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The Status, Implications and Challenges of Business Vulnerability in South Africa and Its Potential Impact on Sustainable Business and Economic Growth

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Introduction

The development of entrepreneurship and formal business activities may hold a key to South Africa's economic growth path and addressing job creation. Although many estimates are available, there is no certainty regarding the size and distribution of formal businesses in South Africa. The University of South Africa Bureau of Market Research (BMR) Business Research Unit (BRU) was established in an effort to conduct in-depth research into the formal business corpographics and dynamics in South Africa. Making use of available secondary data sources (SARS Tax Statistics, Stats SA GDP and GVA numbers, Stats SA QLFS, and Stats SA Liquidations and Insolvencies Statistics) the BRU constructed estimates for the number of businesses in South Africa by economic sector. Expanding on these estimates, the BRU derived estimates for the number of businesses by province and business size for the years 2016 to 2020 and conducted a forecast for 2021. The results of the analysis are presented in this paper with a focus only on the formal business sector, that is businesses registered and liable for some or other form of tax – mainly corporate income tax (CIT – companies) and personal income tax (PIT – entrepreneurs). Value added tax (VAT) registrations are not considered as qualification for inclusion in the business estimates, since it includes other non-business entities such as universities, trust funds, municipalities, etc. Non-registered businesses generally found in the informal economy are also not included in these estimates. In the study the BRU defines a business at an "enterprise" level and not an "establishment" level with the enterprise concept referring to a legal/tax entity while establishment to business activities occurring at a plant, branch, franchise or sub-enterprise level. In the context of the South African formal business sector, the paper most critically highlights trends in global risks and major drivers but also international, national and subnational framework for assessing business vulnerability. Global business vulnerabilities, transmission, causes and implications are discussed in the face of the prevailing global game changers and cascaded to the South Africa retail sector vulnerability in sales, consumption and expenditure. The outcome of the formal sector estimates are presented in terms of the prevailing vulnerabilities trends by sector, size, province and local government. The paper winds with a forecast of South Africa business vulnerabilities potential impact on sustainable business and economic growth.

Although the number of COVID-19 cases and fatalities might still appear comparatively low in Africa than in other world regions, the looming health shock of COVID-19 could have disastrous impacts on the continent's already strained health systems, and could quickly turn into a social and economic emergency. Beyond health risks, the COVID-19 shock to African economies is coming in three waves: (i) Lower trade and investment from China in the immediate term; (ii) A demand slump associated with the lockdowns in the European Union and OECD countries; and (iii) A continental supply shock affecting domestic and intra-African trade. It is shaking commodity-driven growth models that had largely failed to create more and better jobs or improve well-being. On the health front, greater capacities to test, protect, treat and cure are essential. On the socio-economic front, policy measures should cushion income and jobs losses, while tackling the specific challenges of high informality. Beyond the immediate response, recovery strategies should include a strong structural component to reduce dependence on external financial flows and global markets, and develop more value-adding, knowledge-intensive and industrialized economies, underpinned by a more competitive and efficient services sector. Effective implementation of the African Continental Free Trade Area (AfCFTA) and the African Union's productive transformation agenda can strengthen regional value chains, reduce vulnerability to external shocks, advance the digital transition, and build economic resilience against future crises.

Policy options to face the COVID-19 crisis in Africa

In the immediate term, with the support of the international community, African governments should concentrate efforts on preventing the spread of the virus, invest in preparedness and early-detection mechanisms, and deploy emergency relief measures, notably in highly informal sectors. In order to alleviate the immediate healthcare crisis, OECD and other major producers of medical products should refrain from export bans and other trade policies that fragment production and increase the costs of essential supplies for import-dependent countries. OECD countries should also maintain and increase ODA levels, and reinforce co-operation to mobilize private capital.

In the short-term, fiscal and monetary measures should channel liquidity to SMEs, households and informal workers, especially in the most vulnerable economies, within a coordinated global response to the crisis. Although the implementation of the African Continental Free Trade Area (AfCFTA) has been delayed due to the Covid-19 disruptions, and will no longer come into effect on 1 July 2020 as planned, countries should continue progress in their national plans to liberalise goods and services in order to establish a new implementation date as circumstances allow.

In the medium-to-long term, in partnership with the international community, governments should continue to strengthen health systems and extend health and social protection coverage. They should continue progress towards subsequent phases in the implementation of the AfCFTA, including on investment, competition policy, intellectual property rights and e-commerce, as well as the productive transformation agenda particularly through regional integration and digitalisation. These measures will be key to reducing vulnerability to external shocks in trade and commodity prices, advancing the productive transformation of the region, and building human, societal and economic resilience for future global crises.

Covid-19 Conditions and Macroeconomic Impact

Africa faces a dual public health and economic crisis that risks overwhelming healthcare systems, destroying livelihoods, and slowing the region's growth prospects for years to come. Prior to COVID-19, in 2019, the continent had already experienced a slowdown in growth and poverty reduction overall, although with large differences between countries. The current crisis could erase years of development gains.

In 2019, Africa's GDP growth at 3.6% was insufficient to accelerate economic and social progress and reduce poverty. Growth per capita was around 0.7% and job creation has not kept pace with the need to provide opportunities to the 29 million young people entering working age each year. Since 2000, Africa's GDP growth has largely been driven by domestic demand (69% of the total), rather than increases in productivity. Africa's labour productivity as a percentage of the US level stagnated between 2000 and 2018, and the Africa-to-Asia labour productivity ratio has decreased from 67% in 2000 to 50% today. Global markets account for 88% of Africa's exports, mostly in oil, mineral resources and agricultural commodities.

A first wave comes from China through weakened trade channels and lower Foreign Direct Investment (FDI) in the immediate term. By contrast with South Africa or Ghana, least developed countries such as Zambia, South Sudan and Mauritania do not have alternatives to China as a buyer, nor do they have viable alternatives to their commodities for sources of growth (Figure 1). For instance, South Sudan was expected by the IMF to be the fastest growing country in the world in 2020, growing by 8.2%, but mainly due to oil exports to China (98% of its total exports). Investments projects will also be delayed or cancelled as the country of origins of FDI and go through and recover from the crisis.