FROM SURVIVAL TO OPPORTUNITY THROUGH COVID-19 AND BEYOND

SA Future Trust SMME Baseline Report

Authors

Ashleigh Fynn-Munda

Ashleigh Fynn-Munda is an Economist and Social Investment Associate at Oppenheimer Generations Philanthropies.

ashleigh.fynn@opp-gen.com

Dr Emmanuel Owusu-Sekyere

Dr Emmanuel Owusu-Sekyere is an Economist and the Deputy Director of Research at the Brenthurst Foundation (TBF)

emmanuel.owusu-sekyere@thebrenthurstfoundation.org

All rights reserved. The material in this publication may not be reproduced, stored, or transmitted without the prior permission of the publisher. Short extracts may be quoted, provided the source is fully acknowledged.

Executive Summary

This baseline report describes who was supported by the South African Future Trust ("SA Future Trust"). The SA Future Trust was established in March 2020 to support small, medium, and micro enterprises (SMMEs) in response to the socioeconomic impact of the Covid-19 crisis. Nicky and Jonathan Oppenheimer, together with their family, set up the SA Future Trust, a public benefit organization (PBO), with a R1 billion donation from Oppenheimer Generations Foundation to provide financial relief to SMMEs and their employees. The funds were accessed through five-year interest-free loans and supported businesses by providing a payment to employees for 15 weeks, thereby freeing up working capital for small businesses. The aim of the SA Future Trust was to preserve jobs and mitigate income loss.

Firm Characteristics

The SA Future Trust had a broad geographical reach and supported businesses in every province and sector. It supported a significant number of women-owned businesses, which proved to be more resilient than their male counterparts as fewer closed than male-owned businesses between March 2020 and March 2021.

Based on the SMMEs who responded to the survey, it is noted that they have remained resilient over the period. The majority of the businesses who responded have been able to remain operational and some have continued to create jobs in all sectors and at all skill levels.

The SA Future Trust mostly supported 'micro businesses', or businesses with fewer than ten employees. The majority (65.84%) of small businesses who applied to the SA Future Trust were from the services sector.[1]

The majority of the employees of the respondent's businesses could not work from home, which would have resulted in them losing income during the lockdown. However, across all sectors and skill levels, more jobs were preserved than lost, indicating that the SA Future Trust achieved its objective of preserving jobs in SMMEs.

The SMMEs reported that prior to the Covid-19 crisis they mainly accessed credit through their banks or formal lenders, through their networks of family and friends, or from their personal savings. However, access to credit for businesses was difficult, even in pre-Covid times, with many reporting that they were solely reliant on sales revenue to sustain their businesses. The motivation for many respondents to apply for the SA Future Trust loan was to prevent retrenchments and ensure that their employees had an income to support their families, even if the business had no turnover.

Application to the SA Future Trust

The three leading communication channels for the SA Future Trust were the partner banks (52.35%), TV (19%) and industry bodies/associations (13%). Most SMMEs applied to the SA Future Trust because it was one of the only schemes for which they were eligible, and it had favourable terms. For the most part, the respondents of the survey (67%) had no concerns around the SA Future Trust application process.

At least 50% of the SMMEs which received the SA Future Trust loan applied for additional business relief such as debt relief initiatives, deferment of tax payments to The South African Revenue Services (SARS), sector-specific small business grant or loan schemes, the Business Growth and Resilience Facility, the Unemployment Insurance Fund's

[1] Department of Small Business Development (South Africa). 2019. National Enterprise Act, 2003 (Act no. 26 of 2003): Revised Schedule 1 of the National Definition of Small Enterprise in South Africa (Notice 399). *Government Gazette*, 42304: 111:15 March.

Temporary Employer/Employee Relief Scheme (TERS) and the Covid-19 Loan Guarantee Scheme.

Workplace Covid-19 Response

The majority of employees could not work from home forcing employers to adapt their workplaces to make them safer for employees' return to work once the lockdown restrictions were eased. It was encouraging to find that the majority of respondents were able to ensure social distancing in the workplace, provided masks, screen employees upon entry and provided hand sanitiser as well as regularly sanitised surfaces.

Perceptions and Outlook

SMMEs feel optimistic about the financial future of their businesses. Across all sectors, SMMEs anticipate that they will create and preserve more jobs than they will lose by the end of 2021**.**

Report Update:

In the week of 10 July 2021, businesses in Gauteng and KwaZulu-Natal were negatively impacted by protests against the jailing of former President Jacob Zuma which spiralled out of control and resulted in riots and looting. The SA Future Trust sent a survey to its loan holders to get a sense of the damage on the ground and the support these businesses need (a detailed analysis can be found in the Appendix).

From the data collected, respondents indicated that they have been directly and/or indirectly impacted. Those directly impacted have had their workspaces destroyed and their employees and customers intimidated. Other businesses have had their supply chains disrupted, customers have cancelled contracts and they have had to temporarily close their businesses out of fear of being looted or attacked. For some businesses the damage is too great and has resulted in their permanent closure.

Most of these businesses reiterated their need for access to financial support, and indicated a need for immediate support, and support over the next few months and in the long term if they are to recover.

Implications for the Future of the SA Future Trust

Key lessons learned include the following:

- Target women-owned businesses and provide them with both the financial and non-financial support they need to grow;
- Use a sectoral lens or a tailored approach to provide appropriate support to small businesses across the country;
- Build on the momentum and continue to reach a broader base of small businesses that may not have access to traditional forms of financing;
- Fill the gap in the lending market for these businesses with alternative, innovative financing products;
- Continue to positively impact low-skilled workers' lives, and increase support for SMMEs that absorb this type of labour;
- Use TV and industry bodies that proved effective at reaching these businesses, to communicate the ongoing work of the SA Future Trust; and
- Seek opportunities to partner with other funders and intermediaries - both private and public - to maximise the impact of SA Future Trust funding

Table of Contents

Tables

Figures

Introduction

The SA Future Trust was established on 26 March 2020 and made its first payment, within 10 days, on 6 April 2020. It is an example of the efficiency that was needed to respond to the Covid-19 crisis that halted nearly all economic activity for almost two months and threatened the job and income security of hundreds of thousands of employees.

This report outlines the baseline data findings for the SA Future Trust. Data collection was conducted via a survey that was distributed to all SA Future Trust loan holders between October 2020 and March 2021.

The report outlines the background to the SA Future Trust, its intended outcomes, analysis of beneficiary characteristics and experiences in accessing the loans, and the outlook for the SMMEs it assisted.

Background

The Macro Environment

South Africa was locked down for an initial five-week period which saw the closing of borders, the implementation of a curfew, and restrictions on the movement of people, non-essential services, and economic activity. The purpose of the lockdown, and other measures such as social distancing, wearing of masks and restrictions on the size of gatherings, was to minimise human interaction to slow the spread of the disease while health systems and infrastructure were rapidly upgraded to prepare for and tackle the pandemic. The pandemic and measures used to curb its spread significantly obstructed economic activity in South Africa.

These restrictions on economic activity affected both commercial and household demand for goods and services. Businesses were closed, some workers were retrenched, and others were paid only a fraction of their original wages due to the financial constraints created by the harsh realities of the pandemic. This threatened the job and income security of hundreds of thousands of employees in all sectors of the economy, especially those working in SMMEs. Approximately 5.7 million workers across the economy lost their jobs,[2] which increased poverty and worsened inequality in South Africa, already the most unequal country in the world with a Gini index of 0.63 as at June 2019.[3] The closure of borders disrupted international trade, leading to significant reductions in production. Businesses of all sizes had to rethink the way they operated. Some businesses were able to institute a work-from-home policy where nearly all staff shifted to an online working space. Businesses that could not shift their operations online suffered unplanned revenue losses. They thus needed access to financial relief to keep their doors open.

Several interventions were implemented by the South African Government to mitigate the adverse effects of the pandemic on households and businesses. These included debt relief initiatives, deferment of tax payments to The South African Revenue Services (SARS), sector-specific small business grant or loan schemes, the Business Growth and Resilience Facility, the Unemployment Insurance Fund's Temporary Employer/Employee Relief Scheme (TERS) and the Covid-19 Loan Guarantee Scheme.[4] However, these interventions were not without implementation challenges in terms of eligibility, access and processing time to disburse the funds to beneficiaries.

---

[2] Statistics South Africa 2020. Quarterly Labour Force Survey. http://www.statssa.gov.za [Accessed May 2020]
[3] World Bank (2019). World Development Indicators. https://www.wdionline.org [Accessed July 2020]
[4] Arndt, C., Davies, R., Gabriel, S., Harris, L., Makrelov, K., Boipuso, M., Robinson, S., Simbanegavi, W., van Seventer, D., and Anderson, L. 2020. Impact of Covid-19on the South African economy: An initial analysis. SA-TIED Working Paper 111. Available at: https://sa-tied.wider.unu.edu/sites/default/files/pdf/SA-TIED-WP-111.pdf. [Accessed May 2021]

The SA Future Trust was designed to provide an intervention that enabled financial support to reach those hardest hits by the Covid-19 crisis and lockdown as quickly as possible. The SA Future Trust made its first payments on 6 April 2020, ten days after its inception.

The SA Future Trust

The SA Future Trust was established on 26 March 2020 to support SMMEs[5] in response to the socioeconomic impact of the Covid-19 crisis. At the time of the onset of the Covid-19 pandemic, there were approximately 2.36 million SMMEs in South Africa, employing just over 10 million people. When the lockdown was established and relief for employees put in place, it was unclear whether the many full-time and part-time employees of SMMEs would qualify for the Unemployment Insurance Funds (UIF) payments or social grants provided by the government. To support these businesses and their employees, Nicky and Jonathan Oppenheimer, together with their family, set-up the SA Future Trust with a R1 billion donation from Oppenheimer Generations Foundation to provide financial relief to SMMEs through payments to their employees.

The SA Future Trust partnered with Absa, First National Bank, Investec, Mercantile Bank, Nedbank and Standard Bank to distribute the funds to employees of small businesses. Using the banks as a distribution channel was effective in that SMMEs that qualified for an SA Future Trust loan had to be an existing client of one of these banks. The banks were able to easily assess eligibility of applicants based on historic client information and could process loan applications, as agents of the SA Future Trust, quickly. For the banks, it ensured that they could channel the SA Future Trust's funding to support their strongest SMMEs and keep them from closing, thereby securing their SMME banking client base.

SMMEs accessed the funds through five-year interest-free loans that were subordinate to all existing debt. The loan was paid directly to the businesses' employees at R750 per week for 15 weeks (a total of R11 250 per employee). The total loan size was therefore determined by how many employees each business selected to participate in the scheme. In this way, businesses had some 'skin in the game' as they would be responsible for repaying the loan, while it was the employees who gained the direct financial benefit.

Once all the money was paid out to employees of SMMEs, the loan data was passed on to the SA Future Trust, which will be responsible for managing the loan book and all repayments until the loans mature after five years. All repayments made to the SA Future Trust will be used to support inclusive socio-economic growth and the growth of the SMME sector. The SA Future Trust will be wound up in December 2040, by which time all funds will have been disbursed.

Theory of Change

The above narrative of how the SA Future Trust aimed to achieve its desired outcomes and ultimate impact is illustrated in the theory of change (TOC) diagram below. TOC is a framework used to design and project the trajectory and pathway along which an intervention is likely to evolve, what intermediate outcomes are expected, what mitigating factors are likely to emerge, what assumptions and evidence underlie expectations, and

[5] For the purposes of this report, SMMEs refers small, medium, and micro enterprises. The definition adopted for this report aligns to the turnover and employee threshold set per sector in the government gazette (a copy of which can be found here https://www.gov.za/sites/default/files/gcis_document/201903/423041gon399.pdf))

what the ultimate outcomes should be. It also helps to identify which indicators should be used to measure final outcomes.[6]

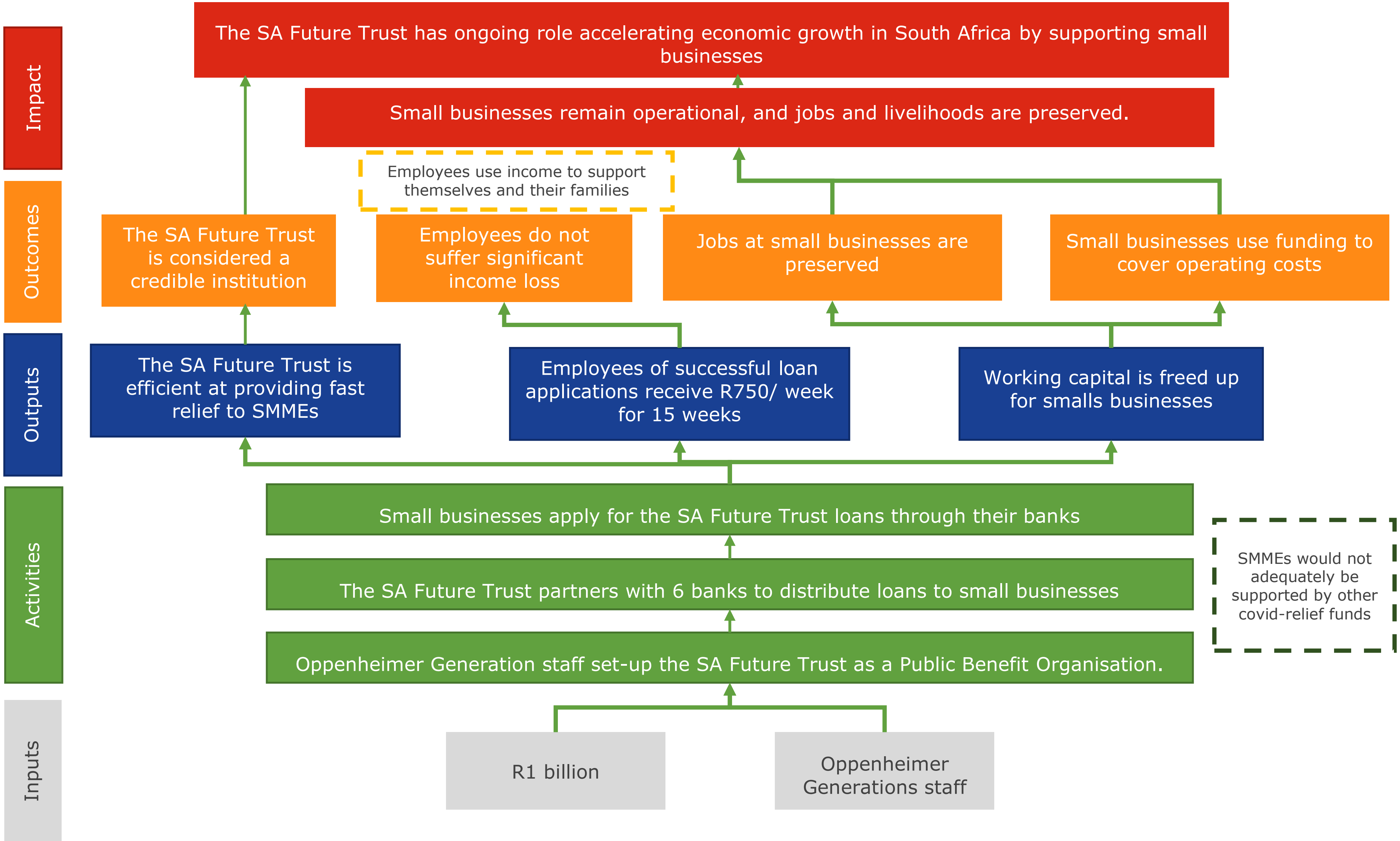
In the context of the SA Future Trust, the desired impact is that, through the financial support of the SA Future Trust, SMMEs will remain operational and continue to drive job creation and economic growth in South Africa. Preserving jobs in SMMEs will alleviate the severe socioeconomic impact of the pandemic on poor and low-income households, and, in the process, help to reduce poverty and hunger. This is based on the assumption that employees will use the income to support themselves and their families.

These final outcomes are expected to be achieved through the efficiency of the SA Future Trust in providing fast relief to SMMEs and, in the process, freeing up working capital for these businesses to cover other operational costs, thereby enhancing their financial sustainability under Covid-19 conditions. It is expected that there will always be challenges for SMMEs trying to access funding from other sources. The SA Future Trust therefore aims, over its 20-year lifespan, to continue to support SMMEs through innovative means and continue to unlock capital that will accelerate economic growth in South Africa.

A TOC is not set in stone and instead should be used as a living document which is adjusted as the SA Future Trust grows and develops.

[6] TOC is constructed by backward induction, starting from the final goal, which intermediate outcomes could lead to the realisation of targeted final goals, which activities could lead to the realisation of these intermediate outcomes, and what input is required to execute the intended activities. The TOC of the SA Future Trust combines aspects of three different approaches to TOC, namely the logic model, the outcomes chain model, and the narrative theory model. The fundamental differences are that the outcome chains model emphasises on causality, whiles the logic model does not, and the theoretical narrative model is usually simply a narration of what should evolve, without diagrammatic illustrations.

Figure 1: SA Future Trust Theory of Change



Beneficiary Analysis

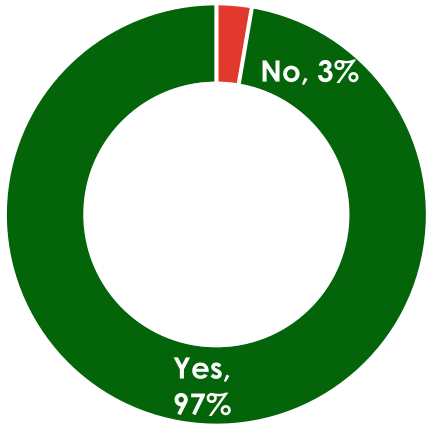
Sample Size

To gather the data that was used in this report, a survey was emailed to all SA Future Trust loan holders between October 2020 and March 2021. The survey was subject to two rounds of piloting to assess the drop-off points of respondents and adjust the format of the questions to increase response rates. An iPhone 12 prize incentive was also included to increase the survey completion rate.

Of the 9 656 loan holders who were surveyed, we received 2 849 responses, representing 26% of the total sample (hereinafter referred to as the "respondent sample"). Although this may seem like a low response rate, it provides adequate representativity of the SMMEs reached by the SA Future Trust, in terms of heterogeneity for analysis purposes. It was not mandatory for SMMEs to respond to the survey, instead it was their choice, therefore there is some self selection bias within the sample. Where possible the results have been compared to either population or industry statistics to ground the findings in a broader context.

Figure 2: Sample size

The majority of businesses who responded are still **operational** *n=2849*



Source: SA Future Trust data, 2021

The total respondent sample size for this survey is 2 849 with 2 772 (97%) businesses still operational and 77 (3%) businesses non-operational. The non-operational businesses[7] only made up 3% of respondents and therefore were only included in the women-owned, provincial spread and sectoral distribution sections, the rest of the report only uses data from the operational businesses. 1 010 businesses only partially completed the survey. Their responses have been included where appropriate, as they still provide valuable insight.

It is important to note that SA Future Trust loans were only eligible to SMMEs that banked with the six partner banks - Absa, First National Bank, Investec, Mercantile Bank, Nedbank, and Standard Bank. While these banks account for the majority of banked SMMEs in South Africa, the scheme was not available to those banking with other institutions, or those without a bank account.

Firm Characteristics

Women-Owned

The SA Future Trust successfully reached a significant number of women-owned businesses. These businesses proved to be more resilient as fewer women-owned businesses closed between March 2020 and March 2021, compared to

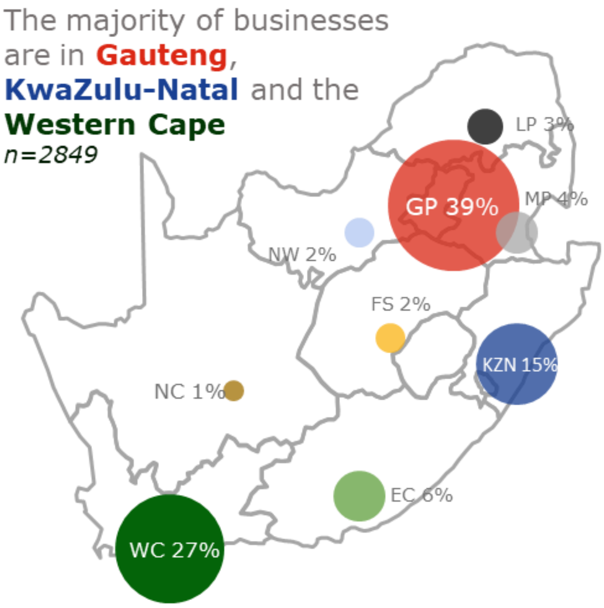
[7] The low percentage of non-operational businesses could be due to businesses closing and therefore not checking their statements with the email link, or not wanting to respond as the survey was no longer relevant to them

those owned by men. Of the respondent sample, 43% or 1 248 businesses are owned by women. Fewer female-owned businesses are no longer operational (45%) than male-owned businesses (55%). This is consistent with research literature that women-owned businesses present a lower risk to investors and are considered a more reliable group which maintain higher repayment rates with lenders than male-owned businesses.[8] Despite this, research shows that globally, 80% of women-owned businesses with credit needs are either unserved or underserved, representing approximately $1.7 trillion financing gap.[9] Going forward, the SA Future Trust needs to consider targeting more women-owned businesses and providing them with both the financial and non-financial support they need to grow. This will help to address the inequality in access to finance between male-owned and female-owned businesses.

Provincial Spread

The SA Future Trust supported businesses in every province. This indicates that partnering with the banks to offer loans to their clients and using the banks to distribute the funding resulted in the broadest reach. In terms of provincial distribution, the majority of operational (respondent) businesses are concentrated in Gauteng (1 086 or 39%), the Western Cape (765 or 27%) and KwaZulu-Natal (430 or 15%). This is in line with Stats SA data showing Gauteng, the Western Cape and KwaZulu-Natal[10] as the three biggest contributors to gross domestic product (GDP) and, in turn, the country's leading economic hubs. Considering that the SA Future Trust targeted banked SMMEs, this finding is not surprising and points to these businesses forming part of larger supply chains. It can also be observed that there is broad sectoral diversity in the businesses that were supported by the SA Future Trust in each province. This sectoral diversity is a healthy approach that needs to be considered in future disbursements by the SA Future Trust.

Figure 3: Provincial spread of respondents



Source: SA Future Trust data, 2021

[8] Zainuddin, M and Yasin, I.M. 2020. Are Women Better Borrowers in Microfinance? A Global Analysis, The Empirical Economics Letters 19(7):651-660

[9] Kende-Robb, C. 2019. To improve women's access to finance stop asking them for collateral. World Economic Forum. http:// https://www.weforum.org/agenda/2019/06/women-finance-least-developed-countries-collateral/ [Accessed 23 May 2021]

[10] In 2017 Gauteng contributed 34%, KwaZulu-Natal contributed 16% and Western Cape contributed 14%. StatsSA

Sectoral Distribution of Respondents

Table 1: Sectoral distribution of operational and non-operational businesses

Sector	Subsector	Number of businesses	%	% Of total
Agriculture	Agriculture, hunting, forestry, and fishing	72	2.58%	2.58%
Industry	Construction	300	10.73%	28.81%
	Manufacturing	413	14.78%	
	Mining and quarrying	19	0.68%	
	Electricity, gas, and water	73	2.61%	
Services	Commercial agencies and allied services	67	2.4%	65.84%
	Community, social and personal services (including recreational and cultural services)	413	14.78%	
	Financing, insurance, real estate, and business services	489	17.50%	
	Hospitality and tourism	447	15.99%	
	Transport, storage, and communication	147	5.26%	
	Wholesale and retail trade, restaurants, and hotels	277	9.95%	
	Other	77	2.75%	2.76%
	Total	**2794**		**100%**

n= 2 794, unknown = 55

Source: SA Future Trust Data, 2021

Businesses from the service sector took up the largest proportion of SA Future Trust loans. - nearly two-thirds at 65.84%. Industry took up nearly a third (28.81%) while the agricultural sector took up the smallest proportion at 2.58%. The percentage breakdown mirrors each sector's contribution to GDP. In 2019, agriculture accounted for 1.88%, industry 26% and services 61.2%. South Africa is a service-oriented economy, and it is no surprise that this sector was hardest hit by the economic impact of the Covid-19 crisis. As the largest contributor to GDP and a major generator of employment (see Table 2), it is important that businesses in this sector can access funding to keep them operational and allow them to grow.

Agriculture

The data further examined each sector and their subsectors. While some businesses in the agriculture sector did receive SA Future Trust loans, they comprised a small portion of the total sample and there was not enough data to draw a set of conclusions about how they were impacted.

Industry

In industry, the subsectors that were hardest hit were manufacturing and construction:

The manufacturing subsector had been experiencing a decline before the Covid-19 crisis struck and this was further exacerbated by lockdown regulations. However, a more nuanced view of the manufacturing subsector is needed as it is made up a of a variety of segments which were all impacted differently under lockdown. Manufacturing of food and the production of packaging, hygiene and medical products were able to continue operating as they were deemed essential. However, the production of alcohol, clothing, footwear, wood, paper, metal, machinery, vehicle production and furniture[11] all saw sharp declines in production, as they were subject to lockdown restrictions and deemed non-essential. Local demand also stalled, and exports were negatively impacted as there were lower levels of transport available to move goods to the ports. The businesses that took up SA Future Trust loans were all in segments that experienced a decline in production due to reduced local demand for their goods and employees not being able to access the factories or warehouses during lockdown.

The construction subsector was suffering the effects of a contracting economy and a decline in both public and private investment prior to the onset of the Covid-19 crisis.[12] It was not given essential service status during the lockdown, except for services related to the health sector, urgent repairs, and maintenance. This resulted in major disruptions to ongoing projects and delays to planned projects. The construction subsector is highly labour intensive and employed around 1.3 million people in 2019 and contributed 4% to GDP[13]. It was projected to lose nearly 10% of employees between March 2020 and September 2021 and demand for general building services is anticipated to remain severely constrained over the short to medium term. Businesses in the construction subsector have either shifted their focus to other markets or closed their doors which has negatively impacted a large number of employees and households dependent on employment in this subsector for income.

Services

In the services sector the businesses who applied to the SA Future Trust were from the following subsectors: financing, insurance, real estate, and business services; hospitality and tourism; community, social and personal services (including recreational and cultural services).

SMMEs in the financing, insurance, real estate, and business services subsector were the hardest hit as they provide services to other businesses and feed into their supply chains. These services include recruitment, skills training, IT solutions and accounting services.[14] The initial lockdown halted the operations of many businesses, small and large, and caused widespread economic uncertainty. In an ecosystem where businesses rely on each other for cashflow, by providing goods and services to one another, reduced activity

---

[11] Arndt, C., Davies, R., Gabriel, S., Harris, L., Makrelov, K., Boipuso, M., Robinson, S., Simbanegavi, W., van Seventer, D., and Anderson, L. 2020. Impact of Covid-19on the South African economy: An initial analysis. SA-TIED Working Paper 111. Available at: https://sa-tied.wider.unu.edu/sites/default/files/pdf/SA-TIED-WP-111.pdf. [Accessed May 2021]
[12] Research and Markets. 2021. South Africa Construction Industry Report 2020: Industry Performance, covid-19 Impact, Influencing Factors, Industry Associations. Available at: https://www.globenewswire.com/news-release/2021/03/24/2198258/28124/en/South-Africa-Construction-Industry-Report-2020-Industry-Performance-COVID-19-Impact-Influencing-Factors-Industry-Associations.html [Accessed June 2021]
[13] Construction Industry Development Board. 2020. Construction Monitor: Employment, October 2020. Available at: http://www.cidb.org.za/Documents/Construction%20Monitor%20Employment%20October%202020.pdf. [Accessed May 2020]
[14] SA Future Trust data, 2021

(to conserve working capital) in one sector had consequences for suppliers of the other sectors facing lower demand.

Hospitality and tourism subsector were most notably affected by the border closures and restrictions on people's movements and public gatherings. Businesses have had to operate with minimal staff and almost no customer or guest income.[15] Tourism was on the rise in January and February 2020 with 3 091 233 more individuals passing through the borders compared to the same period in 2019. As no tourists were allowed to enter the country during the first lockdown, the entire subsector that provides services to this consumer base was negatively impacted. Holiday plans were either shifted or cancelled and revenue generation for these businesses became uncertain, with no clear indication of when the borders would open to international travellers. The hospitality and tourism subsector shifted from growth to stagnation. For the hospitality subsector, the restrictions on people gathering for events such as celebrations, conferences, and concerts had far-reaching impacts on the smalls businesses that act as suppliers to these events. These included restructuring, pay-cuts, retrenchments, and possible closures.

The community, social and personal services (including recreational and cultural services) subsector includes SMMEs that provide education, healthcare, cleaning services and beauty and wellness. The majority of these businesses sell goods and services to people who live in their local communities or provinces[16], and therefore rely on the proximity of their customer base to generate sales revenue. During the hard lockdown, restriction of people's movement prevented consumers from physically accessing these businesses and therefore negatively impacted their cashflow. Without sales, these businesses did not have sufficient reserves on hand to keep their businesses operational and they needed to access other funding mechanisms to cover costs such as employees' salaries.

SMME Access to Finance

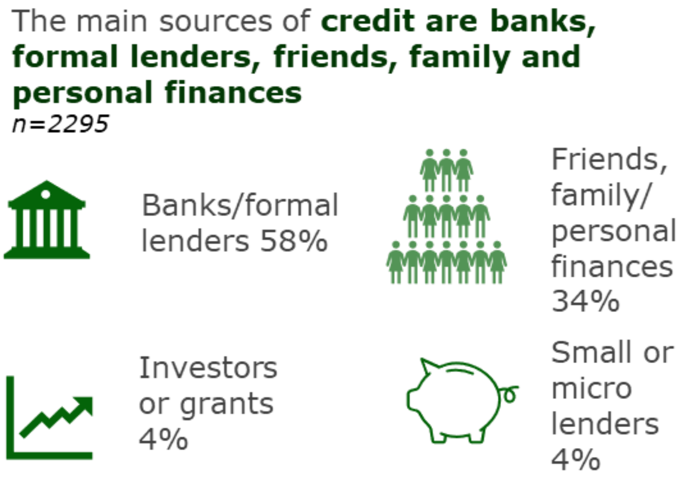
The majority of SMMEs who applied for the loans had less than one month of savings available at the time of answering the survey. The data indicates that the various lockdowns had depleted the little reserves SMMEs had on hand, with 69% (or 1 593) stating that they had less than one month of savings available.[17] This low savings' rate indicates that SMMEs are incredibly vulnerable to shocks. South Africa's macro-economic environment meant that SMMEs were already vulnerable before the lockdown. The uncertainty of how long it would last forced many SMMEs to seek alternate forms of funding, such as the SA Future Trust, to cover costs.

The SA Future Trust made it easier for micro businesses, in particular, to access credit. Across all sectors, the majority of businesses that took out a loan from the SA Future Trust supported fewer than ten full-time employees. Businesses had to have an annual turnover of less than R25 million per year to qualify for an SA Future Trust loan, but data collected indicates that most of the businesses taking up the loans were on the smaller side. Businesses with fewer than 10 employees and who likely had an annual turnover of between R5 - R20 million[18] made up 71.84% of the respondent beneficiaries reached. [19]

[15] Nkaiseng, K., Weyers, K. and Rajah, V., 2021. Cliffe Dekker Hofmeyr - The COVID-19 effect: Its impact on industries and how to reduce insolvency risks. [online] Cliffedekkerhofmeyr.com. Available at: https://www.cliffedekkerhofmeyr.com/en/news/publications/2020/dispute/business-rescue-newsletter-5-may-the-covid-19-effect-its-impact-on-industries-and-how-to-reduce-insolvency-risks.html [Accessed June 2021].
[16] SA Future Trust data, 2021
[17] SA Future Trust data, 2021
[18], Micro businesses are those with fewer than 10 employees and who can earn between R5 – R20 million annual turnover. This range is dependent on which sector the business is in.
[19] SA Future Trust data, 2021

Examining existing channels that SMMEs use to access credit, survey responses listed formal lenders, family, friends, or personal savings as the main sources. **SMMEs reported that they struggled to access credit for their businesses even before the Covid-19 crisis. Many reported that they did not qualify and therefore relied solely on sales revenue to sustain their businesses**. This indicates that there is a significant gap in the lending market for these businesses that could be filled by alternative and innovative financing products.

Figure 4: Sources of credit



Source: SA Future Trust Data, 2021

SMMEs in the survey reported a need for further funding and **additional support in the form of access to working capital (46%) or access to grant capital (26%)[20].** A similar finding is echoed throughout the research literature where access to funding is considered a main barrier to the survival of SMMEs. The 2016 Global Entrepreneurship Monitor survey found that problems with finance led to 28% of businesses closing[21]. By accessing credit, these businesses were able to remain operational and continue to employ their full-time and part-time employees. SMMEs are considered the engine of growth for the economy and are expected to account for over 90% of new jobs by 2030.[22] It is therefore imperative that the SA Future Trust continues to look at mechanisms that deploy capital into SMMEs – particularly micro and small businesses which often struggle to access the funding they require to survive or grow.

Employees

"Helped to put food on all employees' tables to provide for their families and helped to keep doors of business open to be able to keep on helping community and provide work and income."

- *SA Future Trust recipient*

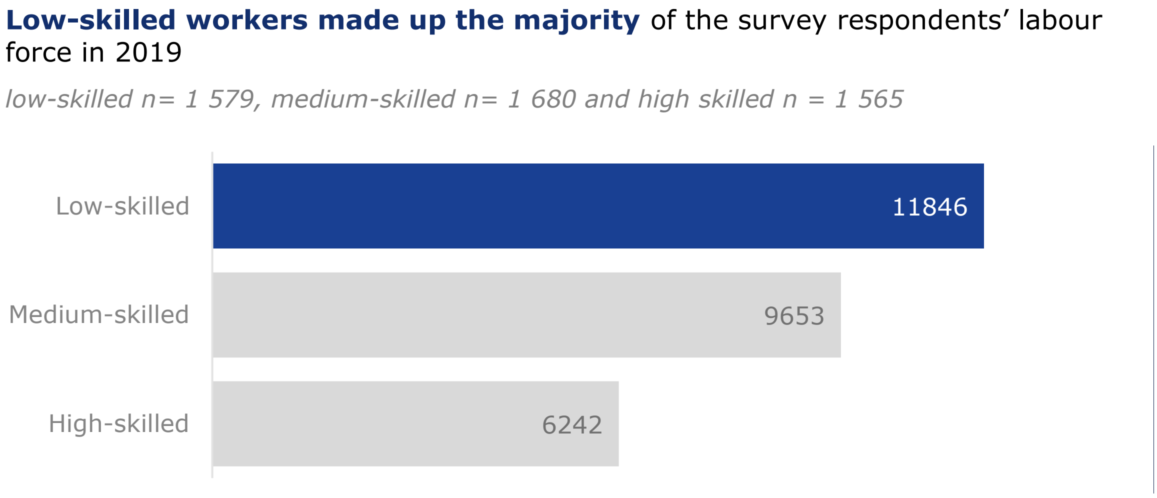
According to the qualitative responses, the motivation for many respondents to apply for the SA Future Trust loan was **to prevent retrenchments and support their employees by ensuring that they had an income to support their families even if the business had no turnover.** This indicates that SMMEs applied for the loans as they wanted to preserve the jobs in their businesses.

The impact of the SA Future Trust is determined by the number of jobs preserved**.** Respondents were asked how many employees they had at the end of 2019 to determine a baseline number of employees to compare to the 2020 employee numbers. The variation was analysed in terms of the number of jobs lost, preserved, or created. The survey allowed respondents to differentiate between high, medium, and low-skilled workers. It did not provide guidance on what

[20] SA Future Trust data, 2021
[21] Global Entrepreneurship Monitor. 2017. Global Report 2016/17. Available: file:///C:/Users/ashleigh.fynn/Downloads/rev-gem-2016-2017-global-report-web-version-updated-210417-1548584018-1549359666.pdf [Accessed May 2021]
[22] Vuba, S. 2019. The missed opportunity: SMMEs in the South African economy. The Mail and Guardian.

constituted each skill level and rather let the businesses categorise their employees themselves[23].

Figure 5: 2019 employment numbers by skill level



Source: SA Future Trust data, 2021

Across all three skill levels and sectors there was a similar trend - more jobs were preserved than lost and, in some cases, businesses were able to hire new employees despite facing tough economic conditions.

Under these economic conditions, job losses were expected. In comparing the percentage of jobs lost relative to the 2019 figures, it was found that job losses were similar across skill levels (see Figure 6). However, if absolute numbers are compared, the data indicates that more low-skilled jobs (1 933) were lost in comparison to the medium (1 506) and high skilled jobs (1 054). This indicates that in the respondent sample **more households dependent on low-skilled labour income were negatively impacted by the Covid-19 crisis.** Many SMMES in South African are known to operate in low-skill industries and occupations (such as wholesale and retail jobs) and therefore provide employment opportunities to low-skilled employees.[24] According to Bhorat et al., over 70% of SMMEs employees function in low to medium-skill level occupations. To continue to positively impact low-skilled workers' lives, there needs to be increased support for SMMEs that absorb their labour.

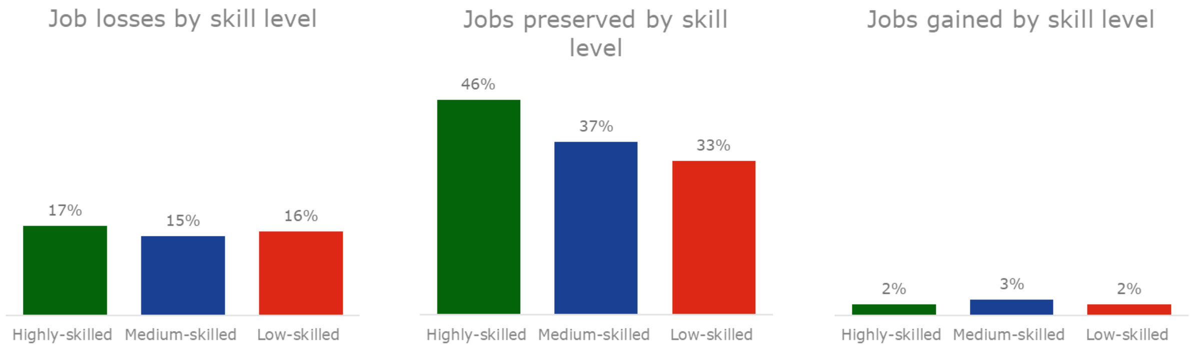
To understand the impact at a subsector level, the percentage of jobs lost, preserved, and gained must be examined relative to the total number of jobs that existed at the end of 2019. The subsectors that saw the highest percentage of low-skilled job losses are transport, storage, and communications; mining and quarrying; tourism and hospitality; construction and agriculture; hunting, forestry, and fishing. From the data it was found that subsectors lost between a fifth and a third of their low-skilled workforce. A similar trend was found in the subsectors that lost medium-skilled workers, with the biggest impacts reported in construction; tourism and hospitality; transport, storage, and communications; and electricity, gas, and water sectors. They lost between a fifth and a quarter of their medium-skilled labour force. Lastly, the construction, tourism and

[23] Please note that sample size or 'n' for each skill level illustrated in figure 5 differ because these categories were mutually exclusive and therefore the same respondent provided separate figures for their low skilled workers, medium-skilled workers and high-skilled workers.

[24] Bhorat, H., Asmal, Z., Lilenstein, K., and Van Der Zee, K. 2018. SMMES in South Africa: Understanding the constraints on growth and performance. Development Policy Research Unit, University of Cape Town. Working Paper No. 201801. Available at: https://media.africaportal.org/documents/DPRU_WP201802.pdf [Accessed August 2021]

hospitality subsectors lost nearly a quarter of their highly skilled work force. These were the only two sectors in our dataset which recorded job losses at all three skill levels, indicating that they were significantly affected by the economic conditions brought about by the Covid-19 crisis. It is likely that it will take a considerable amount of time to get back to pre-Covid operating levels and to make up for jobs lost during this period.

Figure 6: Percentage of jobs lost, preserved, and gained by skill level (as a percentage of 2019 job numbers)



Source: SA Future Trust data, 2021

The SA Future Trust achieved its objective of preserving a significant portion of jobs in SMMEs it provided relief to. In total, nearly half of the highly skilled workers' jobs were preserved in comparison to only a third of medium and low-skilled workers' jobs. A likely reason is that businesses incur a significantly higher cost when replacing a highly skilled worker than they do when replacing a medium or low-skilled worker. This is due to low supply of matching skills available in the labour market and training and development costs incurred by businesses. Examining job preservation through a subsector lens, the commercial agencies and allied services and financing; insurance; real estate and business services subsectors were able to preserve more than half of low-skilled workers' jobs. The agriculture, hunting, forestry, and fishing; commercial agencies and allied services subsectors were able to preserve nearly two thirds of their medium-skilled work force and highly skilled workforce. The mining and quarrying subsector was able to save 75% of its highly skilled workforce (see

Table *3* below). These jobs were most likely those that could be shifted online or that had access to relief funding to cover salary costs.

SMMEs reached by the fund have proven to be resilient throughout this turbulent period. The majority of the businesses in our respondent sample have been able to remain operational and have continued to create jobs in all sectors and at all skill levels**.** Furthermore, when asked what portion of their payroll they could cover, 60% of the respondent sample indicated that would be able to cover 60-100% until the end of December 2020, while 74% of those who completed the survey in 2021 indicated that they would be able to cover 60-100% until the end of June 2021. This increased shift illustrates the businesses' commitment to paying staff and some optimism around the easing of lockdown restrictions and subsequent increased trade and revenue. The percentage of jobs created was low in comparison to that of jobs lost and preserved. The financing, insurance, real estate, and business services subsector created 4% more low-skilled jobs; mining and quarrying created 30% more medium-skilled jobs and electricity, water and gas created 6% more highly skilled jobs. This is probably due to an increase in the demand for goods and services as lockdown restrictions eased and business models adapted to the new environment and needed extra staff. It must be noted that while SMMEs in the respondent sample have been resilient, they still suffered significant job losses and the new jobs that they were able to create did not compensate for those lost.

Table 2: Number of jobs lots, preserved and gained (in absolute numbers)

		Highly skilled workers			Medium Skill workers			Low skilled workers		
Sector	**Subsector**	**Lost**	**Preserved**	**Gained**	**Lost**	**Preserved**	**Gained**	**Lost**	**Preserved**	**Gained**
Agriculture	Agriculture, hunting, forestry and fishing	-9	83	3	-9	148	10	-178	275	3
Industry	Construction	-204	305	13	-280	346	35	-340	470	43
	Manufacturing	-129	530	22	-232	762	40	-227	813	60
	Mining and quarrying	-4	21	1	-5	23	31	-16	16	
Services	Commercial agencies and allied services	-10	61	4	-12	93	3	-16	76	
	Community, Social and Personal Services (including recreational and cultural services)	-196	624	16	-143	588	62	-163	540	37
	Electricity, Gas and Water	-19	49	6	-32	64	2	-26	66	5
	Financing, Insurance, Real Estate and Business Services	-191	499	26	-161	621	79	-100	449	38
	Tourism and Hopitality	-197	355	7	-394	487	28	-533	835	22
	Transport, Storage and Communication	-33	93	7	-104	117	12	-172	98	9
	Wholesale and Retail Trade and Restaurants and Hotels	-50	178	10	-118	330	34	-148	306	24
Other	Other (please specify)	-12	92	1	-16	82	6	-14	62	3
	Total	**-1042**	**2798**	**115**	**-1490**	**3579**	**336**	**-1919**	**3944**	**241**

Source: SA Future Trust Data, 2021

Table 3: Percentage of jobs lost, preserved, and gained by sector (as a percentage of 2019 job numbers)

Sector	Subsector	Highly skilled workers			Medium Skill workers			Low skilled workers		
		Lost	Preserved	Gained	Lost	Preserved	Gained	Lost	Preserved	Gained
Agriculture	Agriculture, hunting, forestry and fishing	-7%	64%	2%	-4%	65%	4%	-19%	30%	0%
Industry	Construction	-24%	35%	2%	-24%	30%	3%	-24%	34%	3%
	Manufacturing	-13%	52%	2%	-13%	44%	2%	-12%	43%	3%
	Mining and quarrying	-14%	75%	4%	-5%	22%	30%	-23%	23%	0%
	Electricity, Gas and Water	-18%	47%	6%	-20%	40%	1%	-4%	11%	1%
Service	Commercial agencies and allied services	-11%	69%	5%	-9%	67%	2%	-13%	61%	0%
	Community, Social and Personal Services (including recreational and cultural services)	-15%	48%	1%	-9%	35%	4%	-12%	41%	3%
	Financing, Insurance, Real Estate and Business Services	-16%	41%	2%	-12%	48%	6%	-12%	52%	4%
	Tourism and Hopitality	-24%	44%	1%	-22%	28%	2%	-22%	34%	1%
	Transport, Storage and Communication	-16%	45%	3%	-21%	23%	2%	-35%	20%	2%
	Wholesale and Retail Trade and Restaurants and Hotels	-15%	53%	3%	-15%	43%	4%	-12%	25%	2%
Other	Other (please specify)	-9%	71%	1%	-10%	50%	4%	-3%	11%	1%
	% of total 2019 report jobs	**-17%**	**46%**	**2%**	**-15%**	**37%**	**3%**	**-16%**	**33%**	**2%**

Source: SA Future Trust Data, 2021

Summary of key findings

- A significant number of women-owned businesses took up the loans. These businesses proved to be more resilient as fewer women-owned businesses than male-owned businesses closed between March 2020 and March 2021.
- The SA Future Trust had a broad geographical reach and was successful at supporting businesses in every province and sector.
- The majority (65.84%) of small businesses who applied to the SA Future Trust were from the services sector.
- The SA Future Trust was able to reach small, micro, and medium sized enterprises. Micro businesses with fewer than ten full-time employees made up the greatest portion of SA Future Trust recipients.
- SMMEs reported that they mainly accessed credit through their banks/formal lenders, networks of family and friends or from their personal savings. However, they struggled to access credit for their businesses even in pre-Covid times with many reporting that they were solely reliant on sales revenue to sustain their businesses.
- The motivation for many respondents to apply for the SA Future Trust loan was to prevent retrenchments and ensure that their employees had an income to support their families, even if the business had no turnover.
- Across all sectors and skill levels, more jobs were preserved than lost. This indicates that the SA Future Trust was successful at achieving its objective of preserving jobs in small businesses.
- SMMEs have proven to be resilient throughout this period. The majority of the businesses have been able to remain operational and have continued to create jobs in all sectors and at all skill levels. However, it must be noted that the jobs created do not make up for those lost.

Application to the SA Future Trust

Communication Channels

The three leading information channels for the SA Future Trust were the banks (52%), TV (19%) and industry bodies or associations (13%). Survey results suggest that the SA Future Trust partner banks were effective in informing their clients about the scheme as a risk-free mechanism for them to provide relief to their clients and service them by distributing the funds to their employees. This indicates that using a partner model, where incentives are aligned, can facilitate an efficient messaging channel. It is interesting to note that both TV and industry bodies were somewhat effective at reaching businesses and these channels can be used in future iterations of the SA Future Trust.

Reasons Why SMMEs Applied

Table 4: Reasons why SMMEs applied to the SA Future Trust

Reason	No. of respondents
It seemed low risk	891
The application process was convenient	996
I was eligible	1 143
It had favourable terms	1 344

Source: SA Future Trust Data, 2021, NB These categories are not mutually exclusive and have overlaps.

SMMEs applied to the SA Future Trust because they were eligible, and it had favourable terms. The application model of the SA Future Trust was to ensure rapid deployment of funds to businesses in need. The model was designed to be light touch from both the supply (the banks) and the demand (the beneficiary) side. Banks were able to use the client information they already had on their systems and once approved, SMMEs only needed to supply the details of the beneficiaries who would be receiving the payments. SMMEs were able to unlock the funding relatively easily without having to jump through hoops or wait lengthy periods for the pay-outs to begin. The SA Future Trust model was unique in the way that it was able to respond to the crisis and it would likely not have been able to operate as efficiently as it did under normal circumstances. However, its success highlights the need to have processes and systems in place that are simple enough for SMMEs to unlock funding quickly, but robust enough to ensure that they are not abused.

Concerns

For the most part the respondents (67%) had no concerns around the SA Future Trust process. However, some had minor issues and felt that the communication around the loan was not clear (16%), that it was difficult to apply (12%), that employees did not receive payments on time (3%) and that it was difficult to cancel (2%). It was anticipated that there would be some issues, with such a rapid deployment of funds and the reliance on six partner banks utilising different systems and processes. What is encouraging to see is that the issues were not widespread among the sample size, and that they mainly point to administrative problems on the banks' side and some communications' issues when the loans were transferred from the banks to the SA Future Trust's loan management system. It is important to note these concerns and aim to minimize them as the SA Future Trust grows and continues to provide support.

Other Forms of Relief

Businesses who received the SA Future Trust loan applied for additional business relief as well. The qualitative responses indicate that businesses applied for the SA Future Trust because other relief options such as TERs did not pay out soon enough or because they were not eligible for other relief schemes available[25]. As SMMEs faced market uncertainty, they looked for other sources of funding that would save their businesses and allow them to keep employing their staff. As a result, some of the businesses who received the SA Future Trust loan also qualified and accepted other forms of financial relief. The SA Future Trust was thus not the sole reason these businesses were able to survive from a funding perspective. TERS was the most popular form of relief as indicated by nearly half of survey respondents stating that they had received this relief. Debt relief was also accepted by a third of survey respondents. Across the board, we see significantly less take-up of relief than what was applied for. This could point to businesses not meeting the eligibility criteria or not having sufficient compliance documents in place to enable them to successfully access these funds.

[25] SA Future Trust data, 2021

Table 5: Other forms of financial relief

Form of relief	Applied	Application successful	Relief accepted
Debt relief	921	786	770
Deferring payments to The South African Revenue Services (SARS)	308	220	209
Sector specific small business grant or loan schemes	705	279	271
Business Growth and Resilience Facility for essential service	219	23	23
The UIF's Temporary Employer/Employee Relief Scheme (TERS)	1 508	1 348	1 325
Government back loan guarantee (covid – 19 load Guarantee Scheme)	573	243	233

Source: SA Future Trust Data, 2021, NB These categories are not mutually exclusive and have overlaps

Workplace Covid-19 Response

It was encouraging to find that the majority of respondents could implement changes in their workplaces to make them safer for employees returning to work once the regulations were eased. The survey assessed respondents on their ability to implement five safety protocols. These were: (i) the ability to work from home; (ii) the ability to ensure social distancing in the workplace; (iii) the provision of masks; (iv) the ability to screen employees upon entry; and (v) the provision of hand sanitiser and regularly sanitising surfaces. Businesses were asked to indicate whether they were able to implement the protocols or not, or whether the protocols did not apply to the business.

(i) Work from home

The majority of respondents' staff could not work from home. Some 81% of businesses reported that at most 50% of their staff could work from home. This indicates that these jobs could not easily be shifted online and were most likely jobs that involved manual labour and required the workers' physical presence. It also demonstrates that SA Future Trust funding reached the right 'type' of businesses - those with employees who could not perform their duties and were therefore at risk of losing their jobs.

(ii) Social distancing

The majority (90%) of businesses could introduce social distance measures at work while 6% could not and 4% reported that it did not apply to them. As the lockdown eased and employees could go back to work, most employers reported that they could include social distancing measures in the workplace. This included maintaining the correct physical distance between workers and/or reducing the numbers of workers by rotating the days they came into the office.

(iii) Provision of masks

The majority of businesses (95%) could provide masks for their staff. Masks are legally mandated in South Africa and therefore are required to be worn in the workplace. While most businesses reported that they could provide their staff with masks, 2% stated that they could not, and therefore most likely required staff to purchase their own masks for use in the workplace. A further 3% of businesses reported that this did not apply to their business.

(iv) Screening

The majority of businesses could screen their employees. However, in comparison to the other Covid-19 protocols, only 74% were able to do so. Nineteen percent stated that they were unable to perform Covid-19 screening and 7% reported that it did not apply to them. The purpose of screening is to identify any individuals with abnormally high temperatures – a common symptom of Covid-19. This required businesses to purchase a digital thermometer, the cost of which might have acted as a barrier to businesses implementing the protocol.

(v) Provision of hand sanitiser and sanitising of surfaces

The majority (97%) of businesses reported they could provide hand sanitiser and could sanitise work surfaces while 2% indicated that they could not and 1% reported that it did not apply to them. To combat the spread of Covid-19, people around the country have been encouraged to sanitise their hands and surfaces regularly. It is encouraging to see that businesses were able to provide this level of protection that might only have been seen in hospitals beforehand.

On the whole, it was encouraging to see that most respondents have adapted to the new working environment by putting the necessary Covid-19 protocols in place to ensure that they can keep operating and keep their staff safe.

Key findings summary

- The three leading information channels for the SA Future Trust were the partner banks (52.35%), TV (19%) and industry bodies/associations (13%).
- SMMEs applied to the SA Future Trust because they were eligible, and it had favourable terms.
- For the most part, the respondents (67%) had no concerns around the SA Future Trust process.
- Businesses who received the SA Future Trust loan applied for additional business relief.
- The majority of employees could not work from home, indicating that the SA Future Trust reached employees who were the most in need.
- It was encouraging to find that the majority of the respondents could implement changes in their workplace to make them safer for employees returning to work once the regulations were eased.

Perceptions

Financial

Table 6: Financial perceptions of survey respondents

	Increase			Stays the same			Decrease		
	2020	2021	Change	2020	2021	Change	2020	2021	Change
Total turnover	7%	32%		6%	18%		87%	49%	
Total fixed costs	28%	41%		44%	41%		28%	19%	
Total variable costs	33%	47%		23%	28%		42%	22%	
Profit before tax	6%	27%		6%	16%		88%	57%	
Debt servicing costs/interest on debt	61%	46%		26%	37%		13%	17%	

Source: SA Future Trust data, 2021

SMMEs feel optimistic about the financial future of their businesses. To assess their perceptions of the future, SMMEs were asked to state how the five financial variables listed in the dashboard above were impacted by the Covid-19 crisis and how they anticipated these would change at the end of 2021. The predicted change from 2020 to 2021 gives insight into how the businesses feel about the future.

One in four SMMEs in the respondent sample felt that turnover would increase in 2021 in comparison to 2020, while 12% more felt that their turnover was likely to stay the same and 38% fewer SMMEs felt that their turnover was likely to decrease. The level of optimism is encouraging and is likely to be driven by the SMMEs who have come through the lockdown with businesses that are still operational and that have successfully adapted their workspaces to the new regulations.

Some 13% more SMMEs indicated that fixed costs were likely to increase, 3% less reported that they would stay the same while 9% fewer SMMEs thought that they would decrease. Overall, there was an anticipation of fixed costs increasing in the next year due to investing in equipment for employees to work from home (such as laptops, routers, and mobile data) as well as the associated costs that come with moving back into a physical workspace.

Variable costs followed a similar trend to fixed costs with 14% more SMMEs anticipating them to rise, 5% more expecting them to stay the same and 20% fewer expecting them to decrease. As businesses begin to increase their production of goods and services, so too do the variable costs associated with that production increase.

Some 21% of SMMEs anticipated that profit before tax would increase, while 10% believed it would stay the same and 31% that it would decrease. These trends, as well as the magnitude of the change, were in line with how they anticipated their turnover to increase, suggesting an increased level of optimism.

Lastly, 15% fewer SMMEs anticipated their debt servicing costs would increase, 11% more felt they would stay the same and 4% more expected it would decrease. This finding is particularly interesting, given that SMMEs had to incur high levels of debt such as a SA Future Trust loan, to keep their businesses operational in 2021. However, it reinforces the finding of SMMEs being optimistic, in that they feel they are able to pay off their debt as their businesses recover.

Outlook

Employment

Table 7: Perceptions of employment changes by sector and skill level

	Highly skilled workers			Medium skilled workers			Low skilled workers		
Subsector	Jobs created + preserved	Lost	Difference	Jobs created + preserved	Lost	Difference	Jobs created + preserved	Lost	Difference
Agriculture, hunting, forestry and fishing	4%	4%	0%	5%	3%	2%	6%	4%	2%
Construction	22%	10%	12%	22%	12%	10%	22%	14%	8%
Manufacturing	32%	15%	17%	31%	15%	16%	34%	16%	19%
Mining and quarrying	2%	0%	2%	1%	0%	1%	2%	0%	2%
Electricity, Gas and Water	4%	3%	1%	5%	2%	2%	6%	3%	3%
Commercial agencies and allied services	4%	1%	3%	5%	3%	2%	4%	3%	1%
Community, Social and Personal Services (including recreational and cultural services)	32%	15%	16%	31%	16%	15%	29%	13%	16%
Financing, Insurance, Real Estate and Business Services	45%	11%	34%	40%	15%	26%	35%	13%	22%
Tourism and Hopitality	25%	23%	2%	28%	21%	7%	31%	19%	12%
Transport, Storage and Communication	9%	6%	3%	8%	5%	3%	9%	4%	5%
Wholesale and Retail Trade and Restaurants and Hotels	16%	9%	7%	18%	6%	12%	18%	9%	9%
Other (please specify)	5%	2%	3%	5%	3%	2%	4%	3%	1%

Source: SA Future Trust data, 2021

Respondents across all sectors anticipated that they would create and preserve more jobs than they would lose by the end of 2021. The finance, insurance, real estate, and business services; community, social and personal; manufacturing and construction subsectors remained relatively optimistic. They anticipated that they would create and preserve nearly 50% more jobs than they would lose.

Based on the above data, the tourism and hospitality subsector anticipated having nearly as many jobs lost as jobs created and preserved by the end of 2021. This was probably driven by decreased demand as many countries still have travel restrictions in place, and many people who would travel domestically have suffered significant reductions to their disposable income which would be spent in this sector.

While it was encouraging to see that some businesses anticipated job increases and job preservation, it is concerning to see that more jobs across sectors and skill levels were expected to be lost as the impact of lockdown restrictions continued to have negative effects on SMMEs and business confidence in general.

As the SA Future Trust formulates its future strategy, it might be worthwhile using a sector and subsector lens to determine which of these thrived as a result of Covid-19, and which have become even more vulnerable and in need of further financial assistance.

Key Challenges As A Result Of Covid-19

Covid-19 has changed the economic environment SMMEs operate in and will continue to impact firms and industry for years to come. To get a measure on which sectors are likely to be impacted the most by certain key challenges, respondents were asked to rank how likely they were to experience each of the five challenges listed in table 9 below.

Applying a subsector lens, construction, manufacturing, and tourism and hospitality signalled that they are the most likely to experience industry and firm challenges as a result of the economic impact of Covid-19.

For the construction subsector, an already contracting economy and decreased government spending had negatively affected the industry prior to the start of the Covid-19 crisis. The lockdown forced many businesses to close and the subsector was estimated to decline by 8.7% in 2020.[26]

The manufacturing subsector was impacted by the restriction on the movement of people and the decline of the transport and logistics sectors. Not only were employees unable to access factories and warehouses, but goods could also not be transported around the country. This resulted in the decline of the supply of goods which had a negative impact on businesses and consumers who rely on or consume those goods. The easing of restrictions has most likely resulted in an increase in demand and the resumption of some activity in the manufacturing industry which is driving the positive employment outlook. However, there are still concerns about how the effects of Covid-19 will continue to shape the subsector in the coming months.

The tourism and hospitality subsector were severely impacted by border closures, the curfew and restrictions on alcohol and socio-cultural gatherings. The industry went from growing to completely stagnating which has forced many businesses to restructure, introduce pay-cuts, retrench workers and, in the worst-case scenario, close. Unlike the construction and manufacturing subsectors, the tourism and hospitality subsector does not remain as optimistic about its employment outlook, which indicates that there are other factors, such as those listed in Table 8 below, about which it is concerned.

---

[26] Nkaiseng, K., Weyers, K. and Rajah, V., 2021. Cliffe Dekker Hofmeyr - The covid-19 effect: Its impact on industries and how to reduce insolvency risks. [online] Cliffedekkerhofmeyr.com. Available at: https://www.cliffedekkerhofmeyr.com/en/news/publications/2020/dispute/business-rescue-newsletter-5-may-the-covid-19-effect-its-impact-on-industries-and-how-to-reduce-insolvency-risks.html [Accessed June 2021].

Table 8: Key challenges

No.	Challenge	Sector
1	Consolidation in the industry where fewer, larger firms dominate	• Tourism and hospitality • Manufacturing • Construction
2	Significant number of SMEs go out of business	
3	Value chains and supply chains have broken down	
4	Firms substitute capital for labour due to social distancing requirements	
5	The cost of credit falls as interest rates decline further	

Source: SA Future Trust 2021

Challenges one and two are related in that, if a large number of SMMEs in the same sector go out of business, there is a high chance of firms consolidating and dominating the industry, making it harder for new players to enter the market. Businesses in the tourism and hospitality, manufacturing and construction subsectors have definitely borne the brunt of the Covid-19 crisis and a large number of businesses in these subsectors have closed. This has resulted in less competition, which could have a negative effect on the end consumer who becomes a price taker.

The breaking of value chains and supply chains from key suppliers closing has knock-on effects for other industries and causes ripple effects that are felt throughout the economy. The small businesses that operate in the tourism and hospitality, manufacturing and construction subsectors likely form part of larger supply chains. As many of them close their doors, they create gaps in the existing value and supply chains that may not be easy to fill.

In terms of firms substituting capital for labour due to social distancing requirements, this did not emerge as prominent a concern as the previous three, given South Africa's high unemployment rate. Social distancing protocols are unlikely to be a requirement in the long term and substituting capital for labour would cause businesses to incur significant capital costs, which they may not be able to afford in the present economic climate.

The lower cost of credit has its advantages in that SMMEs can repay their debts quicker. However, for the lenders, it is not advantageous as it affects their bottom line. In the current economic climate, with so many SMMEs taking on higher levels of debt and facing market uncertainty, businesses in the tourism and hospitality, manufacturing, and construction sub-sectors are considered higher risk as there is an increased risk of them defaulting on their credit agreements. Therefore, the amount of funding that is available in the market is reduced as lenders have to balance the risk of lending to the risk of businesses defaulting.

Key findings summary:

- SMMEs who benefitted from the fund feel optimistic about the financial future of their businesses.
- Respondent SMMEs across all sectors anticipate that they will create and preserve more jobs than they will lose by the end of 2021**.**

- Covid-19 has changed the economic environment SMMEs operate in and will continue to impact firms and industry for years to come, especially for businesses in the construction, manufacturing and tourism and hospitality subsectors.

Conclusion

The SA Future Trust was created to help alleviate the harsh socio-economic impact of the Covid-19 crisis on SMMEs which threatened the job and income security of hundreds of thousands of employees. The SA Future Trust added to a number of interventions that were aimed at helping businesses weather the economic impact of the crisis. It was designed to be administratively 'light touch' to ensure the rapid deployment of funds to SMME employees.

From the data presented in this report, the SA Future Trust's model has been shown to be efficient and effective. The partnership with South Africa's six major banks allowed it to efficiently communicate its offering to target SMMEs and disburse funds rapidly to employees of qualifying businesses. It also ensured that the SA Future Trust had a broad geographic reach. Unsurprisingly, given the geographic reach, the sectoral distribution mirrored that of the main sectors proportional contribution to GDP. The SA Future Trust did not aim to reach specific gender targets, or place restrictions on the size of small businesses that could apply for the loan, other than the businesses needing to have an annual turnover of R25 million or lower. It was therefore interesting that it reached a significant number of women-owned businesses, and that the majority of businesses which applied had fewer than ten employees.

It is well documented that SMMEs struggled to access funding even before the pandemic. The SA Future Trust endeavoured to make it easy for businesses to unlock funding, and some businesses were only eligible to access SA Future Trust loans and no other forms of relief.

SMMEs have proven to be surprisingly resilient over the last year. Many have been able to implement the necessary protocols that allowed them to open as the lockdown restrictions were eased. Jobs across sectors and skill levels were preserved and a small number of SMMEs were able to create employment opportunities. All of this has culminated in only a small percentage of the businesses which received SA Future Trust loans having to close their doors a year into the Covid-19 crisis. Reflecting back on the theory of change presented in the beginning of this report, it can be seen that the underlying assumptions proved to be true, and the logic illustrated in the causal pathways resulted in the overall impact of "Small businesses remain operational and continue to drive job creation and economic growth" being achieved in the short-term.

The rapid establishment of the SA Future Trust and deployment of loans was as a result of the collaboration between key stakeholders who recognised the need for a unique response to an unprecedented crisis. The model used to disburse loans to qualifying SMMEs and pay employees was never intended to be used in the long term but was rather a response to a short-term need. Going forward, and for the duration of its lifetime, the SA Future Trust will look to leverage from what it has learned over the last year and continue to innovate so it can be a key player in accelerating economic growth by supporting small businesses.

Implications For the Future of the SA Future Trust

Based on the findings of this report, the following should be considered for the SA Future Trust's medium-term strategy:

- Target women-owned businesses and provide them with both the financial and non-financial support they need to grow;

- Use a sectoral lens or a tailored approach to provide appropriate support to small businesses across the country;
- Build on the momentum and continue to reach a broader base of small businesses that may not have access to traditional forms of financing;
- Fill the gap in the lending market for these businesses with alternative, innovative financing products;
- Continue to positively impact low-skilled workers' lives, and increase support for SMMEs that absorb this type of labour;
- Use TV and industry bodies that proved effective at reaching these businesses, to communicate the ongoing work of the SA Future Trust;
- Seek opportunities to partner with other funders and intermediaries - both private and public - to maximise the impact of SA Future Trust funding.

Appendix

During the week of 10 July 2021, many businesses, both big and small, across Gauteng and KwaZulu-Natal were affected by a political protest that spiralled into rioting and looting and dealt them another economic blow. Some businesses were directly impacted and had their property destroyed and stock looted, while others suffered major supply chain disruptions.

The SA Future Trust was concerned about how SMMEs were impacted by this unrest and circulated a survey to loan holders to gauge how they had been affected and what support they needed. The survey was sent out between 19 and 27 July 2021 and 620 responses were received in that period. This represents 6% of our total loan book.

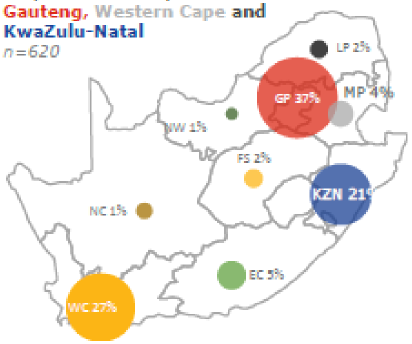
Loan holders from across the country responded, with respondents from Gauteng and KwaZulu-Natal making up 58% of the sample. Some 44% of those businesses (or 268) reported that they had to close as a result of the riots and looting. Interestingly, 68% were able to reopen at the time of being surveyed and this was most likely because they had only closed as a precautionary measure to keep their staff safe. However, 32% (or 84) SMMEs reported that they could not reopen their businesses. These respondents were asked to state when they thought they would be able to reopen and 58% stated that they needed between two and four weeks before they could reopen. For those that stated 'other' they either needed more time (e.g., until the end of the year) or they were waiting for lockdown regulations to be eased. This indicates that some respondents were still suffering the effects of the regulations and/or the impact of the unrest. A worrying 8% of businesses stated that they were unlikely to reopen, indicating they would not recover because the damage caused was too great.

Of those respondents who have been able to reopen, some experienced looting and destruction of property and were also impacted by the owners, staff and customers being unable to travel to their workplace as roads were blocked and people felt too scared or intimidated to travel. For some businesses, their suppliers had been looted or destroyed which negatively affected their ability to deliver goods and services and, in turn, trade. As a result, respondents stated that they suffered financial loss and employment loss. Although the businesses were able to reopen, they stated that they need support either immediately or over the next couple of months. Due to the financial losses incurred, respondents indicated that what they needed most was access to finance. This further echoes the findings in the report.

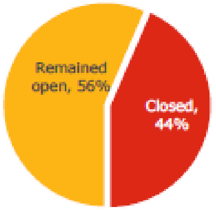
The findings for the respondents which have been unable to reopen are similar, except these businesses have been harder hit. In relative terms, nearly three times as many of these businesses were looted and twice as many experienced some sort of destruction of property. On top of this, they were also contending with theft, their customers being looted, cancelled reservations and contracts, and a loss of working capital. In relative terms, the financial and employment losses were greater and therefore more of these respondents indicated that they needed immediate support, support over the next few months and continued support in the long term. Lastly, there was a large demand for access to finance and employee support as these businesses try to recover from the impact of the unrest and hold onto their businesses and employees.

Crisis Survey Dashboard

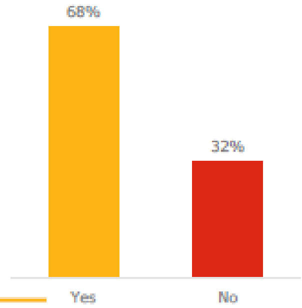
Respondents mostly came from **Gauteng**, **Western Cape** and **KwaZulu-Natal**
n=620



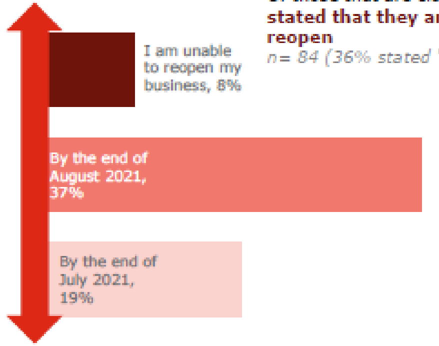
44% of businesses closed due to the events of last week
n= 620



Of those that closed **68% have managed to reopen**, while **32% remain closed**
n = 266



Of those that are closed **only 8% stated that they are unable to reopen**
n= 84 (36% stated 'other')



Businesses which are open

n=182

Was your business affected by:

Looting	7%
Destruction of property	8%
Other	72%

If you were affected, have you estimated the damage in terms of:

Financial Loss	74%
Loss of employment	12%
Other	24%

What type of support do you need?

Immediate	30%
In the next few months	33%
Longer term	14%

What type of support do you need?

Access to legal services	3%
Access to finance	65%
Employee support	21%
Other	16%

Businesses which are closed

n= 84

Was your business affected by:

Looting	23%
Destruction of property	20%
Other	96%

If you were affected, have you estimated the damage in terms of:

Financial Loss	87%
Loss of employment	30%
Other	35%

What type of support do you need?

Immediate	51%
In the next few months	30%
Longer term	17%

What type of support do you need?

Access to legal services	4%
Access to finance	75%
Employee support	43%
Other	24%