

lesser ability to hedge. Interviewees from both dairy and milling companies also described severe difficulties securing machinery parts, repairs and maintenance services. Compliance with hygiene regulations was a major cost for SMEs in ordinary circumstances. This dramatically escalated with the need to source personal protective equipment and sanitisers at elevated prices.

The consequences

Most firms in our sample said they were forced to lay off workers, cut their pay or work reduced hours. Investments that had been planned to improve businesses were halted.

Sadly, government's business support measures provided insufficient remedy. The top-down approach to support provision, with a fragmented array of schemes, and complex application processes and qualifying criteria, proved confusing or too costly even to firms in need.

The Unemployment Insurance Fund provided a lifeline. Other measures, however, such as the tax relief, Department of Small Business Development funds and commercial bank support through the loan guarantee scheme, were less accessible.

Notably, firms in difficulty were typically reluctant to take on commercial debt. They argued that despite the loan guarantee scheme, interest rates are prohibitively high. One welcome development in relation to this was the announcement in June's Supplementary Budget of the relaxation of terms and conditions and extension of repayment holidays.

Even without a repeat lockdown, without greater support, many SMEs will fail or be severely weakened in this period of economic disruption. Adaptation is going to require significant and costly changes to business models.

What could help?

We see three key actions that could help.

First, there should be commitments by the major retailers to offer SMEs preferential shelf space and to introduce local procurement policies at preferential terms.

Second, alternative routes to market need to be strengthened. This can involve improving infrastructure and implementing regulations that enable SMEs to operate in the peri and non-urban areas. Public procurement can also provide SMEs with consistent revenue streams but needs to be reconfigured to accommodate SMEs' needs. Delays by the state in paying SMEs and often complex and dysfunctional tendering processes remain a big problem. The expansion of inclusive e-commerce platforms for retail and digital management of food logistics and sales can help SMEs access multiple new routes to market. But this requires state support to build firms' digital capabilities. It also requires policies and regulations to create a competitive digital space and curb the market power of dominant platforms.

Thirdly and finally, there should be improved short-term emergency support, with streamlined application processes and broadened access conditions. Commercial bank loans are inappropriate for SMEs in severe difficulties, and grant finance should be more easily available. Government should also provide assistance with personal protective equipment and sanitisers, in addition to training and advice on how to adapt to new requirements.

In the longer term, South Africa needs to consider how markets may undermine inclusive food systems through toxic competition. The country needs to rethink market shaping policies and value chain governance to emphasise the critical role of the state and collective action.

