

## **The Impact of Covid-19 on the Small, Medium and Micro Enterprises sector in Cape Town, South Africa**

**Happyson Bimha,**

University of Eswatini (UNESWA), Department of Business Administration, Faculty of Commerce, Kwaluseni Campus, Eswatini.

&

**Primrose, Z.J. Bimha,**

Department of Politics and International Relations, University of Cape Town (UCT), South Africa.

### **ABSTRACT**

Small, Medium and Micro Enterprises (SMMEs) promote employment and economic growth. However, survivalists who constitute the bulk of the sector are highly vulnerable to economic shocks owing to lack of strong capital, lack of skills and their informal nature. Based on qualitative interviews with 25 SMME representatives based in Cape Town, the study examined the immediate impact of the Covid-19 pandemic on SMME businesses in the city. Results show that SMMEs have been badly impacted and the situation could deteriorate further, leading to collapse and failure to reopen. During the Government-imposed lockdown, businesses that remained open ran out of stocks due to broken down supply chains whereas businesses that closed experienced stockpiling. The situation was aggravated by the fact that only VAT-compliant businesses could benefit from rescue packages, yet many SMMEs are not formally registered. That notwithstanding, some businesses have repositioned themselves by replacing traditional face-to-face strategies with online strategies.

**Keywords:** Covid-19 pandemic, SMMEs, South Africa, Cape Town, survival, risk management, strategic management, SWOT analysis, informal sector, business continuity.

### **INTRODUCTION**

In South Africa, the definition for Small-Micro and Medium Enterprises (SMMEs) includes formally registered, informal and non-VAT registered organisations (Bureau for Economic Research [BER], 2016). Small businesses range from established traditional family businesses employing more than a hundred people, to informal micro-enterprises. Most SMMEs in South Africa are concentrated in the lowest end, comprised mostly of “survivalist self-employed persons from the poorest layers of the population” (Berry et al., 2002). These businesses include, street trading, backyard manufacturing, and home-based enterprises [BER, 2016: 5]. The capacity and capability of SMMEs to create employment and contribute positively to economic growth has created a permanent position for them in economic development agenda at national, regional and global levels. SMMEs contribute towards income generation, curbing unemployment and reducing levels of inequality (Ladzani, 2010; Kumah & Babatunde, 2014). It is important to note that, the survival entities which make up the majority of South Africa-based

SMMEs have very little growth potential and they are highly vulnerable to economic shocks. In 2020 the global political economy was shocked by the effects of the corona virus, hereafter COVID-19. COVID-19 is an infectious disease caused by a strain of coronavirus that is said to have been unknown before its outbreak in Wuhan, China, in December 2019 (World Health Organisation [WHO], 2020). Since then the virus has spread across the world, leading to it being declared as a pandemic that required economies to be shutdown to varying degrees, in order to curb infection rates. With no known cure, the disease which spreads primarily through contact with infected persons or surfaces contaminated by respiratory droplets from infected persons is thought to be best prevented through social distancing and isolation. As of 29 September 2020, the National Institute for Communicable Diseases of South Africa (NICD, 2020) had recorded a total of 681 289 cases. Amongst them were 16 976 deaths and 614 781 recoveries, which translated to a recovery rate of 90% (NICD, 2020).

On 23 March 2020, President Cyril Ramaphosa announced that the country would enter into a twenty-one day lockdown to curb the spread of the virus. Most SMMEs were ordered to shut down as the government called for people to stay at home under what is known as Alert Level 5. While some businesses were able to migrate to operating from home it has not been business as usual. Following a two-week extension to 1 May, 2020, the country moved into Level 4. As of 1 June 2020, South Africa shifted to Level 3, which allowed for the reopening of multiple sectors. Alert level 2 was in place between 18 August and 20 September. Though the country is now at Alert level 1, this study was conducted during the phases of Alert Levels 5, 4 and 3, to examine the immediate impact of the lockdown. Figure 1 below provides a summary the Alert levels and their conditions as stipulated by the government. The South African government took an evidence-based risk-adjusted approach that was based on consultations with specialists in order to better manage the spread of the virus and at the same time saving the economy. The alert levels allowed for the phased gradual reopening of sectors in line with the Department of Health's readiness to deal with infection rates. When interviews for the study were conducted between May and June of 2020, Cape Town was at the epicentre of the pandemic.

Figure1: Summary of Covid-19 Alert levels in South Africa



Source: South African Government (2020)

Due to their contributions towards alleviating poverty and unemployment, the inclusion of SMMEs in the national planning formula must occur both during good times and during bad moments such as the Covid-19 pandemic. Considering that Cape Town is a COVID-19 hot-spot situated in one of South Africa’s most economically active provinces, it would be important to conduct micro level case analysis on how SMMEs in this part of the country were affected and devise relevant strategies to mitigate the challenges they face. The South Africa National Development Plan (NDP) highlights the importance of SMMEs for job creation, innovation and competitiveness, with the goal that 90% of jobs will be created by SMMEs by 2030 (Bhorat et al., 2018). According to Ayyagari, Bech and Demircuc-Kunt (2007) this is in line with the assertion that in middle income countries, SMMEs contribute 95% towards increased rates of employment and 70% to gross domestic product (GDP). However, in South Africa, where levels of entrepreneurship lag behind comparative regions, SMMEs contribute as little as 47% to employment and more than 20% to GDP (Liedtke, 2019).

SMMEs sustain millions of livelihoods. Although there is no reliable data on the number of SMMEs and their contributions towards employment and GDP per capita, it is estimated that they employed at least 3,863,104 in 2016 (Small Business Institute [SBI], 2018). As of 24 March 2020, businesses struggling in the wake of Covid-19 were urged to apply for government assistance. There are two ways that businesses can apply for relief on existing debts and payments - a Debt Relief Fund or a Business Growth/Resilience Facility. The Debt Relief Fund is aimed at alleviating the economic impact of the coronavirus by offering SMMEs a relief on existing debts and payments. The Growth/Resilience Fund offers working capital, stock, bridging finance, order finance and equipment finance. “A single business may only apply for one intervention and funding will be dependent on the level of financial distressed calculated on the average of the last 3 months” (Small Enterprise Finance Agency [SEFA], 2020). In order to be

eligible, all applicants were required to show an impact, or potential impact, of the virus on their business. SEFA (2020) indicates that, conditions for access include: 100 percent ownership by South Africans citizens; that a company should be registered and compliant with SARS; 70 of employees are citizens and they should be registered on the National SMME database.

The study sought to investigate the immediate impact of Covid-19 on the SMME sector in Cape Town, South Africa. The researchers reached out to members of the Cape Town business community via social media platforms through “calls for participation”. The advert had to be circulated on social media and interviews were held via telephone interviews due to lockdown restrictions on movement and human contact. Movement was limited to travelling to supermarkets, medical health facilities or places of work, for those classified as essential workers, of which the researchers did not fall into this category. The target population was South African SMME owners based in Cape Town. The aim of the study was to identify key threats to the survival of the SMMEs and ascertain how these could be mitigated in order to prevent disaster-linked demise.

Twenty-five [25] SMME owners agreed to participate in the study. Information from all interviews was transcribed and analysed thematically to elicit responses to the following research questions:

- (i) What impact has COVID-19 inflicted on SMMEs’ operations in Cape Town?
- (ii) What business risk management planning lessons can be derived from the COVID-19 occurrence?

### **Overview of challenges faced by SMMEs in South Africa**

Constraints facing SMMEs in South Africa relate to apartheid inequalities that the post-apartheid Government has been struggling to reverse since 1994. Ladzani (2010) notes that, under the Government of National Unity of South Africa 27 April 1994 to 3 February 1997, SMMEs were earmarked as an important vehicle for addressing the challenges of job creation, economic growth and equity in the country. Imbalances such as barriers to entry, barriers to growth and high-risk performance, lack of skills, lack of experience and poor education inhibit performance and survival in the SMME sector (Bhorat et al., 2018). Furthermore, limited access to funds to start, maintain and grow business owing to a poor socioeconomic background and a political and economic environment which was not conducive thwart entrepreneurs’ efforts (Bhorat et al., 2018). According to a 2016 Small Enterprise Development Agency (SEDA) commissioned report, most SMMEs are run by previously marginalised black persons and they operate in the informal sector, thus making them more vulnerable (BER, 2016). Finmark Trust (2011) reported that 42% of SMMEs were financially excluded because they do not use any formal or informal financial products or services. The savings that existed happened at home and loans come from friends and family. The Covid-19 lockdown required most SMMEs to either close shop or work from home. However, considering the lack of skills and education, especially pertaining to the use of Information and Communication Technology Services (ICTS) for continuation of work from home is a major threat to the survival of some SMMEs. Furthermore,

limited access to funds and reliance on savings at home are not viable survival strategies during these trying times.

According to a survey report by SME South Africa (2020), “three out of four small business owners, across industries, indicated that their business will not survive prolonged lockdown restrictions beyond 1 July 2020”. Out of 4 840 processed applications, the number of SMMEs approved for funding by 31 May 2020, was 1 501 (Department of Small Business Development [DSBD], 2020).

The SME South Africa (2020) suggests that, “many small businesses appear to be either passive or untrusting of the Covid-19 relief options available to them as less than half of the business owners they surveyed had applied for relief”. Given the low numbers of applications for financial relief, the impact of Covid-19 on SMMEs is a crucial issue to investigate. It is also important to note that this is not much of a surprise. According to Vuba (2019) over 80% of small sector businesses in the South African economy had never accessed formal credit from government or financing institutions. As a result, over 25% had to close their businesses while the rest sought relief by borrowing from friends or family (Vuba, 2019).

According to the World Economic Forum’s global competitiveness index, South Africa’s SMMEs perform poorly; in 2013-2014 it was ranked number 53/148 owing to growth decline from 3,6% between 1994 and 2008 to a mere 1,5% in 2009 (Kumah & Babatunde, 2014). Notwithstanding the rough terrain for entrepreneurs, 73% of South Africans between the ages of 18 and 64 felt that being an entrepreneur was desirable. However, 38% of them admitted they did not have capacity to become entrepreneurs and 35% believe they did not have a good chance to make the grade (Bhorat et al., 2018). To confirm the lack of the requisite experience and skills to survive in the business environment, research by the Amalgamated Banks of South Africa (ABSA) small business section found out that 63% of small businesses fail in the first 18 months of their trading (Kumah & Babatunde, 2014:5).

### **Government support initiatives for SMMEs in South Africa**

To support the SMMEs initiative, Government put in place structures and policies to oversee development of SMMES and support previously disadvantaged groups. Some of such efforts are summarised in Figure 2 below. Additionally, to support Government initiatives to support SMMEs, the United Nations Development Programme (UNDP) has come up with initiatives to augment government efforts. UNDP initiatives include a supplier development programme to address SMMEs’ challenges in accessing markets and building competitiveness, as well as inclusive finance for women (these are special funds to support women enterprises) (Kumah & Babatunde, 2014). UNDP also facilitates inter-agency efforts in conjunction with the International Labour Organization (ILO), Department of Labour and National Youth Development Agency (Kumah & Babatunde, 2014). None of the interview participants were aware of UNDP or NGO-facilitated rescue packages for SMMEs affected by the Covid-19 pandemic.

**Figure 2: Government Initiative programmers to support SMMEs**

<b>Government Initiative</b>	<b>Purpose and advantages</b>
1. Preferential Procurement Policy Framework,2000	Through the framework, points are allocated to tenderers for specific goals to promote previously disadvantaged blacks in an effort to achieve economic transformation
Broad Based Black Economic Empowerment (BBBEE) Act, 3 Of 2003	Act addresses the legacy of apartheid and promotes economic participation of black people in the South African economy. A firm`s BBBEE status is an important factor affecting its ability to successfully tender for Government and public entity tenders or to obtain licences in sectors such as mining.
3. The National Small Business Amendment Act 2 of 2004	The Act empowers the Minister establish an Advisory Body to facilitate, promote and represent the interests of previously disadvantaged South Africans according to the country`s National Strategy for Development and Promotion of Small Businesses in South Africa.
4. Gauteng Enterprise Propeller(GEP)	Created in 200 to address challenges of unemployment, poverty and inequality in the Gauteng Province. The GEP promotes, fosters and develops small enterprises in Gauteng
5. Small Enterprises Development Agency(Seda)	A public enterprise that supports growth of small businesses offering them information, advice, training, business assessment and mentoring, technical support, market access and business linkages among other services. Seda has branches in all district municipalities
6. Ministry of Small Business Development	Ministry established first in 2014 to demonstrate Government commitment to place SMMEs and cooperatives at the centre of economic growth and job creation. Ministry aims to ignite the spirit of entrepreneurship, and to unlock the potential of SMMEs and cooperatives
7. Small Medium Macro Enterprise Debt Relief Scheme-	Special COVID 19 UIF Funding Scheme demonstrating Government`s commitment to ensure businesses do not close and no employees lose job R433 million was approved by Government.

**The trinity of strategic management, strengths, weaknesses, opportunities and threats**

### **(SWOT) analysis and risk management**

Strategic management, SWOT analysis and risk management are critical management elements that influence survival of business enterprises, particularly, during troubled times such as COVID-19 pandemic. These three elements are interwoven and interdependent such that discussing them separately is a mere academic process because in practice they are inseparable.

A company's strategy is the game plan which management has for the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance (Thompson & Strickland, 1999). A review of work by Thompson and Strickland (1999) and Drucker (2004) on strategic management shows that the five key tasks of strategic management are:

- Forming a strategic vision of what the company's future business make up will be and where the organisation is headed.
- Setting objectives or yardsticks for tracking an organisation's performance and progress
- Crafting a strategy to achieve the desired outcomes-the strategies are both proactive (intended) and reactive (adaptive).
- Implementing and executing the chosen strategy efficiently and effectively.
- Evaluating performance and initiating corrective adjustments in light of actual experience, changing conditions, new ideas and new opportunities.

Therefore, all organisations that are well managed must have a vision which is driven by what is happening in the business environment, particularly the changes taking place. Hence setting and resetting objectives must be an on-going process guided by dynamics of the environment and how to achieve set objectives is equally affected by developments in the environment. Because of environmental uncertainty, strategy implementation may be challenged, demanding reviews and refocusing. According Thompson and Strickland (1999) the strategic management process goes on in circles and does not have an end. Business enterprises of all forms, sizes, and operating in any industry, including SMMEs are expected to engage in strategic planning to achieve their enterprises' vision, mission, and strategic goals and review them in response to developments in the external environment. In a study on Strategic planning in Small or Medium-sized Enterprises (SMEs) in Botswana Majana and Magang (2017) noted that deriving a strategic plan enables SMEs to anticipate and respond to the turbulent market by arranging their resources and capabilities accordingly.

Many tools have been developed to facilitate the strategic management process. One of the most popular strategic planning tools is Professor Albert Humphrey's 1966 SWOT analysis (Atkinson, 2014). SWOT analysis can be applied in operationalising the strategic management process and it must be equally applicable to SMMEs analyses as much as it is relevant in large enterprises. SWOT is an acronym for strengths, weaknesses, opportunities and threats (Atkinson, 2014; Schermerhorn & Bachrach, 2015). According to Fauzi and Cariawan (2019) SWOT reveals critical factors that if addressed properly, can be necessary to the development of a strategic plan. Kraus and Reschke (2007) contend that SWOT analysis helps management identify foreseeable threats and weaknesses to avoid and strengths and opportunities to pursue.

The critical relationship between SWOT and strategic planning is that you need to identify the

organisation's strengths and corresponding strategies to sustain them, the organisation's weaknesses and corresponding strategies to mitigate or reduce the weaknesses, externally driven opportunities and strategies to capitalise on the opportunities and finally, the externally driven threats and strategies to negate threats they pose to your organisation (Atkinson, 2014). Applying the SWOT analysis as a tool for strategic management requires users to understand the distinction between an organisation's internal and external environments.

On one hand the internal environment which generates the strengths and weaknesses refers to management processes which are the responsibility of management. For example, it is management responsibility to ensure the company has a strategy, structure, resources, systems and discipline. Availability of such creates strengths that need to be maintained and harnessed but lack of such create weaknesses that can lead to the company's downfall if not properly managed. On the other hand, the external environment, opportunities and threats, are driven by forces outside the organisation. Management will not have control over the externally driven developments which they do not have control over. For example, Government's decision to declare Covid-19 a pandemic and the subsequent decision to lock down the country, shortage of resources owing to company shut-downs and travel restrictions. However, the fact that management are not responsible for the external environment does not mean they must not react to opportunities and threats. Strategic management is about anticipating the opportunities and threats while SWOT analysis must provide more information about opportunities and threats for management to take appropriate action. Planning for opportunities and threats is about risk management. This leads us to the trinity of strategic management, SWOT analysis and risk management.

Planning is a process that becomes more relevant under uncertainty conditions and risk management. It should be a continuous and developing process which runs through the organisation's strategy and strategy implementation process (Ladzani, 2010). Thus, management ought to engage in risk management planning and set aside contingencies or reserves to deal with unforeseen events before they do happen (Gido, Clements & Harinarain, 2018). Risk management planning is planning for things that may or may not happen and the risk management planning process involves risk identification, risk analysis, risk response strategies and risk control and monitoring (Gido, Clements & Harinarain, 2018; Nicholas and Steyn, 2017; Kloppenborg, Anantatmula & Wells, 2017).

Risk management planning is an important component of the strategic management process. Risk is defined as anything that may impact the organisation's ability to achieve its general objectives (Wiid, Cant & Holtzhausen, 2015) and the purpose of risk management is to reduce the overall organisational risk to a level that is acceptable to management and other stakeholders (Kloppenborg, Anantatmula & Wells 2017). A spectrum of issues can cause risks, including force majeure, in the case of COVID-19. Force majeure is a true uncertainty which cannot even be envisioned and it is hard to know how much reserve time or money can be set aside for such eventualities (Kloppenborg, Anantatmula & Wells 2017). Such an event is so rare; it is expected to happen only once in a century. In commercial contracts, a force majeure clause allocates risk among the contracting parties if performance becomes impossible because of force majeure events. The definition covers "acts of God" and "acts of Government entities" (Bolla, 2020; Swan & Bell, 2020). This includes the lock-down pronouncement by Government.

Risk identification is a process of identifying and listing all possible risks that can derail a business entity from achieving its mandate (Nicholas & Steyn, 2017). The most important characteristic of risk is that any risk has a probability of happening and potentially disturbing the entity in achieving its objectives. According to Wiid, Cant and Holtzhausen (2015) the nature of risk varies from industry to industry and from company to company and it is the onus of company management identify risks prevalent in their industry and developing strategies to deal with them.

Risk analysis is a process of assessing all the identified risks so that they can be prioritised. All risks are generally assessed in terms of their probability of happening and their impact (consequences) on operations if they do happen (Kloppenborg, Anantatmula & Wells, 2017). Priority will therefore be given to risks that have greatest impact when they happen and high impact risks that have a greater probability of happening. Risk assessment can be effective when it is done either qualitatively or quantitatively. In the study, a qualitative analysis of the impact of the Covid-19 risk on SMMEs was preferred in the form of interviewing owners and management of the affected SMMEs. Once the risks have been prioritised, management is expected to develop possible risk response strategies to minimise the probability of occurring to as low as reasonably practicable (ALARP) or impact when it occurs or both (Gido, Clements & Harinarain, 2018). These must be incorporated in the enterprise's financial plans. Generic risk response strategies include risk avoidance, risk mitigation (reducing severity) and risk acceptance. Finally, the identified risks need to be controlled through continuous monitoring and risk review meetings. Research established that some SMEs do not make use of risk management effectively to benefit their organisations, they do not budget for risks and they do not take insurance policies (Wiid, Cant & Holtzhausen, 2015).

According to Bolla (2020) Covid-19 forced cancellation of countless events, wherein businesses are still assessing both their losses and their remedies are prevalent. The research entails assessment of Covid-19's impact on SMMEs in Cape Town and by extension, their recovery and the possibility of being rehabilitated. In their research on building Philippine SMEs resilience, Ballesteros and Domingo (2015) noted that disasters are bad for business, specifically for SMEs as they compromise capital, logistics, product market, labour, business continuity and recovery. During the Covid-19 pandemic the South African Government took a country lock down decision which led to the physical closure of most businesses. The decision impacted operations and restoration of operations to their pre- Covid-19 levels requires capital. Ballesteros and Domingo (2015) argue that the Philippines Disaster Risk Reduction and Management (DRRM) framework that Government put in place has not been effectively translated into local and sectoral plans and this has exposed SMEs. This raises questions on the capacity of Government to adequately assist business operations that get affected.

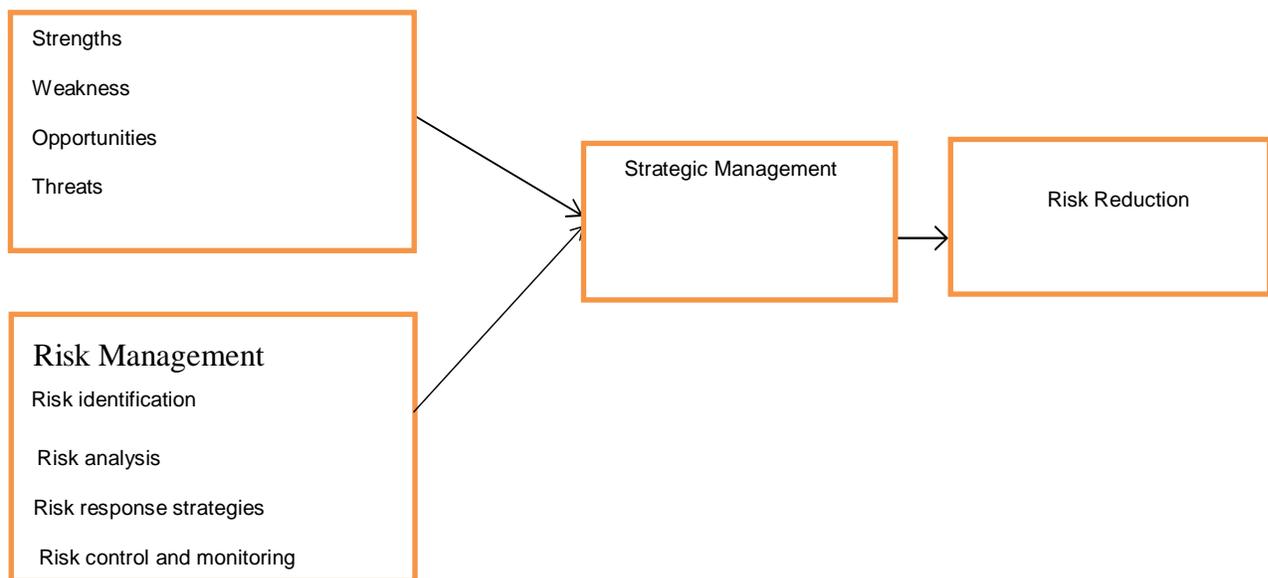
SMMEs are more vulnerable because they are relatively resource constrained and less resilient. They have less access to broader coping strategies and they are generally not prepared for the disasters and because of poor resilience they eventually shut operations and get out of business (Ballesteros & Domingo, 2015). Additionally, SMMEs in developing countries are characterised by informality and non-compliance with industry norms and regulations. This limits their capacity to adopt risk management tools. For the same reasons, SMMEs will find it difficult to benefit from Government assistance in the event of risk occurrence. In the United States of

America (USA) the Department of Labour concluded that 25% of SMEs do not reopen following a major disaster and 29% close within 2 years of a major disaster (Ballesteros & Domingo, 2015). In a related study, on the Great East Japan Earthquake of 2011, Ranghieri and Ishiwatari (2014) recorded 90% bankruptcy among the affected companies within 6 months and were of the view that, in developing countries the impact could be more disastrous. Based on the fact that SMMEs are critical drivers of inclusive growth and economic progression, the failure to recover by SMMEs leads to slow growth, increased unemployment and general reduction in welfare (Ballesteros & Domingo, 2015).

Through the Government Gazette No.43162 (2020), the Government having declared a national state of disaster relating to Covid-19 and a National lock-down, the Minister of Home Affairs pronounced measures to prevent and combat the spread of the disease. Such an important pronouncement caused Covid-19 to affect the operations of SMMEs and the research set to discover the impact this had on SMMEs in Cape Town. Despite all the efforts that the Government and its partners have made to promote SMMEs, the sector has not blossomed due to lack of strategies and poor risk management planning on the part of the SMMEs themselves to some extent. One then wonders what the impact of risks such as the Covid-19 will have on enterprises that the pandemic found unprepared such as the SMMEs. Different kinds of risks can attack an organisation at any time and risk does not give business any warning signs at times. However, the impact of risk lingers in entrepreneurs' minds over time. Organisations are expected to take measures to control both internally and externally induced risk through strategic planning.

Therefore, the researchers' conceptualisation of the trinity of strategic management, SWOT analysis, risk management and how they can reduce risk impact in organisations, including in SMMEs is shown in Figure 3 below.

**Figure 3: SWOT analysis**



### Researchers' Design (2020)

Strategic planning in the organisation is all about preparing for risk and where possible to come up with strategies to minimize the impact of risk in the event that it happens. As a planning tool, SWOT analysis provides the necessary information regarding strengths, weaknesses, opportunities and threats that management need to deal with. This will be achieved through the risk management process while the ultimate goal is mitigating or reducing risk in the organisation. Risk cannot be entirely eliminated and cannot have the same impacts on all the entities.

### Methodology and findings

The methodology employed for the study was based on the Department of Trade and Industry (DTI) and Small Enterprise Development Agency (SEDA) identification of registered SMMEs and self-employed peoples as a proxy for SMMEs in their reports. Thus, participants who volunteered to participate fell into either of the two categories. Excluding informal or self-employed categories would counter the objectives of the study as the most vulnerable SMMEs fall into that category. In most studies, results are affected by the key challenge that South African labour statistics and estimates of the informal economy are inaccurate (BER, 2016). According to SEDA, SMMEs are divided into 10 key sectors, namely: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Electricity, gas & water (5) Construction; (6) Trade & Accommodation (7) Transport & Communication; (8) Finance & Business services; (9) Community; and (10) Other (BER, 2016). SMMEs are mostly found in low start-up cost sectors such as trade, accommodation and other service-related sectors (BER, 2016). Those who participated in the study fell into 5 major categories: beauty and fashion; photography and events; transport; accommodation; and agents or consultants. These findings were in line with the reality that Cape Town is a major tourist destination and a city where fashion, beauty trends and events are popular.

Instead of relying on survey methods, which many have applied to studying issues affecting SMMEs, the researchers noted the limitation that statistical results alone will not shed light on how respondents felt and how they were planning to mitigate effects of the pandemic on their operations. Only interviews have potential to extract such details from respondents. Interviewing is an effective way to gain insight into experiences, explanations and examples. (Willner, 2011). The researchers adopted this data collection method since most current studies are focused on collecting survey data, which though helpful does not include in- depth accounts of the situation on the ground. Thus, this study adds on to existing and ongoing survey studies regarding the impact of Covid-19 on SMMEs. The small sample was interviewed using an interview guide with open-ended questions to allow participants respondents to answer freely. Thematic analysis of interview transcripts was informed by coding and analysis guidelines from Braun and Clark (2006). Firstly, the recordings were listened to and transcribed verbatim. Secondly, key experiences linked to the study were identified as key codes. Thirdly, related codes (experiences) were then grouped into common themes. Lastly, suitable quotes were extracted from some of the interviews for presentation in the report on findings. The study elicited three themes, namely: critical, coping and adjustment. The first two relate to the impact inflicted on them, whereas the

second and third are linked to strategic management planning and lessons learnt from the Covid-19 experience. Figure 4 below reflects the categories of the 25 participants.

**Figure 4: Categories of respondents and impacts suffered**

Category	Types of business	Risk category
Beauty and Fashion	tailors 3 fashion buyers and sellers 1 make-up artist 2 beauty product sellers	All critical and characterised mainly by threats and weaknesses.
Photography and events	3 photography business owners 2 event planners 3 entertainment entrepreneurs	All critical and characterised by mainly threats and weaknesses
Transport	2 e-hailing services providers 3 private transport operators	Coping and characterised by ability to re-strategise and take advantage of opportunities.
Accommodation	2 bed and breakfast accommodation Owners	Critical and characterised by mainly threats and weaknesses.
Agents and consultants	2 participants.	Adjustment - Minor threats and also characterised by ability to re-strategise and take advantage of opportunities.

### CRITICAL

The beauty and fashion, as well as photography and events categories seemed to be the most critical. Most participants in the category noted that they were considering closure as well as termination of contracts for employees. The owner of a popular African Fashion boutique noted: *“Covid-19 has really affected my business drastically. Usually around February to April there are a lot of weddings, graduations and summer-end events that people will require clothes for, so business will be buzzing. But now that social gatherings are not encouraged no one is placing orders. I have orders sitting in my room right now. Clients can’t come pick them or even if they do they have nowhere to wear them. I tried to create some income making some masks but now, there is a huge competition in that because since people aren’t busy. They’re learning how to make them DIY (do-it-yourself).*

A participant who sells beauty products (perfumes, lotions and scented soap) also noted:

*“Who will buy beauty stuff in this pandemic? To look good at home? Also, there is not enough money for people to be spending on such nice-to-haves. I am stuck with my stock.”*

A clothing merchant who orders their stock from China and Dubai noted that they could no longer travel for business or receive orders during current lockdown conditions. In addition, the

cross-border transport operators whom they used to liaise with for delivery of orders to Zimbabwe, Lesotho, eSwatini and Botswana, all of which have borders with South Africa, were blocked from moving, at the time of research.

The situation seemed worse for photographers and event's organizers. As one noted:

*"There will be no graduation ceremonies or weddings to cover for many months or even a year to come. Even events that are hosted at conferences, theatre productions, fashion shows, music events and so forth. Nothing. I cannot think about doing anything online. There is no business there. Photo shoots with couples or families can be a resort but there is no money there when I consider the transport costs and time needed to operate on that basis if anyone is actually willing to let me into their space for a photoshoot. I doubt that I can even earn something from becoming a photography teacher online also. There is so much free stuff to learn from if you look at YouTube for example."*

Similar challenges relating to the relevance of their businesses in the short-run relate to hair and beauty salon business, which at the time of writing were still prohibited from reopening under Alert level 3. Despite calls for the industry to reopen, it was not clear whether the demand levels for such services would remain the same under the lockdown season as citizens were still required to stay at home. One employee from the sector noted similar challenges relating to home-visits, as expressed by photographers. Transport costs and time factors need to be considered. In addition, access to equipment and products bought by salon owners is a challenge that a hairdresser seeking to operate on their own my face when attempting to offer visit-based services. Due to the economic dynamics in Cape Town, many people who work in this sector live in townships or on the Cape Flats, where crime rates are high and living spaces congested. It is unlikely that their clients would instead opt to visit them. Most hair and beauty businesses are situated near the CBD, at shopping malls and near universities. With universities resorting to remote learning online after being instructed to close and more people losing sources of income, events and beauty services will suffer from low demand. Most of the people who work in the sectors are not multi-skilled enough to resort to changing jobs. As one hair stylist noted:

*"I am stressed by thinking if my work [place] will open after this. I can only maybe apply to be a receptionist somewhere, because of my people skills. But other than that, I am stuck at home. My madam cannot pay us because we used to get paid a certain percentage per client."*

Entertainment businesses which employ disk jockeys (DJs), dancers and escorts noted concerns around the likelihood of their businesses reopening soon. Considering that such businesses only re-opened after Alert level 3, under strict regulations relating to venue capacity and curfew limitations, they will not be operating at full capacity any time soon. Some Cape Town-based clubs and entertainment centres closed down before Alert level 1 and are unlikely to reopen in the foreseeable future. Similar to the beauty and fashion businesses, the future for this group seems bleak.

It is worth noting that the tourism and hospitality sectors have been identified as the worst affected services sectors in the South African economy (Kalidas, Magwentshu & Rajagopaul, 2020). Business operations were on halt for accommodation service providers, prior to alert level 2, when the interviews for the study were conducted. At that time, hotels, lodges, bed and

breakfast facilities, including Airbnbs were closed. Presently, demand for these services remains low. Low tourist arrivals continue to undermine recovery potential in the foreseeable future. According to hotel and casino group, Sun International, “the easing of recent lockdown restrictions has resulted in improved trading activity, but it does not expect the recovery to be quick” (Magoxo, 2020). SMME based accommodation service providers are unlikely to register immediate improvements, following the re-opening of borders and airports for international airports (O.R Tambo in Johannesburg, King Shaka in Durban and Cape Town International, respectively). Big industry players such as Sun International were granted concessions by lenders and they can sell stakes to international investors but SMME based accommodation and hospitality services that are mostly owned by individuals or families have no access to similar benefits to cushion themselves from collapse.

As one of them noted:

*“These are sad times. We may not reopen. There is so much to consider before anyone can book-in. We are small and may not be a place of choice. Our biggest customers were backpackers or visitors on small budgets.”*

## COPING

E-hailing is the process of ordering a cab, car or bus through virtual means, on computers or mobile devices. Services such as Uber and Bolt were allowed to operate during the stipulated curfew hours during levels 4 and 5 and they currently run on a 24-hour basis. Most people who used these services at the time of researcher were shoppers, of which one is unlikely to shop every day. One of the drivers noted that:

*“Sometimes we have customers who are visiting. Which is not allowed. But we have to make something. So we also carry those people. But it’s not a lot.”*

Most people who used e-hailing services prior to the lockdown were students and tourists. There are 3 major universities surrounding Cape Town, namely: University of Cape Town, University of the Western Cape and the Cape Peninsula University of Technology. The closure of university campuses and migration to online learning until 2021, or later, depending on the spread and management of the virus definitely has a negative impact on this sector because business will remain low. A McKinsey Consumer Pulse Survey carried in March 2020, found that “more than 70% of participants were looking to cut back on transport and travel-related costs” (Kalidas, Magwentshu & Rajagopaul, 2020). This further attests to the complaints made by the participants in this study that there was low demand for their transport services.

One business owner noted the following:

*“I run an e-hailing service business. The lockdown has drastically affected revenues because people do not travel as much. The bulk of people who use our services are students but campus residences were closed so they are no longer there. Tourists were also another source of business.”*

The tourism sector is the largest contributor to Cape Town’s economy. The sector is unlikely to fully open in the short-run and noting the fears relating to how travel contributed to the spread of

Covid-19, return to normalcy is almost unthinkable. Some drivers have been laid off and many more may be laid off due to low levels of demand. Vehicles owned by the business owners would also end up being sold at lower costs, due to the same reason. Fortunately, most e-hailing business owners have multiple streams of incomes so they can survive. One operator said:

*"I am formally employed by the University. So the salary there supplements my other income. I can't say the same for my drivers"*

Each operator has their own set up of multiple streams of income and spending allocations. For instance, one operator who has a fleet of vehicles for student transportation to schools and pre-schools noted:

*"The vehicles used to cover food, car insurance, emergency savings and worker salaries. I can no longer ring fence my salary. Due to Covid-19 I cannot continue with school-runs. I cannot even put up my cars for hire. The drivers may have to go since I cannot pay them. My emergency savings that were coming from the trips are fast depleting."*

## **ADJUSTMENT**

Adjustment is a risk management strategy which was only outlined by participants that did not perceive their business to be at the risk of closing down completely. An employee who works under a Homeware agent noted that she used to reach a sales target of 240 000 units of product and earn R10 000 commission but last month (April 2020) she only earned R 1 600 from 2 600 units. As a result, she now has arrears in rent, school fees and other expenses.

The owner of the business said:

*"The help I would need for my business to stay alive is financially so that I will be able to buy more stock. So that we will be able to have money for fuel to travel around doing training as well as dropping orders... I also need financially to be able to buy data [so] as to try to do online marketing and advertising."*

This would work since she noted that *"Homeware is essential for hygiene and storage."*

Their products include pots, storage containers and cleaning materials. Although they experience restricted demand levels of their products remain relevant during the pandemic. However, she noted that since direct contact remains limited during lockdown, the much needed physical reach between customers and agents who sell in malls, at train and bus stations, churches et cetera would continue to pose challenges. Social distancing remains a key recommendation for ways to curb the spread of the virus. As a result, both, business owners and their customers are wary of this challenge. One clothing merchandiser noted that:

*"You fear that, if you can go there, maybe you can spread [virus] or they can give you the virus. You see."*

So there are high health risks which come with meeting customers and there is no guarantee that many of their customers would be willing to engage. Thus, concerns around the spread of the virus limit potential for contact-based marketing and non-courier based delivery of products. There is no replacement for fitting of clothes, taking of measurements by tailors, show of sample

garments and materials, or displaying multiple products to those who are interested. Access to the internet is however deemed to be a strategy for ensuring some form of continuity where possible.

An academic research consultant noted that, where she used to meet with clients face-to-face she had to opt for WhatsApp or Zoom calls. However, the following concerns were noted:

*“In the absence of uncapped WIFI which I formerly accessed from my primary occupation as a Teaching Assistant, I face the challenge of having to buy data which is very expensive. I had employed editors and transcribers and after paying for their data costs in April I decided to cut them out in May. They will resume work when things are better. Where I would charge R100 per hour for consultation I now have to charge R300, otherwise I will not benefit. I am on a daily data plan of 2 gigabytes per day for R50. A 1 hour zoom call alone requires up to 1 gigabyte. Considering that most of my clients were students whom I used to visit at their convenience, on campus, they do not have money to pay three times more. Also, most of them face the challenge of no access to uncapped Wi-Fi. So I have resorted to asking most of them for WhatsApp or phone call based conversations which are limiting in terms of effective consultation. So much gets lost in the absence of visuals.”*

In conversations with online tutoring service providers, we noted that they faced similar challenges, whereby most of their tutors who had been based at university accommodation spaces, prior to the shutting down of universities for lockdown were unable to continue teaching online. Online teaching is a popular business in Cape Town thus ways to keep business alive during this time should be in place. In the same way that some institutions of learning resorted to disbursing significant amounts of data to students per month, hosts of e-teaching and academic consulting services can do the same. There is no guarantee that demand levels will remain high but as they plan for ways to run online during and after the pandemic, data relief plans are required.

Based on the above findings the study managed to shed light on a number of strengths, weaknesses, opportunities and threats that SMMEs face in light of the Covid-19 pandemic. Although the pandemic is not yet over, the current impacts provide strong insight on how the SMME sector organisations have been disturbed by the pandemic. Some of the impacts noted include product shortages for consumers but also overstocking for shops affected by lockdown. The closing down of supply chains impacted movement of both goods and people, leading to employers failing to pay wages hence people could not pay rent, pay for essential goods for daily use. This exposed families and communities to social problem they never experienced in the past.

### **Strengths**

Results revealed that some entities anticipated risks in their operations and managed to spread the risk by engaging in a variety of activities that yielded different streams of income and others pursued the micropreneurship route, whereby people who are employed full time engage in business activities to supplement their salary incomes. This was in line with research findings in

SMEs in Botswana where the researchers recommended entrepreneurs to develop strategic plans which enable them to respond to the turbulent market (Majana & Magang, 2017). In the study, academic researchers restructured by moving from face to face interviews to WhatsApp, Zoom calls and other ICT based methods of data collection. This shows that formal or informal planning helps in mitigating the impact of risk.

### **Weaknesses**

Findings that reflected on weaknesses or internalities which management is normally responsible for, include: overstocking, which businesses faced as a result of low demand for their products and services like in the beauty, fashion and photography categories. It also emerged that shops were affected by drastic shortage of revenue. Contrary to the argument by Wiid, Cant & Holtzhausen (2015) that it is management's responsibility for identifying strategies to deal with risk respondents generally showed no creativity in this regard. They lacked skills and experience hence they have given hope in finding suitable employment after Covid-19. This confirms Bhorat et al (2018) findings that the SMME sector is a high risk area owing to lack of skills, lack of experience and poor education. All these inhibit performance and survival of SMMEs. Hopelessness and the feeling that their businesses will not survive prolonged lockdowns was confirmed by SME South Africa (2020). In July 2020, Kalidas, Magwentshu and Rajagopaul (2020) reported that around 60% of SMMEs may close before the covid-19 crisis is over. All respondents in this study had already experienced a drop in the demand for their products or services. Lack of insurance and general planning for risks contradicted Wiid, Cant and Holtzhausen (2015) and Ballesteros and Domingo (2015) who said SMMEs do not take insurance policies and therefore advocated planning and risk management planning during periods of uncertainty. They argued that because risk can affect entities from different industries and at different levels it was better that they plan for the unknown.

### **Opportunities**

SMMEs' potential to create employment and economic growth makes them a favourable candidate to attract government attention in its programmes to avert economic collapse in the face of Covid-19 (Ladzani, 2010; Kumah & Babatunde, 2014; Bhorat et al., 2018). To protect the opportunity created by SMMEs the Government came up with a funding strategy for those SMMEs that were affected by Covid-19. Although Government was going to limit its assistance to locally owned SMMEs whose SRA contributions were up to date the few beneficiaries were going to get funds to stay afloat, purchase stocks, fuel and pay salaries. Attaching strings to any form of assistance given in a crisis moment raises some humanitarian questions for the Government and whether the SMMEs will get appropriate and adequate support.

Another opportunity resulting from the study is that some sectors were not closed down as they were left to operate during Covid-19. Examples from the study include the research and consultancy sector whereby participants had the chance of continuing to earn revenue and to remain operational and hopeful. Businesses such as research and consultancy took advantage of

the opportunity to change strategy and do business online as opposed to face to face.

### **Threats**

First, while Liedtke (2019) reported, a low contribution of 47% by SMMEs to employment the occurrence of Covid-19 aggravated the situation because the threat of companies failing to reopen meant loss of employment. While Government will do all it can to assist the Covid-19 affected businesses, the imminent threat for most of them is that NICD declared Cape Town a Covid-19 hot spot with over 50% of confirmed cases nationally during the peak period of the pandemic. As revealed in the study, people preferred to continue in quarantine and isolation hence the restricted movements mean restricted business for SMMEs, loss of income to company owners and employees. In its notification for financial support SEFA (2020), indicated that unregistered companies and those not up to date with SRA payments would not be assisted. As confirmed by SEFA (2020), the majority of SMMEs operate informally without or with inadequate papers hence they are more vulnerable. Fin Scope contends that 42% of the SMMEs were financially excluded. One wonders if these SMMEs would have the guts to apply for funding from Government. SME South Africa (2020) has already concluded that only 50% of the affected applied for relief on of the reasons being that, would be beneficiaries are passive and untrusting of Covid-19 relief options available to them. Furthermore, SEFA (2020) says those claiming must be able to show impact or potential impact of the virus on their operations. The two-pronged demands are like screwing the last nail on the SMMEs coffin. They do not have the capacity, they do not have the skills neither do they have money to hire experts to do the required projections on their behalf. Finally, as companies and customers look for alternative strategies to survive (such as pursuing business online), the traditional market base for SMMEs continues to shrink leaving business with the slightest hope for reuniting with their customers.

**Conclusion and recommendations**

**Summary of recommendations**

Theme	Relevant SMME sectors affected	Impact	Recommended risk adjustment strategies
Critical	Beauty and Fashion Photography, Events and Entertainment Accommodation	Demand affected No-contact conditions are not conducive for optimum performance in the short-	Product and service diversification into other sectors to spread risk Multiskilling staff so they can do variety of tasks during crisis periods Formally register with appropriate
		Run. Closed or about to close. Worker contracts suspended or terminated.	bodies in order to benefit from Government programmes e.g. the unemployment benefit fund Businesses must take insurance policies that cover all forms of risks
Coping	1. Transport	Demand affected	Cooperate with competitors in order to share business Organise rosters and time tables Lobby Government as a group to make sure clients do not suffer
Adjustment	Door-to-door traders Academic consultants	Demand affected Resorting to online tools	Restrategising-moving from face to face to online practices Increase advertising campaigns to remain visible Keeping up to date registers of clients and potential clients Micropreneurship is still recommended as it guarantees entrepreneur income from employment when the business collapses or income from business when they leave employment for whatever reason.

As the South African economy adjusts to new circumstances and government promotes the mantra of "saving the economy", so too should the SMME sector. Considering that the

challenges posed by the COVID-19 pandemic will persist and change in form as time goes on, continuous monitoring of its negative effects on the SMME industry is important. For now, the recommendations put forward in this paper serve as mitigation strategies towards curbing existing challenges and preventing the demise of SMMEs. Broader studies, at national, regional or global levels are also important for comparative analysis and pluralistic multi-stakeholder approaches to the management of risks posed by the pandemic. Detailed evaluations of Covid-19's impact on SMMEs and others forms of businesses must be carried out at the end of the pandemic so that businesses, planners and policy makers have an accurate picture of what will have happened as they craft the way forward.

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