

I LEMBE
COVID-19 ECONOMIC AND BUSINESS
IMPACT ASSESSMENT
SEPTEMBER 2020



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1. Highlights and Key Findings

Resulting from the acknowledged levels of business confidence existing in the iLembe District's economy, the iLembe Chamber of Commerce and Enterprise iLembe decided to postpone the 2020 Mid-Year iLembe Business Confidence Index (iBCI).

Valuable feedback was obtained from iLembe-based businesses as part of the COVID-19 KZN Economic and Business Impact Assessment, conducted during May/June 2020.

The feedback highlighted the need for the periodic monitoring of the impact of the pandemic on local businesses and regional economies.

As a result, a further review of the impact of the COVID-19 pandemic, and the resulting regulatory limits on economic activity on businesses in the iLembe District, was conducted during September 2020.

The review assists understanding the ongoing impact of the pandemic on business, of different sizes, locations and sectors, across the iLembe District and will continue to shape interventions in support of the iLembe District's economic recovery.

Please note that the survey conducted during May/June 2020 incorporated Alert level 4 (effective 1 May 2020) and Alert level 3 (effective 1 June 2020). The follow-up survey conducted in September 2020 incorporated Alert level 2 (effective 18 August 2020) and Alert level 1 (effective 21 September 2020).

The iLembe Chamber partnered with Enterprise iLembe, with technical support provided by the Vuthela iLembe LED Programme, in delivering this assessment.

Impact:

- In May/June 2020, during Alert levels 4 and 3, 3.8% of responding businesses faced permanent closure. All these businesses had less than 50 employees.
- The percentage of businesses facing permanent closure, among respondents in the September 2020 survey, reduced to 2%. These businesses operated in the *Tourism, Catering, Accommodation, Property Management* and the *Wholesale, Retail, Vehicle Trade* sectors.
- The lessening of the impact, through the reduction of alert levels, is further demonstrated by the reduction in businesses facing "*Temporary closure*", from 53% in May/June 2020, to 12% of responding businesses in the September 2020 survey.
- Half of the businesses who indicated "*Temporary closure*" as an impact, importantly, were from the *Tourism, Catering, Accommodation, Property Management* sector, whilst the *Construction, Property Development, Property Sales* sector was also severely impacted.
- Similarly, 19% of responding businesses reported "*No impact*" in the September 2020 survey, compared to only 5.5% in May/June.

- Despite a lessening of the impact resulting from the reduction in alert levels, the impact on business remains severe, with nearly 53% of responding businesses indicating a decline of operations of 50% or more.

Nature of impact:

- In gaining an understanding of the nature of the impact on businesses, responds to both surveys indicated that “Decline in demand for products and services” was the most significant means of impact. As the economy opens up, this impact has diminished from nearly 70% of respondents in May/June 2020, to just below 60% of survey respondents in September 2020.
- When comparing the May/June survey with September 2020, the most significant change is around the inability of business to meet fixed operational costs – in May/June 58% of businesses reported this impact, whilst 31% did in September 2020.
- The “Restructuring of operation and/or business” (37%) and “Cancellation and postponement of capital projects” (33%) remains a significant, and concerning, impact - such restructuring and capital projects are normally indicative of business expansion and/or operational improvements.

Impact on turnover:

- Almost a ¼ of responding businesses indicated that turnover was reduced by 50% or more, whilst a further 28% indicated a reduction in turnover of between 25% - 50%.
- Transaction data made available by Zapper, the local contactless payment provider, indicated that restaurant spending, both value and volume, was down almost 90% during Alert Level 5, improving through the various levels to be nearly at 100% of normal trade, pre-pandemic, on Alert Level 1.
- The importance of e-commerce during the lockdown is evident. Although 40% down during the severe restriction imposed as part of Alert Level 5, this sector showed an increase of 80% in volume during Alert Level 4. Especially of significance is the 130% increase in the value of daily average transactions compared with the daily average pre-Covid.
- As widely reported the impact on the local Tourism sector was significant, with no visitors being recorded during April 2020, and July 2020 visitor numbers only slightly increasing to 26% of the 2019 visitors’ total. The data also shows an 86% decrease in tourist spend during the period March to July 2020, compared to the same period during 2019.

Impact on employees and staffing levels:

- With permanent redundancies being recorded by 12.5% of responding businesses in May/June 202, and 7% of businesses in September 2020, it is evident that redundancies are continuing to take place under the reduced alert levels, albeit at a lower rate.
- Unaffected employee and staffing numbers were reported by 37% of companies in September 2020, signalling workforce stability being restored when compared with only 12% of business being unaffected in May/June 2020.
- The impact of the pandemic on employee and staffing levels remain significant with almost a quarter of businesses reporting that they were severely affected, and almost ⅓ reporting that employees have been forced to take paid leave and wages were only normalised through UIF TERS support.
- Not only does this put pressure on disposable income, it is expected to have a significant indirect and induced economic impact on the local iLembe economy.
- The total numbers of employees being made permanently redundant since the restrictions being imposed on economic activity, by responding businesses only, was 351 employees. It is worth noting that 120 jobs lost was reported by one company.

Relief funding and support:

- The most common form of business support applied for, in both the May/June and September 2020 surveys, was the UIF TERS benefit.
- This is followed by relief through financial institutions (53%), and privately funded business relief (43%) – a pattern similar to the May/June 2020 survey.
- 96% of respondents indicated that they did not receive any support from district or local government, whilst 1% indicated that they received financial support.

Business future and nature of support required:

- Indicating an improvement in the business climate, only 3% of companies indicated that they would last less than a month, compared to nearly 20% in the May/June 2020 survey.
- Grounds for concern around business viability however remain, nearly a third of businesses surveyed reported that they will not last beyond 6 months under the current relaxed alert levels.
- Mirroring the nature of support required, the vast majority of businesses indicated that the relaxation of regulations to normalise trade is the most important means of support required.
- Relief from banks and financial institutions, such as payment holidays with no penalties was also identified as an important means of support.

iBCI Activity Index component:

- The iBCI Activity Index lost 13.7 index points, from the 2nd half of 2019 to record a low of 34.0 index points for the 1st half of 2020.
- Five of the eight sub-indices of the iBCI Activity Index pulled the index down from its 2nd half 2019 levels.
- Tourism was the hardest hit with a -57% decline, followed by Construction -45%, Manufacturing -19%, and Trade -12%.

SACCI BCI

- After the SACCI Business Confidence Index (BCI) declined by 1.6 index points in the 2nd half of 2019 to 91.8, the BCI averaged 84.0 in the 1st half of 2020 with base-year 2015=100.
- The SACCI BCI declined from an average of 91.6 in the 1st quarter of 2020 to 76.4 in the 2nd quarter of 2020, but improved to 84.8 in the 3rd quarter of 2020. Measuring 77.8 in April 2020, the BCI retreated further to 70.1 in May 2020 after unexpectedly extending the strict lockdown to May 2020 with various contentious regulations being announced. This is the lowest level since the inception of the SACCI BCI in 1985.

2. COVID-19 iLembe Economic and Business Assessment

2.1. Background

Resulting from the acknowledged levels of business confidence existing in the iLembe District's economy, as well as the provincial and national economies, the iLembe Chamber of Commerce and Enterprise iLembe decided to postpone the 2020 Mid-Year iLembe Business Confidence Index (iBCI).

Exceptionally valuable feedback was obtained from iLembe-based businesses as part of the COVID-19 KZN Economic and Business Impact Assessment that was conducted during May/June 2020.

This assessment was conducted by the KwaZulu-Natal Business Chambers Council (KBCC) in collaboration with the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA).

The feedback highlighted the need for the periodic monitoring of the impact of the pandemic on local businesses and regional economies.

It was therefore decided that a further assessment of the impact of the COVID-19 pandemic, and the resulting regulatory limits on economic activity on businesses in the iLembe District, would be beneficial. The assessment was conducted during September 2020 and included a supplementary business survey, as well as an analysis of Business Indicators generally used in the iBCI.

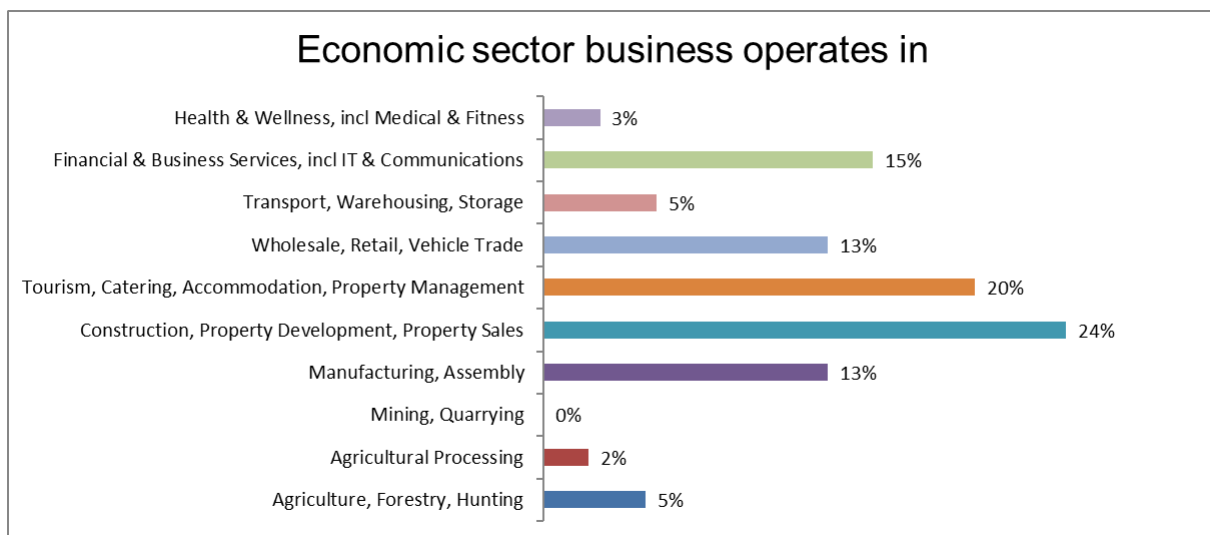
The assessment will assist in understanding the ongoing impact on business, of different sizes, locations and sectors, across the iLembe District and will continue to shape interventions in support of the District’s economic recovery.

The survey conducted during May/June 2020 incorporated Alert level 4 (effective 1 May 2020) and Alert level 3 (effective 1 June 2020). The follow-up survey conducted in September 2020 incorporated Alert level 2 (effective 18 August 2020) and Alert level 1 (effective 21 September 2020).

The iLembe Chamber partnered with Enterprise iLembe, with technical support provided by the Vuthela iLembe LED Programme, in delivering this assessment.

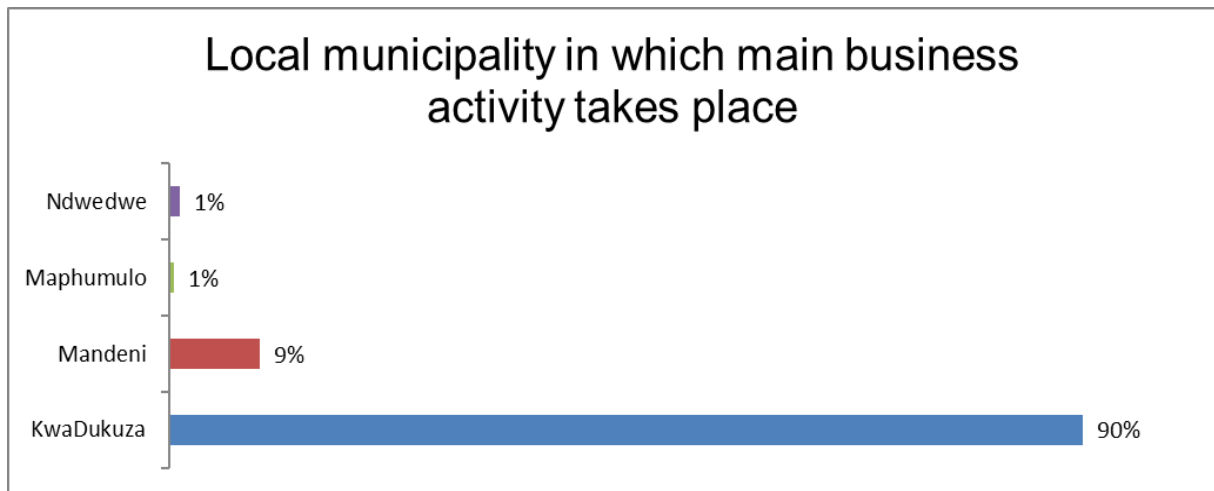
2.2. COVID-19 iLembe Economic and Business Assessment - Survey Component

Profile of the companies surveyed



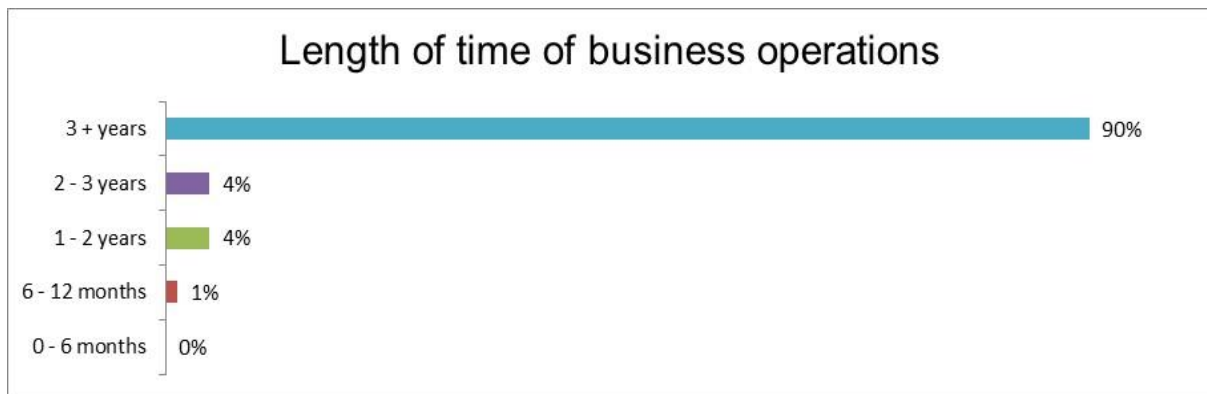
Source: Survey September 2020

Nearly a quarter of businesses surveyed operated in the Construction, Property Development, Property Sales sector. This is followed by Tourism, Catering, Accommodation, Property Management (20%), together making up nearly half of all respondents.



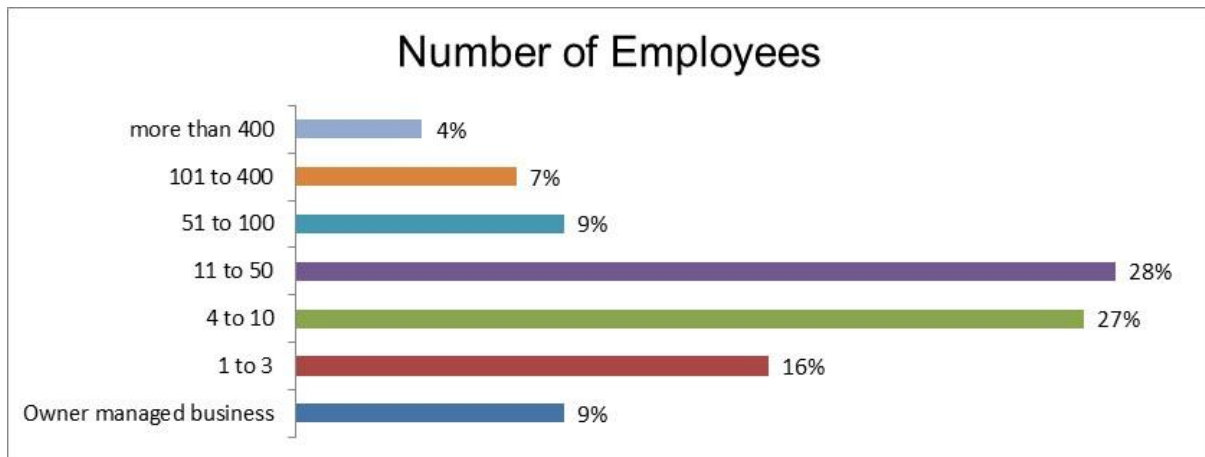
Source: Survey September 2020

The vast majority of businesses indicated the KwaDukuza Local Municipality as the municipality in which main business activity takes place. There were limited responses from the two rural municipalities, Ndwedwe and Maphumulo, which is to be expected considering the level of economic activity in these two municipalities. Please note that approximately 10% of respondents indicated its main business activity taking place in areas other than the iLembe District. For the purpose of this research these were excluded from these findings.

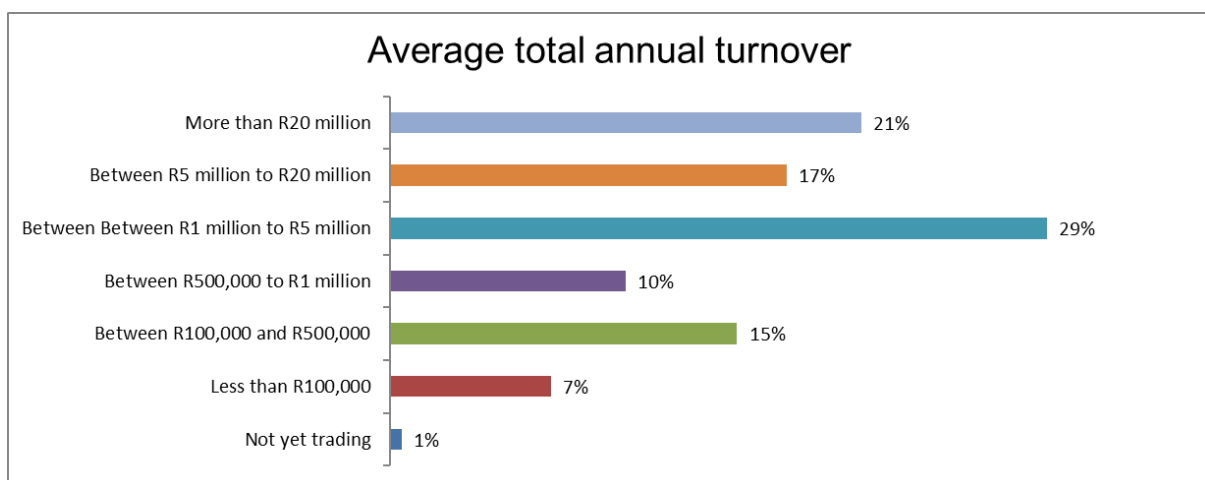


Source: Survey September 2020

90% of responding businesses had been operating for 3 or more years.

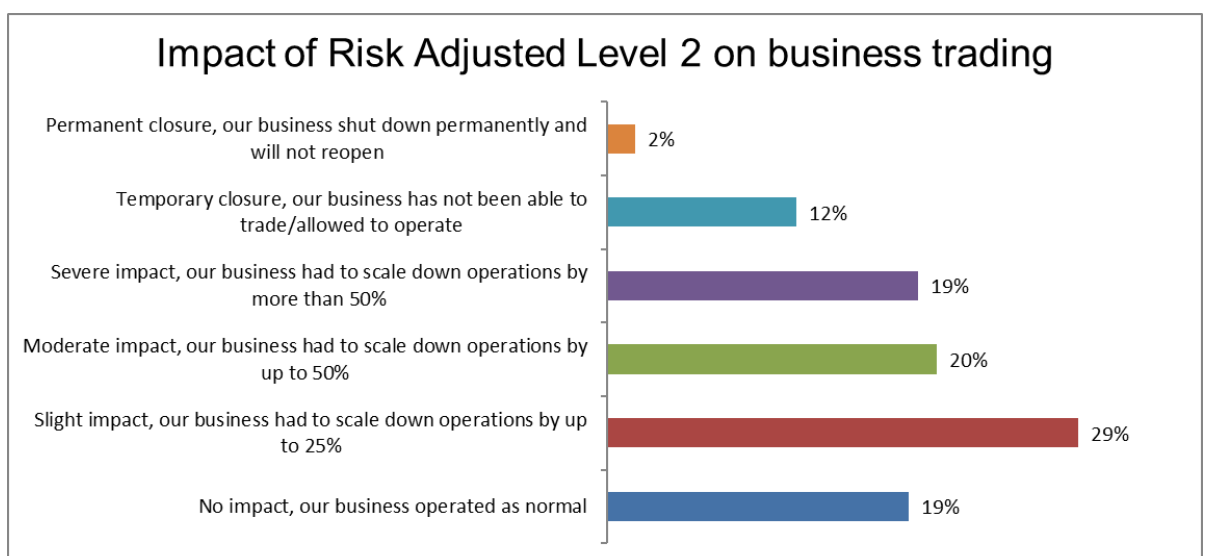


Source: Survey September 2020



Source: Survey, September 2020

Impact of Covid-19 on business trading



Source: Survey September 2020

During the survey conducted in May/June 2020, incorporating Alert levels 4 and 3, only 3.8% of responding businesses faced permanent closure. These businesses operated in the *Tourism, Catering, Accommodation, Property Management* sector, *Wholesale, Retail, Vehicle Trade* sector, *Health & Wellness, Construction, Property Development* sector, and *Transport, Warehouse, Storage* sectors. All these businesses had less than 50 employees.

In comparison the percentage of businesses facing permanent closure, among respondents in the September 2020 survey, reduced to 2%.

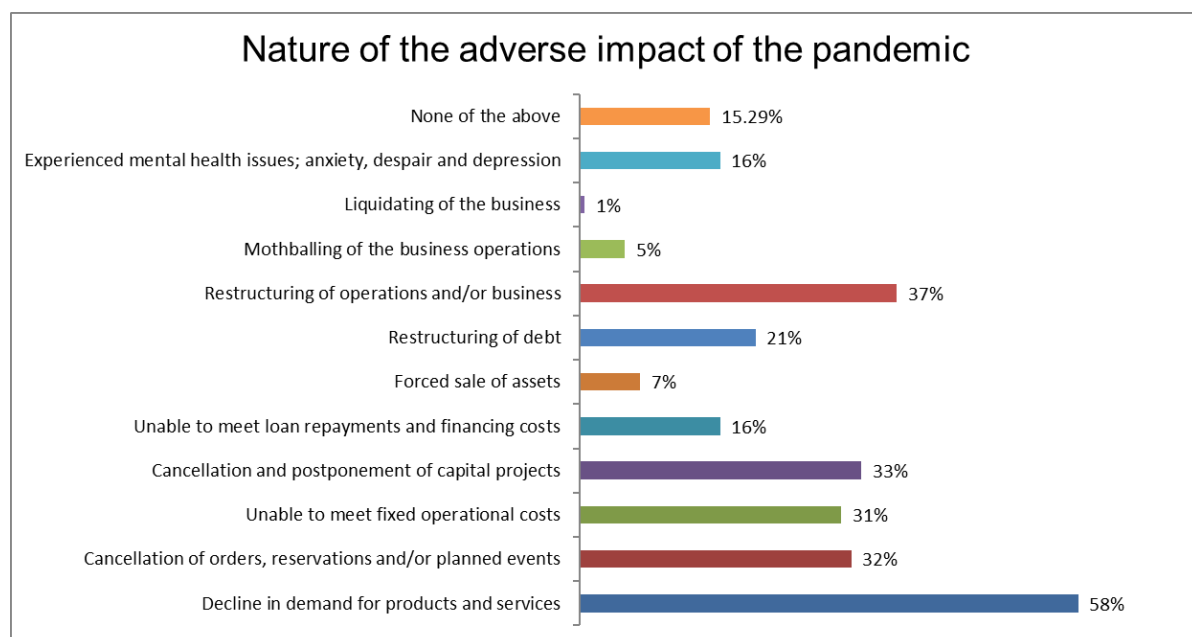
The businesses under threat operated in the *Tourism, Catering, Accommodation, Property Management* and the *Wholesale, Retail, Vehicle Trade* sectors.

The lessening of the impact, through the reduction of alert levels, is further demonstrated by the reduction in businesses facing “Temporary closure”, from 53% in May/June 2020, to 12% of responding businesses in the September 2020 survey.

Half of the businesses who indicated “Temporary closure” as an impact, importantly, were from the *Tourism, Catering, Accommodation, Property Management* sector, whilst the *Construction, Property Development, Property Sales* sector was also severely impacted.

Similarly, 19% of responding businesses reported “No impact” in the September 2020 survey, compared to only 5.5% in May/June.

Despite a lessening of the impact resulting from the reduction in alert levels, the impact on business remains severe with nearly 53% of responding businesses indicating a decline of operations of 50% or more.

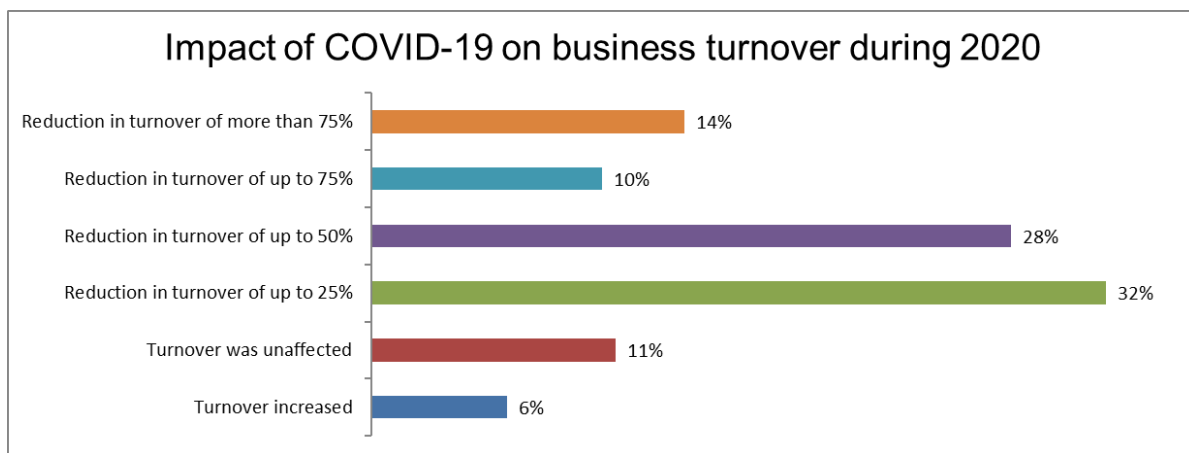


Source: Survey, September 2020

In gaining an understanding of the nature of the impact on businesses, respondents to both surveys indicated that “Decline in demand for products and services” was the most significant means of impact. As the economy opens up, this impact has diminished from nearly 70% of respondents in May/June 2020, to just below 60% of survey respondents in September 2020.

When comparing the May/June survey with September 2020, the most significant change is around the inability of business to meet fixed operational costs – in May/June 58% of businesses reported this impact, whilst 31% did in September 2020.

The “Restructuring of operation and/or business” (37%) and “Cancellation and postponement of capital projects” (33%) remains a significant, and concerning, impact - such restructuring and capital projects are normally indicative of business expansion and/or operational improvements.

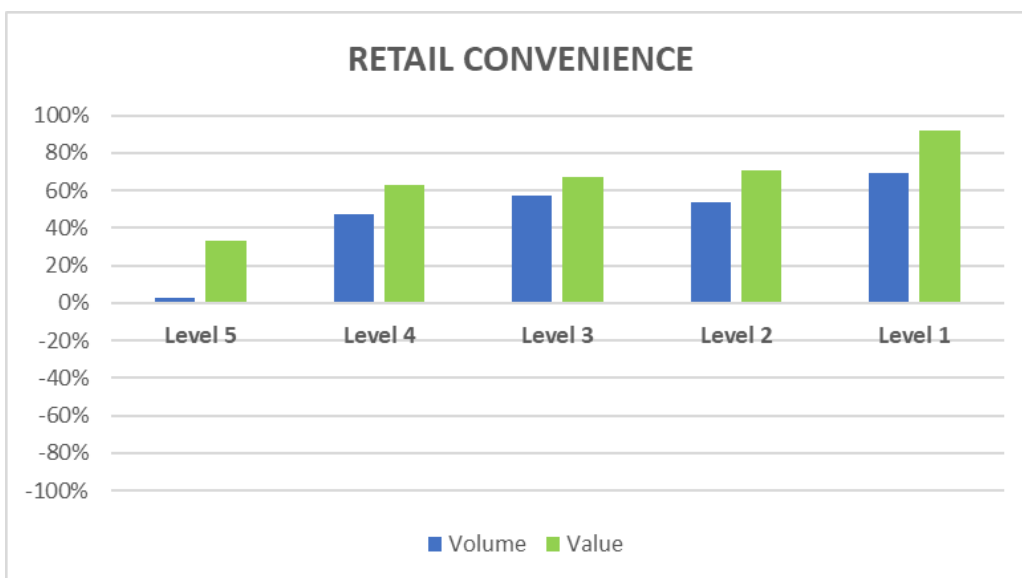


Source: Survey, September 2020

In order to supplement Question 6 which probed the impact of alert levels on business operations, almost ¼ of responding businesses indicated that turnover was reduced by up to 50% or more, whilst a further 28% indicated a reduction in turnover of between 25% - 50%.

Transaction data made available by Zapper, the local contactless payment provider, quantified this reduction in demand for products and services through an analysis of spending patterns recorded by their merchants in the iLembe District.

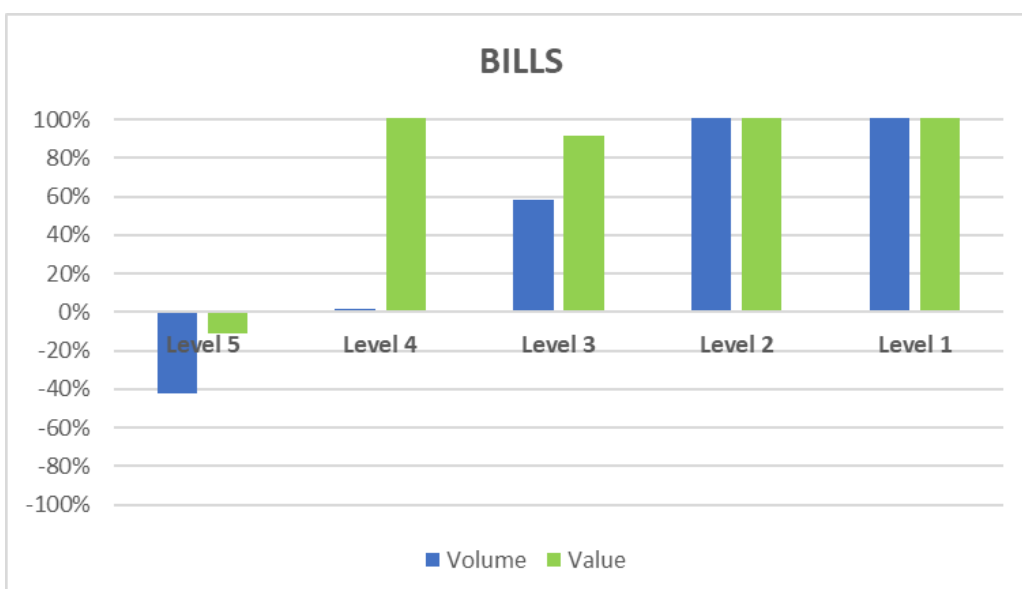
The tables provided below reflect the average daily spend during the different State of Disaster Alert Levels compared with the average daily spend pre-26 March 2020. It shows the significant impact during the Level 5 and 4 lockdown periods, as well as the gradual improvement as the lock down levels decreased.



Source: Zapper

Restaurant spending, both value and volume, was down approximately -90% during Alert Level 5, improving through the various levels to be nearly at 100% of normal trade, pre-pandemic, on Alert Level 1.

A similar pattern exists for retail convenience with almost 0% of volume during Alert Level 5, improving to approx. 70% on Alert Level 1.





Source: Zapper

Bills (defined as small, family-owned or independent businesses such as market vendors, hair, nail and beauty salons, artisan vendors such as electricians, plumbers etc.) contracted by over 40% during Alert Level 5, but recovered significantly during Alert Level 3 and beyond.

The importance of e-commerce during the lockdown is evident. Although 40% down during the severe restriction imposed as part of Alert Level 5, this sector showed an increase of 80% in volume during Alert Level 4. Especially of significance is the 130% increase in the value of daily average transactions compared with the daily average pre-Covid.

During the period March to July 2020, Enterprise iLembe monitored the impact of the pandemic on the local Tourism Sector. From a 100% decline during April 2020, the July 2020 visitor numbers have shown a slight increase to 26% of the 2019 visitors' total.

2019	March	April	May	June	July	Total
Number of visitors	55 360	84 210	51 640	56 230	71 200	318 640

2020	March	April	May	June	July	Total
Number of visitors	11 072	0	2 582	11 246	18 440	43 340

Source: Enterprise ilembe Sivandi Survey 2019&2020

The data also shows an 86% decrease in tourist spend during the period March to July 2020, compared to the same period during 2019.

Mar-July 2019 Tourists	Visitor Expenditure	Mar-July 2020 Tourists	Visitor Expenditure
318 640	R1 351 670 880	43 340	R183 848 280

Source: Enterprise ilembe Sivandi Survey 2019&2020

Based on the formula detailed below, the regional GDP contribution and jobs created, by visiting tourists, reduced to only 13.6% of 2019.

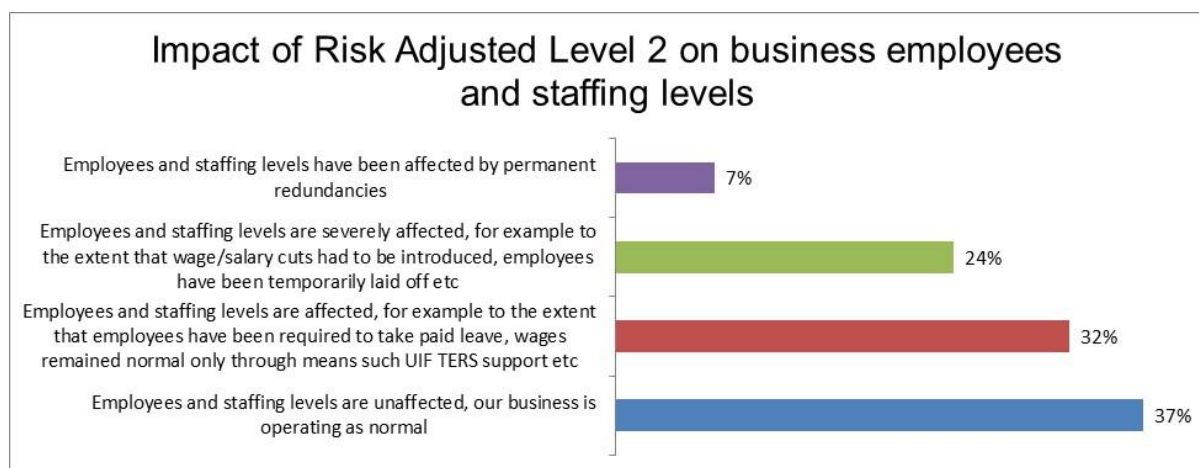
GDP 2019	Jobs opportunities 2019	GDP 2020	Jobs opportunities 2020
R2 135 639 990	4 569	R290 480 282	621

* 1.58 for every R1 of direct expenditure contribution to GDP

**this is based on 3.38 jobs for each R1million of direct expenditure

Source: Enterprise ilembe Sivandi Survey 2019&2020

The average occupancy for September 2020 (Alert Levels 2 and 1) was 60%, increasing to 90% over the Heritage Day long weekend. Enterprise iLembe expect occupancy levels for the peak Christmas holiday period in 2020 to be at 100%.



Source: Survey, September 2020

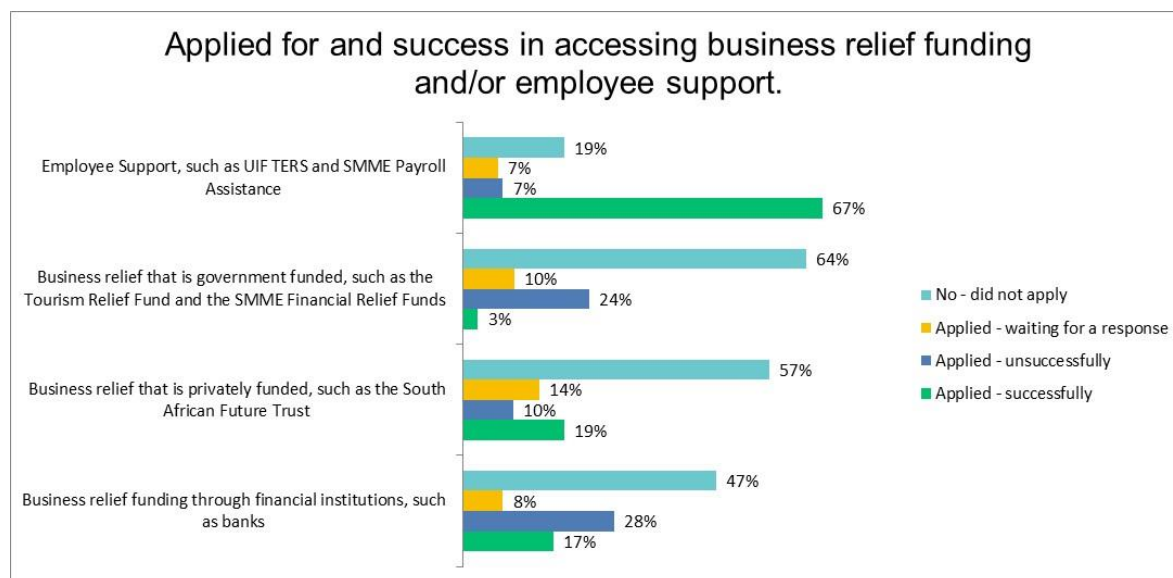
In comparing May/June 2020 survey responses, regarding the impact on employees and staffing levels, with responses to the September 2020 survey, the following is worth noting:

- With permanent redundancies being recorded by 12.5% of responding businesses in May/June 202, and 7% of businesses in September 2020, it is evident that redundancies are continuing to place under the reduced alert levels, albeit at a lower rate.
- Unaffected employee and staffing numbers were reported by 37% of companies in September 2020, signalling workforce stability being restored when compared with only 12% of business being unaffected in May/June 2020.
- The impact of the pandemic on employee and staffing levels remain significant with almost a quarter of businesses reporting that they were *severely affected*, and almost ⅓ reporting that employees have been forced to take paid leave and wages were only normalised through UIF TERS support.
- Not only does this put pressure on disposable income, it is expected to have a significant indirect and induced economic impact on the local iLembe economy.

In an effort to quantify this impact on employees and staffing levels, respondents were also asked to indicate “How many staff members have been made permanently redundant within your business from the start of the lock down?”.

The total numbers of employees being made permanently redundant since the restrictions being imposed on economic activity was 351 employees. It is worth noting that 120 jobs lost was reported by one company.

COVID-19 Relief Funding and Support



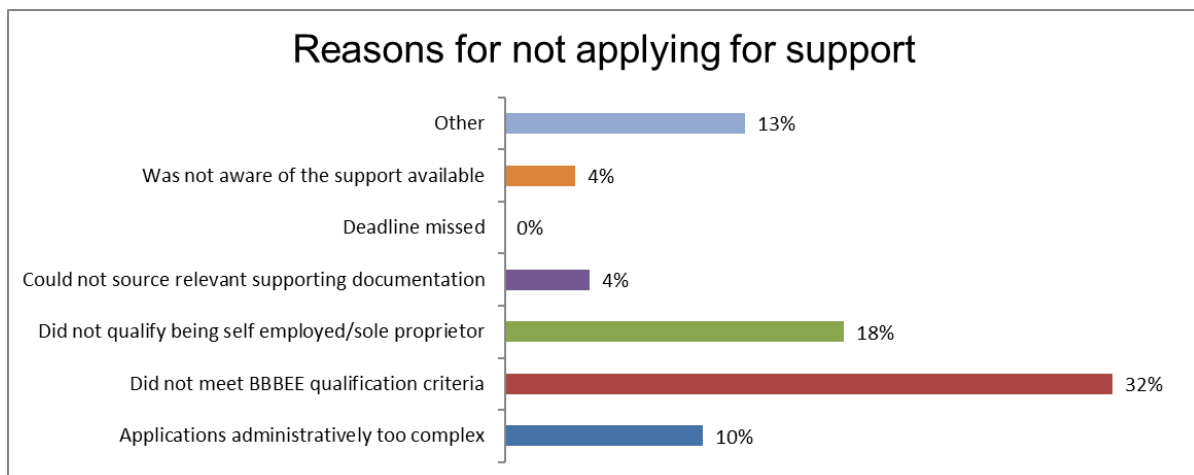
Source: Survey, September 2020

The September 2020 survey explored, firstly, the extent to which businesses had applied for support, and secondly how successful they had been.

With regards to applying for support, the following is of relevance:

- The most common form of business support applied for, in both the May/June and September 2020 surveys, was the UIF TERS benefit.
- This is followed by relief through financial institutions (53%), and privately funded business relief (43%) – a pattern similar to the May/June 2020 survey.
- With regard to application success, of those businesses that applied for UIF TERS, 82% were successful.
- For those applying for government funded relief, only 7% were successful in their applications, while 65% were unsuccessful.
- In terms of privately funded relief, 44% of those that applied were successful.
- Finally, for financial institution relief, 32% of those businesses who applied for relief through financial institutions were successful, while 53% were unsuccessful

The results above correlate with the results of the May/June 2020 survey.



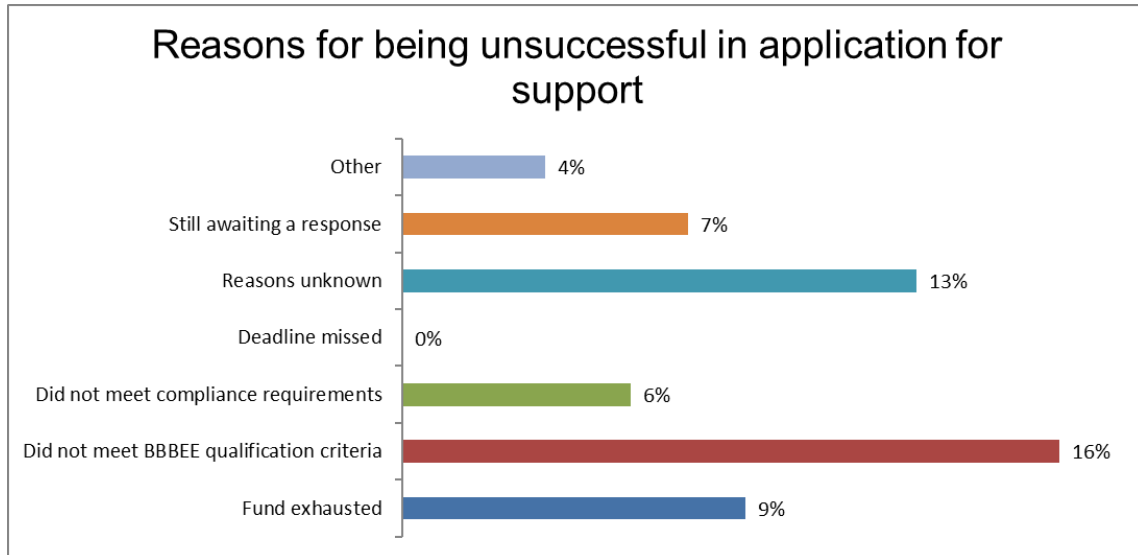
Source: Survey, September 2020

The reasons stated by businesses for not applying for business relief and/or employee support showed little difference between the two surveys conducted. The most common reason for businesses not applying is that it did not meet the BBBEE qualification criteria (32%), followed by “Did not qualify being self employed/sole proprietor” (18%).

Some recurring reason provided by respondents under “Other” were as follows:

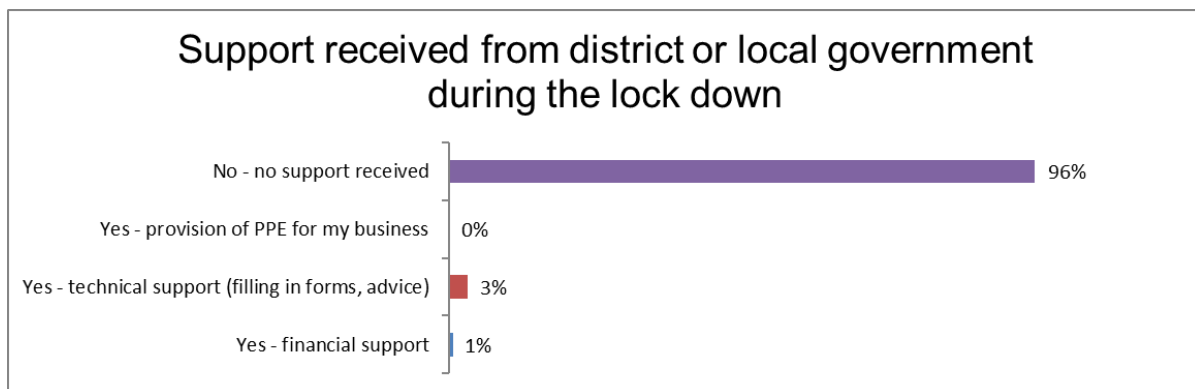
- Did not qualify as business operations continued. Did not need funding as we were coping;
- Did not want to incur more debt. I still had to pay back, so not willing to go into further debt (loans). Interest free loans that needed to be repaid, so decided not to apply;
- Staff not registered on UIF;
- Did not qualify e.g. TERS only applicable if no payment made to employees. Support far less than employees’ monthly requirements;

- I did apply then had to send my tax certificate of good standing after that took too long and they said there were no more funds, and
- Restructured operations to cope.



Source: Survey, September 2020

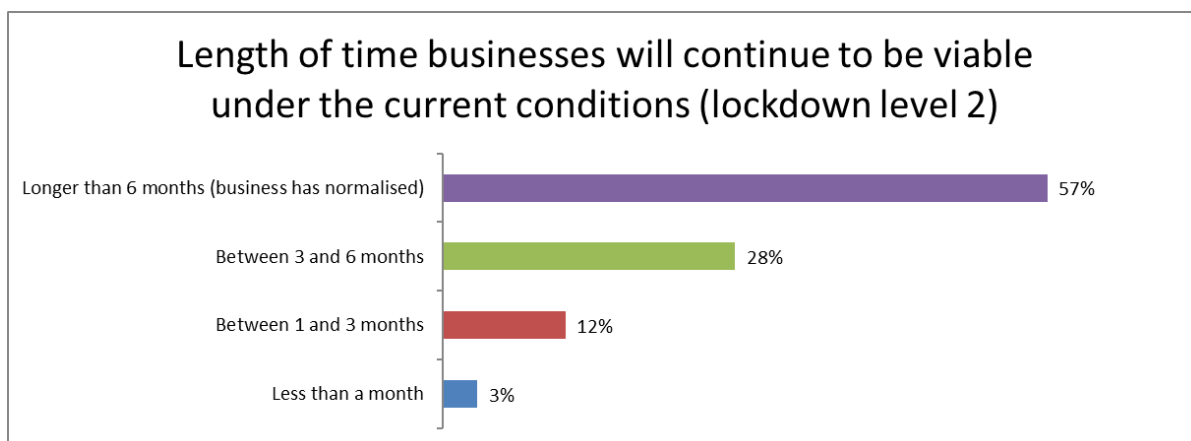
There is a correlation between the main reason put forward by respondents for not applying for support, and the reason for being unsuccessful in applying for support. The September 2020 survey also explored the nature of support received from District and Local Government within the iLembe District.



Source: Survey, September 2020

96% of respondents indicated that they did not receive any support, whilst 1% indicated that they received financial support.

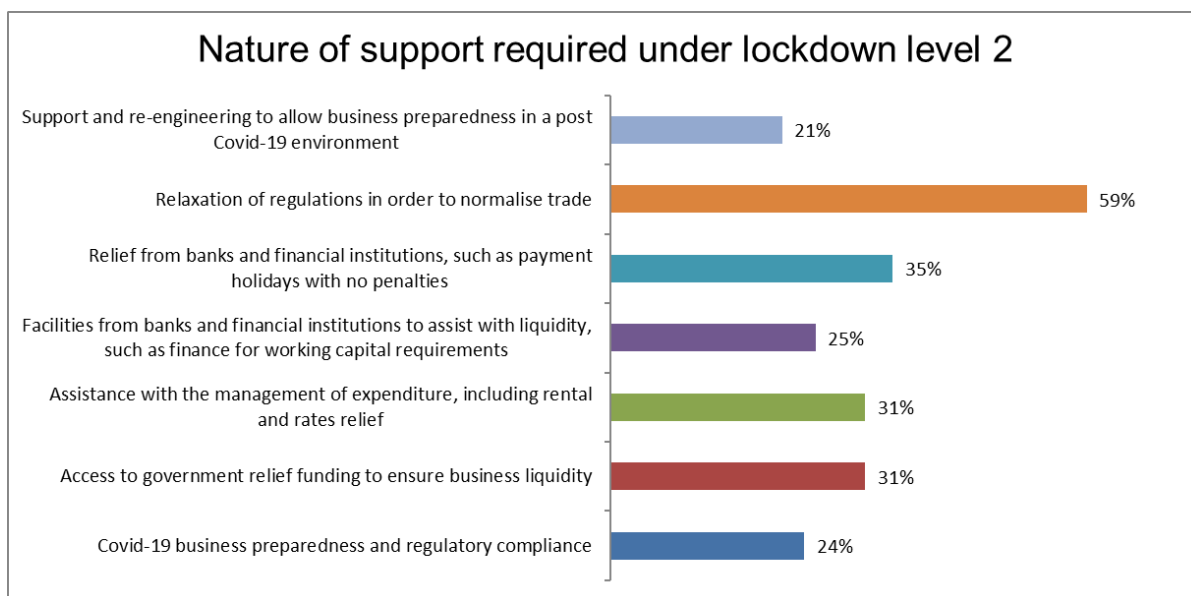
Business future and nature of support



Source: Survey, September 2020

During the May/June 2020 survey, and in the midst of Alert levels 4 and 3, 57% of businesses indicated that they will not survive beyond 3 months, whilst only 1/3 of businesses indicated that they will survive for longer than 6 months.

Indicating an improvement in the business climate, only 3% of companies indicated that they would last less than a month, compared to nearly 20% in the May/June 2020 survey. Grounds for concern around business viability however remain, nearly a third of businesses surveyed reported that they will not last beyond 6 months under the current relaxed alert levels.



Source: Survey, September 2020

Mirroring the nature of support required, the vast majority of businesses indicated that the relaxation of regulations to normalise trade is the most important means of support required.

Relief from banks and financial institutions, such as payment holidays with no penalties was also identified as an important means of support.

2.3. 2020 Mid-Year Activity Index Component

The Activity Index of the Hybrid Business Confidence Index of the iLembe District has shown a deterioration in the 1st half of 2020 to record the lowest level since inception – largely as a result of recessionary economic conditions, the COVID-19 pandemic and the resulting State of Disaster that caused a lockdown of a substantial part of the economy and business activity.

The iBCI **Activity Index** lost 13.7 index points, from the 2nd half of 2019 to record a low of 34.0 index points for the 1st half of 2020.

- Five of the eight sub-indices of the iBCI Activity Index pulled the index down from its 2nd half 2019 levels.
- Tourism was the hardest hit with a -57% decline, followed by Construction -45%, Manufacturing -19%, and Trade -12%.
- Credit availability and lower interest rates, the weaker rand exchange rate and lower inflation, however, had a positive effect on the business climate.
- The international price of sugar did not notably affect the Activity Index.

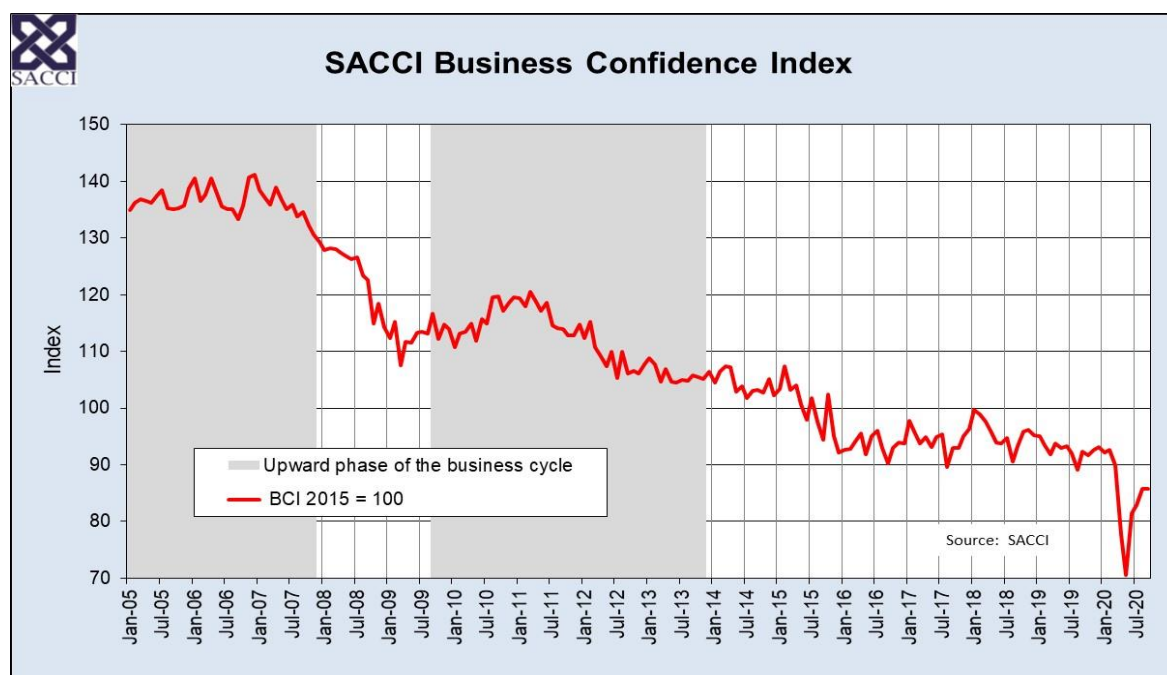
The major impact on business resulted from the restriction on real economic activity, and not due to the health impact on individuals *per se*.

Easier financial conditions helped business to survive although many could still not cope after leniency by the SA Reserve Bank and the commercial banks.

3. SACCI BCI 1ST HALF 2020

After the SACCI Business Confidence Index (BCI) declined by 1.6 index points in the 2nd half of 2019 to 91.8, the BCI averaged 84.0 in the 1st half of 2020 with base-year 2015=100. Notably the SACCI BCI (due to the State of Disaster announced at the end of March 2020 caused by the Covid-19 global pandemic), declined from an average of 91.6 in the 1st quarter of 2020 to 76.4 in the 2nd quarter of 2020, but recovered somewhat to 84.8 in the 3rd quarter of 2020.

Measuring 77.8 in April 2020, the BCI retreated further to 70.1 in May 2020 after unexpectedly extending the strict lockdown to May 2020 with various contentious regulations being announced. This is the lowest level since the inception of the SACCI BCI in 1985. In June the BCI increased to 81.4 but then the tempo start slowing to 82.8 in July, 85.8 in August and remained virtually unchanged at 85.7 in September 2020.



The 1st half of 2020 can be divided in two distinct periods – pre-Covid-19 and ex-Covid-19. After the slump caused by the State of Disaster announced at the end of March 2020, business confidence was marked by hesitancy and uncertainty. Even after easing the lockdown, the June 2020 SACCI BCI only partially recovered to 81.4 compared to 93.1 in December 2019 and 89.9 in March 2020.

Seven of the thirteen sub-indices of the SACCI BCI were at lower levels in June 2020 than in December 2019. Lower inflation and lower interest rates provided some emergency relief to households and businesses, particularly to small and medium size businesses. However, the lack of general real activity, notably between April and June 2020, had a smothering effect on the business psyche. The major negative impacts on the SACCI BCI came from ***the weaker exchange rate of the rand, constrained retail sales, declining merchandise import volumes, less new vehicle sales, lower manufacturing output, much fewer building plans passed, and declining JSE all-share prices.*** Despite a more positive move since June 2020, only 12% of the thirteen sub-indicators of the SACCI BCI made positive contributions to the business climate between June 2019 and June 2020.

The level of the September 2020 BCI figure of 85.7 (latest published SACCI BCI), suggests that the recovery of business confidence will be a prolonged process.

4. Conclusion

The follow-up assessment on the impact of the Covid-19 pandemic on the iLembe economy and its businesses, conducted during September 2020, highlighted the key changes in economic activity when compared to the May/June 2020 survey.

It also highlighted the severity of the impact of the pandemic enforced lockdown on business and the region's economy – and emphasising that a sustained recovery of the regional economic cannot be reliant on the relaxation of the remaining lockdown regulations only.

With our regional economy and business confidence remaining fragile, enabling policies, processes and performance at local and district government level remain essential to restoring economic growth and job creation. This is especially relevant to vulnerable sectors, but also key economic sectors.

The private sector and all levels of government within the iLembe District remain committed to partnering on specific initiatives that will aid the viability and growth of small and medium enterprises and secure investment in key economic sectors and geographies in our district.

Cobus Oelofse

CEO: iLembe Chamber of Commerce

ceo@ilembechamber.co.za

+27 (0)87 354 6343

Nathi Nkomzwayo

CEO: Enterprise iLembe

nathi@enterpriseilembe.co.za

+27 (0)32 946 1256

Richard Clacey

Programme Manager: Vuthela iLembe LED Programme

richardc@vuthelaled.co.za

Shannon Moffatt

Private Sector Development and Inclusive Growth Key Expert: Vuthela iLembe LED Programme

shannonm@vuthelaled.co.za

Richard Downing

Economist: Econdow

econdow@axxess.co.za