipment.
Rupert family and Remgro	Sakuma Business Fund	Available for all industries, but must have evidence of financial viability prior to Covid-19 as well as be tax and regulatory compliant. Close corporations, companies and trusts: unsecured interest-bearing loan of R250 000 to R1-million, plus a non-repayable grant of R25 000; sole proprietors: non-repayable grant of R25 000.

South African Future Trust	Business Growth and Resilience Facility	SA Future Trust offers salary support for SMMEs with <R25 million annual revenue. Must be under stress directly due to the Covid-19 outbreak and in a strong financial position prior to the crisis.
Old Mutual	Old Mutual Insure Support Plan	R40 million to assist qualifying SMEs, to remain solvent. R10 million for Old Mutual Insure's own suppliers and service providers impacted by COVID-19, will be assisted to sustain operations. Interest-free loans will be granted to qualifying businesses and will be administered by the Old Mutual Masisizane Fund in partnership with Old Mutual Insure.
Willowton Group (R85 million) Al Baraka Bank (R10 million) SA Muslim Charitable Trust (R5 million)	Giving for Hope	Funding for MSMEs to prevent job losses during the pandemic.
Solidarity Fund		Healthcare system. Households and communities. SMMEs to sustain their employees through the economic shutdown.
Administered by Consortium: Schindlers Attorneys, IQ Business, Engaged	COVID-19 Business Rescue Assistance (COBRA)	Pro bono service to South African businesses in distress to coordinate bank, government and stakeholder support through a structured business rescue process. This hub helps SMEs to understand the following: <ul style="list-style-type: none"> • What business turnaround and rescue entails • What it could do for the business • How it will affect the ownership structure of the business • How the process unfolds • What negotiation tools are at their disposal • How to access post- commencement financing • What legalities are involved, and a myriad of other issues.

Nedbank and various other businesses	#BackaBusiness Movement	A crowdfunding opportunity for small businesses to survive lockdown and get back to business. Small business owners set up a campaign to raise emergency operational funds, while backers support their chosen business on a buy now, redeem later basis.
Richen Attorneys	Free Legal Due Diligence to SMMEs	The free due diligence included compliance with CIPC and incorporation documents, and review of commercial contracts. Offer was only valid from 18 April 2020 to 7 May 2020.
Eikon Design	Free website development for SMMEs	WordPress web development package including a website, social media, e-learning and e-commerce.
Anglo American	COVID-19 Zimele Relief Mechanisms	From the end of April 2020 to the end of June 2020, Zimele did not charge interest on outstanding loan balances and lifted the obligation to repay loans
Telkom	Yep! App	A digital marketplace where customers can safely and confidently search and purchase from small businesses
Mastercard	SME-in-a-box	A low-cost payments solution that enables small business owners to move their businesses online and accept a range of digital payments from their customers. The solution is expected to aid small and micro merchants across the region in expanding their customer base via digital platforms and enable sustainable revenue growth.
The Marketing Incubator	Incubation of businesses specifically for marketing	Training for small businesses affected by COVID-19 to sharpen their marketing skills.

Source: <https://www.smallbusinessinstitute.co.za/covid-19-for-smes/>

A striking feature of all initiatives from government institutions is that they primarily focus on financial assistance for small business in the form of loan facilities and loan repayment holidays. While these are important initiatives, there are a range of challenges with the way in which funding

is being provided as well as a lack of interventions with respect to other challenges faced by MSMEs.

The National Empowerment Fund, for instance, has provided concessionary loans to black owned businesses. One of the greatest challenges faced by South Africa in the post-Apartheid era is to increase participation in the mainstream economy by the historically disadvantaged black population (Mondliwa, 2020). However, despite various policy interventions, it has been found that the historically disadvantaged South African (HDSA) population and small business owners still face challenges with gaining access to finance, and in particular there is the need for finance which is patient and recognizes the time it takes for entrant firms to learn and develop capabilities and start to become profitable (Bosiu et al., 2019). In the wake of COVID-19, it is important that the types of funding on offer and conditions of access should be aligned with the reality of barriers to entry and expansion faced by firms (Bosiu, 2020).

Indeed, many MSMEs have required financial assistance to stay afloat during the pandemic. However, while many funding mechanisms exist, the forms and terms of the funding are considered to be inflexible, difficult to access, and not sufficiently patient in terms of payment periods. The consistent view from MSMEs that were interviewed is that the various funding mechanisms are geared to only support businesses in perfect financial standing, which is not realistic given that many MSMEs have been under pressure due to the depressed state of the economy even before the lockdown (Bosiu, 2020). *Importantly, if the terms of funding ties these MSMEs into possibly larger and longer-term interest-bearing loans, there is a reasonably low likelihood of business growth even if consumer demand recovers in the near future. This is an indirect raising of barriers to entry and expansion, and potentially hinders the extent to which MSMEs can effectively participate in the economy and become effective competitive rivals. That is, the competitiveness of MSMEs will be adversely affected in the medium and long term.*

Previous studies have also found that small and HDSA-owned firms in South Africa continue to struggle to integrate into existing value chains and to access private sector and state-owned companies as customers (Bosiu et al., 2019). Addressing these issues, which have persisted during the pandemic (McKinsey & Company, 2020), requires targeted, non-financial policy interventions, particularly given the scale of barriers to entry in the economy.

das Nair and Bowman (2020) also provide a snapshot of the gap between the needs of maize milling and dairy farming MSMEs and the forms of support that are currently available. MSMEs in agriculture and agro-processing still play a critical role in supplying localised and under-served

markets, providing rural employment and are also important for linkages with other small businesses (das Nair and Bowman, 2020). Due to the barriers in accessing retail stores, they target independent wholesalers and retailers, buyer groups and informal spaza shops (das Nair and Bowman, 2020). However, COVID-19 has reduced MSME access to these routes and therefore increased their vulnerability (das Nair and Bowman, 2020).

In the dairy and maize milling sectors, MSMEs laid off workers, reduced working hours and had to halt planned investments. It was found that government's business support measures provided insufficient support for these businesses. The top-down approach taken with the different support initiatives, with a fragmented array of schemes, and complex application processes and qualifying criteria, have generally been confusing or too costly to apply for, even for firms that desperately need this support (das Nair and Bowman, 2020). Measures such as tax relief, DSBD funds and commercial bank support through the loan guarantee scheme, were also found to be less accessible (das Nair and Bowman, 2020; Bosiu, 2020). Moreover, firms in difficulty were typically reluctant to take on commercial debt, arguing that despite the loan guarantee scheme, interest rates are prohibitively high, which is also confirmed in the interviews for this study.

The glaring reality is that COVID-19 has magnified the extent of barriers to entry and expansion that MSMEs have historically faced in South Africa. *Providing finance should not be the only focus of business support programmes provided by government and the private sector. The competitiveness of MSMEs is also shaped by access to markets, routes to market, terms of trade, and the orientation of large firms in the economy.* There is a gap in terms of research on the effects of COVID-19 on these particular issues. Support measures as they are currently framed are not able to address all these issues, however specific issues such as market access and (preventing) potential abuses of buyer power may be an area in which the competition authority can take a lead position through a combination of enforcement and advocacy as was done in relation to price gouging or excessive pricing concerns. The experiences of MSMEs in this regard are set out below.

4.1.1. MSME experiences with COVID-19 business support initiatives

Our findings reveal that there have been varying experiences for entrepreneurs regarding access to funding during the pandemic. Some of the firms were able to sustain themselves during this period without applying for relief funding for a range of reasons. Those that have done well seem to have very lean business models with low ratios of debt in their business. Another reason is that

they had substantial savings accumulated in their businesses, while others relied on family lending to provide relief. Although these resources would not keep the businesses afloat indefinitely, they did help the MSMEs to absorb the economic shock of the pandemic in the short to medium term. Continuation of a hard lockdown for an extended period and through 2021 would have depleted any available own-resources.

In contrast, other firms applied for as many of the relief funds as they could. A number of the businesses interviewed applied for the National Unemployment Insurance Fund (UIF) Temporary Employer-Employee Relief Scheme (TERS) that is administered by the Department of Labour. The TERS benefit is designed to assist any UIF contributing business that is facing distress and is unable to pay salaries due to the lockdown.⁴⁸ The businesses describe the process as being quite complicated. It has been argued in the public discourse that entrepreneurs often do not understand what is required to apply for funding and that they tend to find it challenging to navigate the application process. However, in some instances, even entrepreneurs with a background in finance that understand the requirements to apply for the available funding had to outsource service providers to get their applications done and to access the funding.⁴⁹

There are various challenges with TERS. One of the challenges was that although the businesses have been submitting their South African Revenue Service (SARS) PAYE returns, this was not reflected on the UIF system. The amounts paid by the businesses to SARS were not declared to the Department of Labour by SARS which resulted in additional requirements to prove that the business had been submitting its returns. Further delays resulted from submissions not being processed because TERS had run out of funds. However, when the payments did go through, they provided relief for the businesses because they enabled payment of approximately 60% of normal salaries in some cases.⁴⁹ Furthermore, TERS did not have an effective way of dealing with non-South African employees, which account for a large share of workers in South Africa, although the reasons for this are not necessarily clear. Anecdotally, the payments for non-South African employees were delayed by up to six weeks.⁵⁰

The public sector developed other relief initiatives for different industries. The Department of Agriculture, Forestry and Fisheries offered general business support for this sector with a R1.2 billion (US\$ 80 million, 2021) fund for agricultural support and relief. The assistance was targeted

⁴⁸ <https://uifecc.labour.gov.za/covid19/>

⁴⁹ Interview with Morish Cuisine Catering, 22 January 2021.

⁵⁰ Interview with The FX Group, 2 February 2021.

at small-scale farmers who were financially distressed due to the impact of COVID-19.⁵¹ The recipients interviewed received R50 000 (US\$ 3300, 2021) worth of seeds and fertilizers. The funds were distributed through vouchers that could be redeemed at the outlets that the Department had made arrangements with. This was helpful for the farmers in terms of reducing the costs of seeds and fertilizers that they would have otherwise incurred.⁵²

The Department of Trade, Industry and Competition's Black Industrialists Scheme (BIS) offered a COVID-19 grant. BIS was created with the aim to transform South Africa's manufacturing industry through prioritisation and inclusion of black-owned businesses (Bosiu et al., 2019). For their COVID-19 grants, applicants that had previously received funding from BIS found that the process was easy because the information requested was readily available from previous applications. In contrast, applications for relief funding from the IDC under its working capital support initiative were still not been approved after 7 months in one specific instance, despite the businesses having received prior funding from the IDC.

Generally, the relief funding application process was described as more intense and more complicated than the previous application processes for funding.⁵⁰ Some entrepreneurs who applied for the DSBD's SMME Relief Finance Scheme had not received responses at all.

There were also private sector initiatives, one of which is the Sukuma Business Fund. The Rupert family and Remgro established the Sukuma Fund with a R1 billion (US\$ 65 million, 2021) donation to provide relief to smaller businesses during the pandemic. The aim of the fund is to assist businesses to pay employees and cover their basic expenses so that they can remain in business.⁵³ A successful applicant to this fund who received a R25 000 (US\$ 1600, 2021) grant was interviewed. Based on this recipient's experience, the application process did not present any challenges and the funds received assisted in paying their office lease.⁵⁴

Many businesses also applied for relief funding from the private sector commercial banks. The entrepreneurs' experiences with applying for this relief funding have been that the banks continue to apply very strict, prohibitive criteria. There was no special dispensation in terms of application requirements for these funds for MSMEs. Banks assess the account conduct in recent months

⁵¹ <https://www.gov.za/speeches/minister-thoko-didiza-announces-interventions-assist-agricultural-sector-during-coronavirus#>

⁵² Interview with The Village Market Africa, 1 February 2021.

⁵³ <https://sukumafund.org.za/>

⁵⁴ Interview with ATANG ECR Group, 1 February 2021.

but under the circumstances of COVID-19, it is not uncommon for MSMEs to have failed debit orders and this would disqualify them from moving to the second phase of the assessment which looks at repayment ability. They would thus not be able to access the funds on this basis. In some instances, the banks responded to applicants saying that they have been oversubscribed and have received too many applications so their submissions would not be processed. Generally, the application processes with the banks were onerous, resulting in some of the applicants abandoning the process before completion. *The different views obtained in this and other studies suggest that there is no recognition within the commercial bank (and to some extent development finance) funding models of the different stages of development of MSMEs, and specific types of support required including more patient, flexible forms of finance.*

It is expected that banks need to mitigate their risk by requesting and checking certain information and that such due diligence processes could take time. However, it is concerning that every business that was interviewed, and those considered in other studies, representing different sectors, types of activities, and stages of growth (including some that are doing very well on other measures), still express serious concerns about the difficulties of going through the process of accessing funding in South Africa. It is acknowledged that traditional due diligence processes are critical in the provision of finance but there is currently an urgent need for timely decision-making as well as innovative ways of risk assessment otherwise the various pools of funding that have been put forward may well be wasted or bypass those that need them the most (Bosiu, 2020).

Most of the businesses applied for multiple relief funds and generally, the consistent view is that the application processes are lengthy and tedious and that the platforms are not easy to navigate. These experiences relate particularly to the COVID-19 relief funds but this pattern is consistent with challenges that existed before the pandemic. This reiterates points made in previous studies that access to finance is a considerable challenge for effective entry and participation of SMEs in the South African economy and that there is a need to shorten the processes of application, verification, and approval for funding (Bosiu et al., 2019; Bosiu, 2020).

4.1.2. Non-financial support

Given the high barriers to entry in the South African economy as well as the challenges that firms face in terms of integrating into existing value chains, non-financial support can play a crucial role in developing sustainable MSMEs (Bosiu et al., 2019). Some of the SMEs that were interviewed were generally involved in different incubator programmes even before COVID-19. In particular,

a group of entrepreneurs involved in the Graça Machel Trust's Women Creating Wealth (WCW) programme formed part of the sample. The programme is an entrepreneurship development programme that consists of women in various sectors of business. The programme aims to enhance their entrepreneurial skills and has a strong focus on accessing finance, including investor readiness, as well as market access.⁵⁵

The feedback has been that on a programme like WCW, the entrepreneurs do generally benefit from the professional networks and access to information. The programme has enhanced the business acumen of beneficiaries, increased their access to markets, and provided exposure to broader support and knowledge that they may not have otherwise accessed.⁵⁶ Building business links through such a programme also creates opportunities for referrals that can lead to acquisition of new customers.

For the smaller companies that we interviewed as part of our sample, the businesses depend quite substantially on the entrepreneur's capabilities and resources as an individual. It seems that across the board, those individuals have benefited from accessing additional forms of support to develop them as entrepreneurs. This partly explains why some of these businesses have been quite adaptable during the pandemic. Placement in business support programmes has also allowed the entrepreneurs to share information and lessons with one another about the different relief funding schemes and recommendations on where and how to apply for funding. The entrepreneurs have emphasized how this information sharing has been a major benefit.

4.2. Competition policy interventions during the pandemic

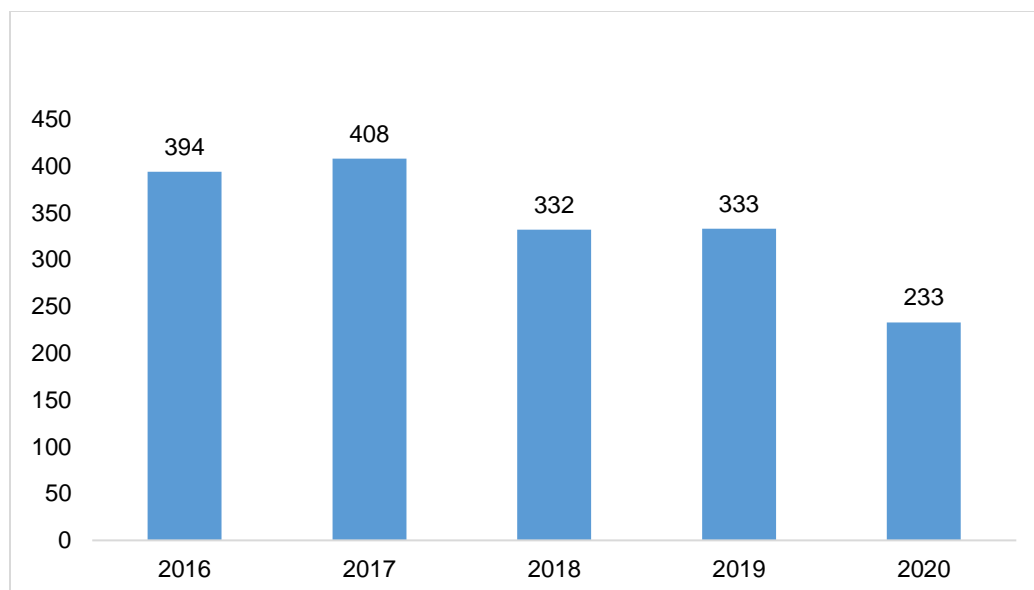
Following the declaration of a State of National Disaster in March 2020, the Department of Trade, Industry and Competition published the Consumer Protection Regulations to protect consumers from unfair and unreasonable practices, including excessive pricing. Following the regulations, the CCSA made a commitment to specifically prioritise complaints of unusual price increases, as price increases in an emergency such as the COVID-19 crisis have a detrimental impact on small businesses and poor individuals and families.

⁵⁵ <https://gracamacheltrust.org/join-the-women-creating-wealth-programme/>

⁵⁶ Interview with Penologic, 25 January 2021.

The CCSA set up a dedicated team to investigate such complaints and refer them for prosecution by the Competition Tribunal of South Africa.⁵⁷ This work has taken place alongside the Commission's other functions, including merger control, noting that there was a significant decline in merger cases handled in the 2020 calendar year (Figure 1).

Figure 1: Competition Commission merger cases, 2016-2020



Source: CCSA data

The number of merger cases processed in 2020 is dwarfed by the over 1800 complaints received regarding price violations and other conduct during the COVID-19 period. The CCSA has been inundated with complaints about the prices of certain basic food items as well as essential goods; including face masks, surgical gloves and hand sanitisers. Some of these cases have been investigated and referred to the Tribunal, including those involving settlements with implicated firms.

The impacts of the enforcement interventions have been significant. While major cases have been brought against large retailers such as Dis-chem Pharmacies Limited (a large pharmaceutical retailer), the CCSA has also found against smaller companies that may be placed in a position of market power as a result of lockdown travel restrictions (see *Competition Commission of South Africa v Babelegi Workwear and Industrial Supplies*).

⁵⁷ <http://www.compcom.co.za/wp-content/uploads/2020/03/CCSA-COVID-19-statement-20-March-updated.pdf>

Recognising the economic and social challenges brought about by the pandemic, the CCSA has also committed to focusing competition regulation to promote access to markets by MSMEs and to protect consumers and businesses. In part, this has been achieved through granting block exemptions in the following sectors: healthcare, banking, retail property, hotels and the wholesale liquid fuels industries.⁵⁸ The regulations for block exemptions apply to categories of agreements or practices in the specified industries that would ordinarily be prohibited in terms of the Competition Act. Separate regulations were issued for each of the aforementioned five sectors. These regulations specifically enabled concerted practices that minimised the negative effects of the pandemic.⁵⁹

Since the beginning of the pandemic, the CCSA has also conducted work in monitoring essential food prices to understand the effect of the pandemic and the government's regulations in response to the pandemic on food markets and prices. Several quarterly reports have been published on essential food price monitoring. The assessments in these reports show that the pandemic has had a significant impact on food prices and the panic buying at the beginning of lockdown resulted in abnormal food price inflation.⁶⁰

Recent interventions by the Competition Commission

In addition to the CCSA's recent enforcement measures relating to COVID-19 and the short term competition impacts, the Commission has continued with its long term work on making markets work for consumers as well as smaller firms; particularly given the concern around rising concentration levels in various industries. There are three key areas in which the Commission has continued to make interventions which are more medium to long term and will invariably benefit MSMEs during and beyond the COVID-19 pandemic: (1) the Buyer Power Enforcement Guidelines, (2) the Price Discrimination Guidelines and (3) the more recent Online Intermediation Platform Market Inquiry (OIPMI), which is still in its initiation phase.

The final Buyer Power Enforcement Guidelines and the Price Discrimination Guidelines were released in May 2020 and are aimed at bringing more fairness to emerging entrepreneurs and small businesses. Both guidelines aim to increase participation of MSMEs and firms owned by

⁵⁸ http://www.compcom.co.za/wp-content/uploads/2020/05/Press-Statement-COMPETITION-COMMISSIONS-RESPONSE-TO-THE-COVID-19-PANDEMIC-Final.docx_1590759485810.pdf

⁵⁹ <https://www.gov.za/documents/competition-act-coronavirus-covid-19-block-exemption-banking-sector-23-mar-2020-0000>

⁶⁰ http://www.compcom.co.za/wp-content/uploads/2020/07/CC_Essential-Food-Pricing-Report-002.pdf

HDSAs. The buyer power guidelines do so by protecting smaller market players from exploitation by dominant buyers of their products through providing more clarity on what constitutes an abuse of buyer power. These guidelines prohibit a dominant firm that is a buyer in designated sectors from imposing unfair prices or trading conditions on SMEs or firms owned by HDSAs.⁶¹

The timing of the release of the guidelines is significant due to the precarious position of small businesses during the COVID-19 pandemic. Although our analysis has not uncovered any significant anti-competitive conduct during the pandemic outside of the price gouging cases, the current state of the economy does leave smaller firms even more susceptible to exertions of market power by larger firms. We have seen that the pandemic has resulted in significant shifts in supply chains, with many larger firms now actively sourcing more of their inputs locally. The guidelines therefore provide much-needed guidance for large firms regarding the buyer power provisions; such as how dominance is assessed, what constitutes unfair prices and unfair trading practices, as well as what constitutes a circumvention of buyer power provisions.

The guidelines are also timely as the Department of Agriculture and the Department of Trade, Industry and Competition are in the process of developing the agriculture and agro-processing masterplan aimed at creating globally competitive agriculture and agro-processing sectors. The development of these sectors will require meaningful participation by all stakeholders in food value chains (including MSMEs).⁶² The masterplan also aims to build industrial capacity and capabilities in the agriculture and agro-processing sector, particularly in terms of MSMEs and smaller farmers.⁶³ However, anti-competitive conduct by players along food value chains in the form of price discrimination and abuse of buyer power can create barriers to entry for entrants and smaller players, and stand in the way of creating more inclusive value chains.

The buyer power and price discrimination provisions demonstrate the instrumental role that competition policy can play in developing a more inclusive economy by making markets more accessible to MSMEs and levelling the playing field between entrants, smaller market players and larger firms. These guidelines have the potential to play a pivotal role in ensuring the ability of

⁶¹ <http://www.compcom.co.za/wp-content/uploads/2020/05/Buyer-Power-Guidelines.pdf>

⁶² Webinar: Price discrimination and buyer power guidelines – implications for the agro-processing sector. Centre for Competition, Regulation and Economic Development, 24 March 2021

⁶³ Webinar: Price discrimination and buyer power guidelines – implications for the agro-processing sector. Centre for Competition, Regulation and Economic Development, 24 March 2021

MSMEs to negotiate favourable trading terms, particularly given that the pandemic may exacerbate the adverse effects of unequal bargaining power in some industries and value chains.

In terms of online intermediation platform services in South Africa, the CCSA has noted that there characteristics of these markets which can impede, distort or restrict competition amongst the platforms themselves and undermine the purposes of the Competition Act.⁶⁴ The CCSA will therefore conduct a market inquiry into ecommerce marketplaces, software app stores and intermediated services such as accommodation, travel, transport and food delivery.

A recurring theme in various studies and in our analysis is the need for MSMEs to leverage technology and digital platforms to improve their access to markets and enhance their competitiveness. While the pandemic has seen a significant increase in the use of digital platforms, the South African ecommerce industry is still small relative to more developed markets. Nonetheless, it is especially important that the authorities consider the accumulation and exercise of market power in these markets, to the extent that concentration and a lack of competition can lead to adverse outcomes for MSMEs that are increasingly leveraging online intermediation platforms to sustain and build their businesses.

5. Conclusions and policy recommendations

The pandemic has had a devastating effect on MSMEs. However, there is some early evidence of significant economic resilience amongst MSMEs, and new opportunities that have opened up for these firms. It is also evident that some of the challenges that MSMEs have encountered are not new, particularly around access to finance and markets. This suggests that the significant work of competition agencies and governments to enhance market participation needs to continue.

MSMEs have tremendous potential to contribute to economic recovery. However, there is a need for a more supportive and inclusive economic landscape for MSMEs to succeed. Larger firms and governments can play a critical, pro-developmental role in this regard, as suggested in the recommendations below.

It is increasingly evident that supporting smaller businesses is not just about funding. As the analysis above shows, access to funding opportunities is only part of the package of measures

⁶⁴ http://www.compcom.co.za/wp-content/uploads/2021/04/44432_09-04_EconomicDevDepartment.pdf

required to support MSMEs. The examples in this and other studies show that many MSMEs simply need the ‘rules of the game’ to work more in their favour – they do not necessarily want handouts, but rather the opportunity to participate in a fair economic landscape. This signals the need for greater coordination between sector level regulators, competition law and advocacy, and industrial development strategies as discussed above. Interventions, such as on funding, also be nuanced to recognise the differences between micro, small and medium-sized businesses – for example, our assessment shows that microenterprises seem to benefit significantly from non-financial support provided by government and various non-governmental agencies, whilst larger medium sized firms have benefited from access to large-scale retail supply chains and routes to market.

This study finds that MSMEs can best be supported through the application of a coherent network of support measures. It is evident that some of the proposed measures extend beyond the capacity or ambit of competition agencies. However, there is a unique opportunity for these agencies and other regulators to play a role in advocating for policy shifts that support smaller firms. Building more resilient economies depends on facilitating greater openness and plurality in markets, particularly in favour of challenger firms. Achieving this objective entails having a greater focus on the specific nature of barriers that MSMEs face, and the tools for achieving this outcome typically extend well beyond what competition agencies can do by themselves.

The main recommendations emanating from the analysis are set out below, many of which would require further engagement with authorities and various government agencies to ensure a practical and coordinated response:

- **Enhance awareness and monitoring of laws that protect and support MSMEs:** MSMEs are dependent on a few contracts or supply relationships such that they are especially vulnerable to abuses of market power by larger suppliers or clients. There is a critical role for competition agencies in monitoring and advocating for favourable conditions for MSMEs, given the unique and in-depth knowledge that competition agencies (and other regulators) have about specific markets and sub-sectors. Competition agencies should play a key role in creating awareness of various provisions which protect MSMEs, such as the buyer power guidelines and competition law in general.
- **Cooperation in shaping regulations for digital markets to favour MSMEs:** Digital platforms are emerging as important routes to market for MSMEs. The CCSA’s forthcoming market inquiry into online intermediation platforms will go some way towards

understanding emerging competition, consumer and inclusion issues in these markets.⁶⁵ Responses to support MSMEs in this regard will also require participation of other departments, sector regulators and agencies that have an impact on market access, privacy and consumers, and competition in digital markets, including the Department of Trade, Industry and Competition, the Department of Communications and Digital Technologies, the Independent Communications Authority of South Africa, the Information Regulator, as well as agencies in the banking sector, amongst others.

- **Leverage supplier development programmes and address bottlenecks for MSMEs:** Where resources are available, larger entities can be encouraged to play a significant role in supporting MSMEs within their supply and value chains during and after the peak periods of the pandemic and national lockdown periods, including in the way that they pay and contract with these smaller entities. Leveraging existing corporate supplier development programmes can help to sustain and grow MSME participation. There are already significant initiatives in place, such as in grocery retail and the agriculture and agro-processing sector, that have been beneficial for smaller suppliers (das Nair and Landani, 2020).⁶⁶ While large firms typically initiate and lead these programmes, there is a wider role for government across sectors in supporting these initiatives through addressing key bottlenecks in funding, and in partnering with private sector programmes and advocating for continuation of the initiatives despite economic pressures on larger firms brought about by the pandemic. The Department of Trade, Industry and Competition and the Department of Small Business Development are well-positioned to drive advocacy across economic sectors given their involvement in various sectoral masterplan initiatives and broad oversight across multiple economic sectors, and agencies such as the competition authorities.
- **Competition agencies can facilitate dialogue on support for MSMEs by building on existing policy processes:** Given their detailed understanding of markets, and the ongoing monitoring of food prices during the pandemic, the Competition Commission and the Department of Trade, Industry and Competition can play an important role in facilitating

⁶⁵ <http://www.compcom.co.za/wp-content/uploads/2021/02/OIPMI-Draft-ToR-19-02-2021.pdf>

⁶⁶ Webinar: Price discrimination and buyer power guidelines – implications for the agro-processing sector. Centre for Competition, Regulation and Economic Development, 24 March 2021

a dialogue and interventions with major retailers and traders, and MSME producers and traders in food markets in particular. The ongoing state-business discussions on economic recovery strategies for South Africa and sector-specific policy masterplans provide an important, existing vehicle for engagement on the issues raised, leveraging the good reputation and advocacy capacity of the competition agencies.

- **Create programmes to support the buying of MSME goods and services:** Providing funding for MSMEs in times of crisis is necessary, however it is not a sufficient condition for the success or survival of businesses. Government and private sector partners should design programmes to focus on providing access to markets for MSME goods and services. This should include initiatives that can enable more favourable trading terms and scale for (groups of) smaller producers selling to major buyers, as well as the development of municipal markets and new township markets, which can create much-needed channels for smaller producers. In food production value chains, collaboration is required across departments, including the agriculture ministry, DSBD as well as municipalities, amongst others.
- **Improve enforcement of existing regulations for MSME inclusion in procurement:** While government departments have procurement rules that direct departments and agencies to award contracts to capable MSMEs, there should be mechanisms in place that provide sufficient oversight that these rules are adhered to. Key areas for intervention are those where government has already put in place policies to support MSMEs such as under the black industrialists policy and various initiatives of the DSBD, where existing initiatives have not put in place tools to ensure market access, or where state-owned enterprises are not themselves procuring from smaller and HDSA enterprises even though they are required by various policies to do so. The issue of small business support should also be a priority in any sector-level agreements reached under the national priority sector masterplan process.

There are key areas where MSMEs themselves can take action to mitigate the challenges brought about by the pandemic. These include leveraging technology to reach new customers, provide a distinctive value proposition, and enhance competitiveness (McKinsey & Company, 2020). The assessment in this study shows that there is also value for MSMEs in participating in business support programmes provided by government and private sector

agencies. These can help with building business networks and gaining knowledge on adaptive business strategies.

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Annexure 1: List of interviewees

Company	Industry
The Village Market Africa	Agriculture
ATANG ECR Group	Construction
Bokone Gas	Electricity, gas, steam and air conditioning supply
Morish Cuisine Catering	Food and beverage service activities
Makhamisa Foods	Manufacturing
Matongoni Group	Manufacturing
Motso Designed Interiors	Professional and technical activities
The FX Group	Professional and technical activities
Penologic	Professional services
Trezistar	Retail trade
Dare Restoring Worth (NPO)	Social work activities
Mathibe Manufacturing & Projects	Wholesale trade

The focus categories of firms are participants or beneficiaries in the Graça Machel Women Creating Wealth (WCW) programme and the Black Industrialists Scheme (BIS) of the Department of Trade, Industry and Competition (DTIC). The Graça Machel Trust WCW programme is an entrepreneurship development programme focused on enhancing entrepreneurial skills and development including through assisting women entrepreneurs in terms of access to finance and access to markets.⁶⁷ The BIS is a programme developed by the DTIC with the aim of enhancing the inclusion of black businesspeople in manufacturing.⁶⁸

⁶⁷ <https://gracamacheltrust.org/join-the-women-creating-wealth-programme/>

⁶⁸ <http://www.thedtic.gov.za/financial-and-non-financial-support/incentives/black-industrialists-scheme-bis/>