



**destea**

department of  
economic, small business development,  
tourism and environmental affairs  
FREE STATE PROVINCE

# RESEARCH DOCUMENT ON KEY FACTORS IMPACTING THE PROVINCIAL ECONOMY

## An Economic Intelligence Report

*Impact of assistance provided to enterprises in the Free State  
province during the Covid-19 national lockdown*

**June 2022**



This issue of the Economic Intelligence Report examines the assistance provided to enterprises in the province during the Covid-19 national lockdown. It also provides the results of the *Financial Support to Free State Enterprises Survey*; This survey is developed to provide insight on the financial and non-financial assistance to provincial enterprises, as well as to share additional experiences and lessons learned during the Covid-19 pandemic.

## **DISCLAIMER**

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Comments and enquiries relating to this report are welcomed and should be addressed to:

Email: [jansen@destea.gov.za](mailto:jansen@destea.gov.za).

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<sup>1</sup> Cover image adapted from  
<https://www.istockphoto.com/illustrations/government-assistance>

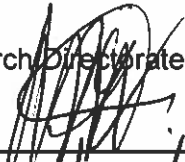
The report was compiled by:

**Tshepiso Leshaba**

Economic Research Directorate

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

  
17/06/2022

**Verified by:**

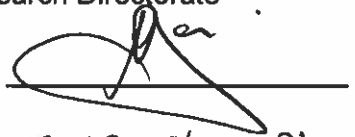
**Abram Jansen**

Deputy Director: Economic Intelligence Sub-Directorate

Economic Research Directorate

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

  
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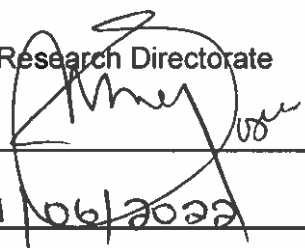
**Approved by:**

**Jonas Mosia**

Director: Economic Research Directorate

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

  
27/06/2022

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## 1. INTRODUCTION AND BACKGROUND

The COVID-19 pandemic has triggered large-scale emergency government support for businesses and industries globally, nationally and provincially. The design, implementation and uptake of this support is crucial in avoiding domestic and international market distortions in the medium- and long-term.

Following the second and possibly third wave of COVID-19 infections in several regions have worsened the economic slowdown and put further pressure on businesses. Small and Medium Enterprises (SMEs) in this regard faced tougher financing conditions and were more vulnerable to cash flow fluctuations.<sup>2</sup>

National government in view of a growing second wave of COVID-19 infections have extended or introduced new containment measures to slow the surge in cases. These containment measures, which often include restrictions in economic activity, have further eroded cash flows of businesses. In response, government have extended financing support programmes and introduced new programmes to better support businesses and market conditions.

With this in mind, the national and provincial government have reviewed and changed existing programmes and introduced new programmes. The Industrial Development Corporation (IDC) allocated R3,6 billion to establish funding interventions, the COVID-19 Essential Supplies Fund and Distressed Fund. The funds aimed to alleviate shortages of critical supplies needed to help fight the virus and provide funding to assist sustainable businesses facing difficulties resulting from the pandemic.

These programmes have helped to protect against further deterioration of credit conditions, allowing firms in difficulty to avoid bankruptcy. Without them, rising insolvencies and bankruptcies would have an inevitable impact on national economies and global growth prospects.<sup>3</sup>

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<sup>2</sup>OECD Economic Outlook, Volume 2021 Issue 1

<sup>3</sup> COVID-19 Government Financing Support Programmes for Businesses: 2021 Update

Focus therefore will specifically be on the impact of assistance provided to enterprises in the Free State during the pandemic. This report presents the impact on national and provincial Gross Domestic Product (GDP) and employment. A COVID-19 *Financial Support Survey* was developed and distributed to enterprises in the province. Findings and observations of this survey is included in this report.

## 2. SOUTH AFRICAN ECONOMY

South Africa's GDP increased by 1,9% in the first quarter of 2022, following an increase of 1,4% in the fourth quarter of 2021.<sup>4</sup> This increase was led by eight industries, which recorded positive growth between the fourth quarter of 2021 and the first quarter of 2022.

The manufacturing industry increased by 4,9% and contributed 0,6 of a percentage point to GDP growth. The trade, catering and accommodation industry increased by 3,1% and contributed 0,4 of a percentage point to GDP growth. The finance, real estate and business services industry increased by 1,7% and contributed 0,4 of a percentage point to GDP growth. The personal services industry increased by 1,1% and contributed 0,2 of a percentage point to GDP growth.

Statistics South Africa in their latest Quarterly Labour Force Survey (QLFS) for Q1: 2022 indicated that the number of employed persons decreased by 81 000 in Q1: 2022 when comparing with Q1: 2021. Unemployment increased with 1.9 percentage points to 34.5% in Q1: 2022 year-on-year as depicted in table 1.

**Table 1: Key labour market indicators, South Africa Q1: 2021 to Q1: 2022**

	Jan-Mar 2021	Oct-Dec 2021	Jan-Mar 2022	Q-to-Q	Y-on-Y	Q-to-Q	Y-on-Y
	Thousand			Per cent			
Population 15-64 years	39 455	39 888	40 033	144	578	0.4	1.5
Labour force	22 237	22 466	22 776	310	539	1.4	2.4
Employed	14 995	14 544	14 914	370	-81	2.5	-0.5
Unemployed	7 242	7 921	7 862	-60	620	-0.8	8.6
Not economically active	17 218	17 423	17 257	-166	39	-1.0	0.2
Unemployment rate (%)	32.6	35.3	34.5	-0.8	1.9		

Source: Statistics SA, QLFS, Q1 2022

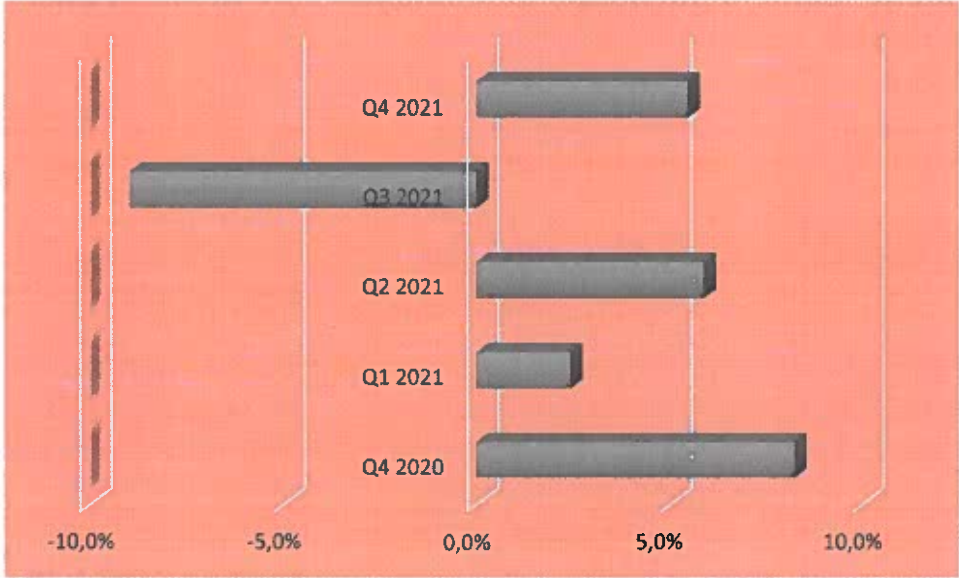
<sup>4</sup> Statistics South Africa, Gross Domestic Product (GDP), First Quarter 2022

Furthermore, the working-age population increased by 144 000 or 0,4% in the first quarter of 2022 compared to the fourth quarter of 2021. Compared to Q1: 2021, the working-age population increased by 578 000 or 1,5%. The number of discouraged work-seekers decreased by 54 000 (down by 1,4%) and the number of people who were not economically active for reasons other than discouragement also decreased by 112 000 (down by 0,8%) between the two quarters, resulting in a net decrease of 166 000 in the not economically active population.

**3. FREE STATE ECONOMY: GDP AND EMPLOYMENT**

The lockdown measures during Covid-19 have profound economic implications on the provincial economy. Growth in the quarterly GDP was the lowest in Q3: 2021 at -9.0%. Free State recorded 8.2% in quarter 4 of 2020 which contracted to 9.0% in quarter 3 2021. The provincial economy however recovered (to 5,5%) in Q4 2021. These quarterly changes in the GDP are reflected in *figure 1*.

**Figure 1: Free State GDP % change quarter-on-quarter (seasonally adjusted and annualised) and contribution to growth in Quarterly GDP from Q4:2020 to Q4:2021**



Source: IHS Markit Regional eXplorer, 2236 (2.6p)

When looking at employment in the province Statistics South Africa reported that the official unemployment rate decreased by 5.6 percentage points, from 36.7% to 31.1% quarter-to-quarter (Q4: 2021 to Q1: 2022) and -4.5 percentage points year-on-year

(Q1: 2021 to Q1: 2022). Free State province recorded the largest decreases (down by 5,6 percentage points), followed by North West (down by 3,7 percentage points).

The majority of the province's workforce in Q1 2022 as depicted in table 2 are employed in Community & Social Services (222 000), followed by Trade (181 000). Community & Social Services experienced the highest gains in employment quarter-to-quarter recording 51 000 more jobs between Q4:2021 and Q1:2022. Transport and Finance recorded the highest decreases in employment quarter-to-quarter of -31.6% and -13.2% respectively.

**Table 2: Employed by Industry, Free State Q1: 2021 to Q1: 2022**

	Jan-Mar 2021	Apr-Jun 2021	Jul-Sep 2021	Oct-Dec 2021	Jan-Mar 2022	Q-to-Q	Y-on-Y	Q-to-Q	Y-on-Y
	Thousands							%	%
Agriculture	55	74	72	66	84	18	29	27.1	52.7
Mining	16	18	19	23	18	-5	2	-21.6	14.4
Manufacturing	48	45	31	33	52	20	5	59.6	9.6
Utilities	5	5	5	4	9	5	4	124.1	83.7
Construction	30	34	33	32	38	6	8	17.4	26.6
Trade	159	155	163	190	181	-9	21	-4.9	13.4
Transport	35	49	48	54	37	-17	2	-31.6	6.5
Finance	72	65	88	74	64	-10	-8	-13.2	-11.0
Community & Social Services	190	195	178	171	222	51	32	29.7	17.0
Private Households	93	84	82	80	76	-4	-17	-5.2	-18.7
	<b>703</b>	<b>724</b>	<b>720</b>	<b>727</b>	<b>781</b>				

Source: Statistics SA, QLFS, Q1 2022

#### **4. SUPPORT MEASURES AVAILABLE FOR BUSINESSES IN RESPONSE TO THE COVID-19 CRISIS**

Some of the support measures available to enterprises/ business during Covid-19 for small and medium businesses, which were negatively affected, directly or indirectly, due to the Coronavirus pandemic:

- Debt Relief Finance Scheme – a soft-loan facility aimed at assisting existing SMMEs in order to keep them afloat during the Covid-19 pandemic for a period of 6 months from April 2020.
- Restructuring of SEFA-funded loans - A payment moratorium/holiday for qualifying SMMEs for a period of a maximum of 6 months, in an effort to reduce the instalment burden of loan obligations on the affected SMMEs.



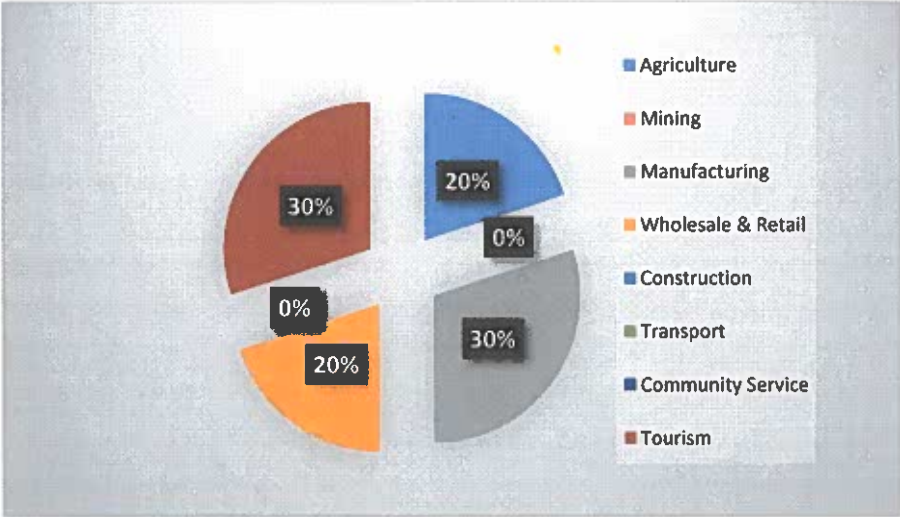
- Business Growth/Resilience Facility - This facility offers working capital, stock, bridging finance, order finance and equipment finance.
- Spaza Support Scheme - This scheme aims to strengthen Spaza shops as locals' convenient access to basic goods, as well as facilitate bulk-buying opportunities, and realise the potential for Spaza shops to serve as a market for locally manufactured goods.
- Covid-19 Agricultural Disaster Support Fund - Covid-19 Agricultural Disaster Support Fund for smallholder and communal farmers.
- Tourism Relief Fund – this fund provides once-off capped grant assistance to small, medium and micro enterprises (SMMEs) in the tourism value chain to ensure their sustainability during, and post, the implementation of government measures to curb the spread of Covid-19 in South Africa.
- Tax measures to combat the COVID-19 pandemic - Tax compliant businesses can apply to the South African Revenue Service for the tax relief measures.
- Loan guarantee scheme - The loan guarantee scheme is an initiative to provide loans, guaranteed by government, to businesses with an annual turnover of less than R300 million, in order to meet some of their operational expenses.
- Covid-19 Temporary Employer-Employee Relief Scheme (Covid-19 TERS) by the Department of Employment and Labour. The scheme was primarily formed to save jobs and ease the financial burden on businesses but most importantly, their vulnerable workers after the country was placed on the first hard lockdown from 26 March 2020 to 16 April 2020 to contain the spread of the coronavirus (Covid-19) pandemic.

## **5. FINANCIAL SUPPORT TO FREE STATE ENTERPRISES SURVEY RESULTS**

This section of the report presents the results of the Survey conducted by Destea. The survey is another in a series of surveys developed to determine the impact of the Covid-19 pandemic on the provincial economy. The accuracy of the survey is fully reliant on businesses' willingness to participate and offer accurate information. Approximately n=100 businesses were requested by email and personal visits to participate in the survey, of which a total of n=10 complied (accounting for 10% participation rate).

Figure 2 provides an illustration of the responses received from sector stakeholders in the province that are dominated by Tourism (30%) and Manufacturing (30%), followed by Agriculture (20%) and Wholesale and Retail (20%).

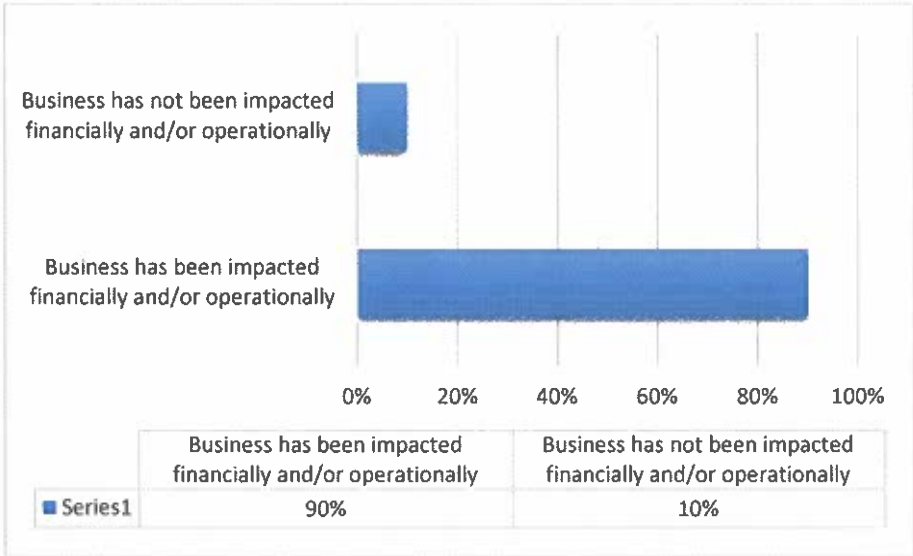
**Figure 2: Type of Sectors**



**5.1 Status of applications for financial assistance**

The survey enquired about the impact of the pandemic on the financial and operating activities of enterprises for the period 26 March 2020 until the National State of Disaster has been lifted as from 5 April 2022. Data obtained from the survey indicate that 90% of the respondents had been impacted financially and/or operationally by the Covid-19 pandemic (figure 3). This observation is in line with the finding of the PwC’s Global Crisis Survey 2021, which indicates that more than 70 percent of respondents said their business was negatively impacted by the crisis, and 20 percent said the crisis had a positive impact.

**Figure 3: Financial and/or operational impact of Covid-19 on business**



Enterprises have been asked to indicate if they applied for any financial assistance if their business activities have negatively been affected by the pandemic. Results of the survey indicate that 80% of the respondents applied for assistance. One respondent in the agriculture

sector indicated that they did not applied for assistance because they were not affected by the pandemic. Only 66% of applications for assistance were approved, 11% was declined and 22% of respondents did not receive any feedback.

**Figure 4: Application and outcome of Financial Assistance applied for**

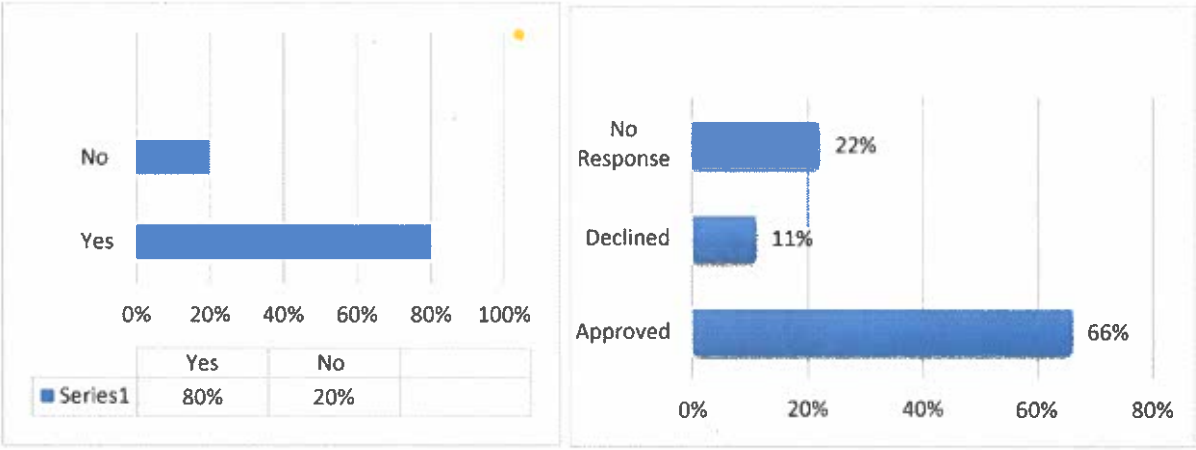
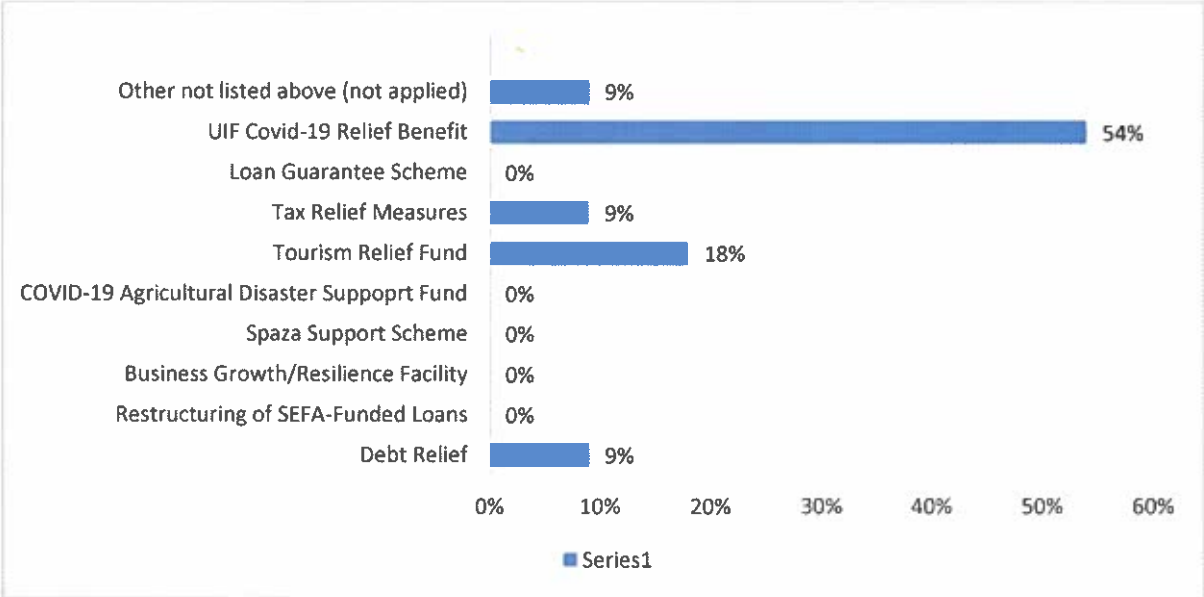


Figure 5 reflect on the various Financial Relief Measures available during the period of the Covid-19 pandemic.

**Figure 5: Available Financial Relief Measures**

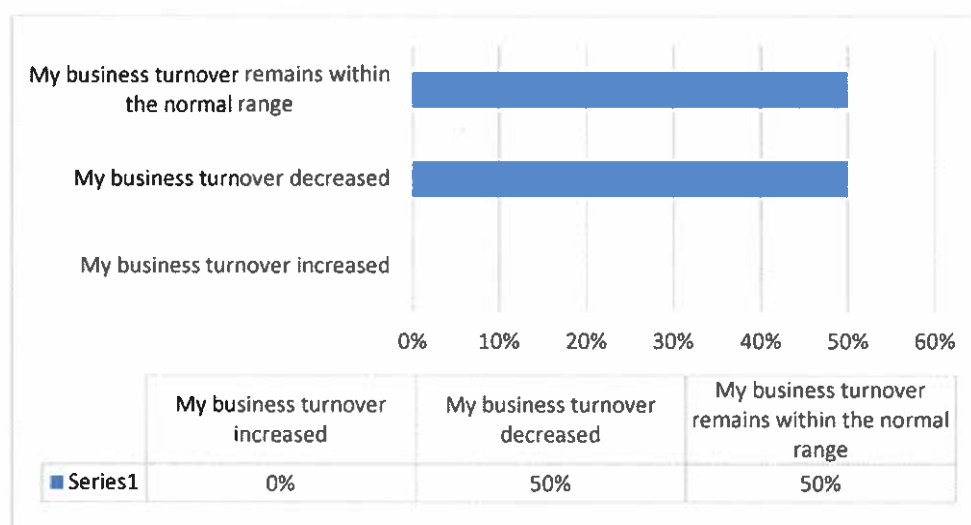


Amongst the various financial incentives offered during the period of the pandemic, 54% of the respondent applied for the UIF Covid-19 Relief Benefit. Tourism Relief Fund attracted 18% of the respondents as seen in figure 5. One enterprise in the Tourism sector applied for the Tourism Relief Fund, but it was declined. Another enterprise indicated that the “tourism relief fund was too little money to really assist”.

## 5.2 Status of enterprises after the financial relief interventions

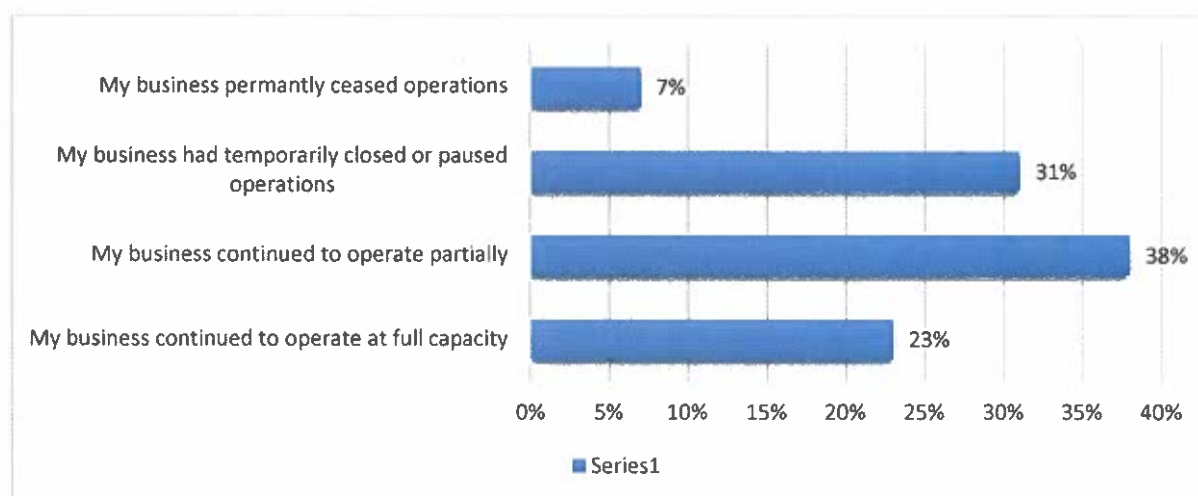
Turnover relates to the income generated by a business when conducting its core operations within a specified timeframe, and forms a key measure of business performance. As defined by Statistics SA, turnover includes sales of goods, services rendered, leasing and hiring of capital assets, and rental/leasing of land, buildings and other structures.<sup>5</sup> The data obtained through the survey indicate that none of the respondents' business turnover increased as illustrated in the figure 6.

**Figure 6: Impact on business turnover**



The survey enquired about businesses' operating status (figure 7) during the period in question, 38% of businesses reported that they continued to operate partially; while 23% continued to operate at full capacity during this period.

**Figure 7: Operating status of businesses**



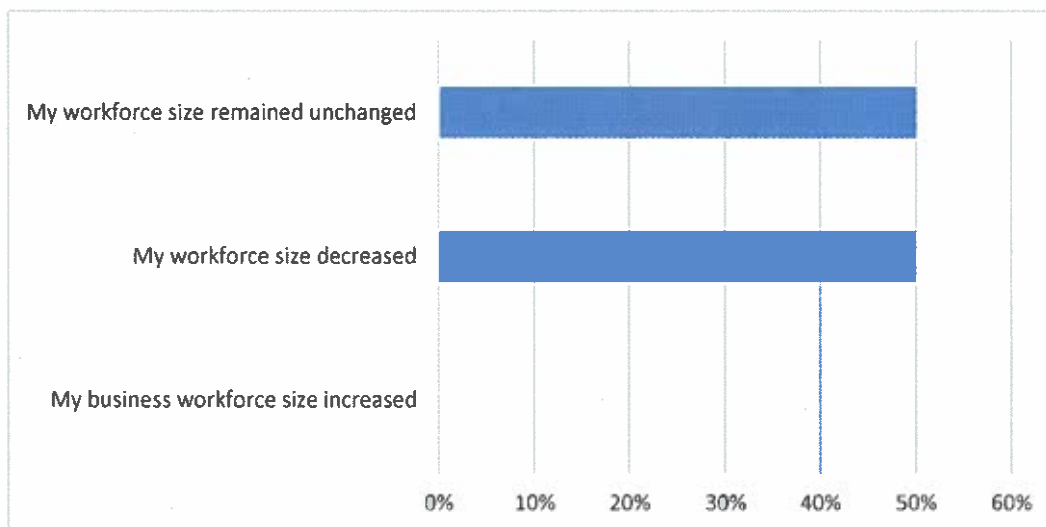
<sup>5</sup> Statistics South Africa. (2020). Annual Financial Statistics Survey

### 5.3 Workforce Implications

The full impact of the COVID-19 pandemic on employment will be determined over time as employment tends to be a lagging economic indicator. Notably, certain groups of workers remain vulnerable including those characterised as lowly skilled. During the pandemic, people deemed as high health risks face even higher levels of job vulnerability. As explained in section 3 in the report, the official unemployment rate in the province decreased by 5.6 percentage points, from 36.7% to 31.1% quarter-to-quarter (Q4: 2021 to Q1: 2022) and -4.5 percentage points year-on-year (Q1: 2021 to Q1: 2022) employing 79 000 more people.

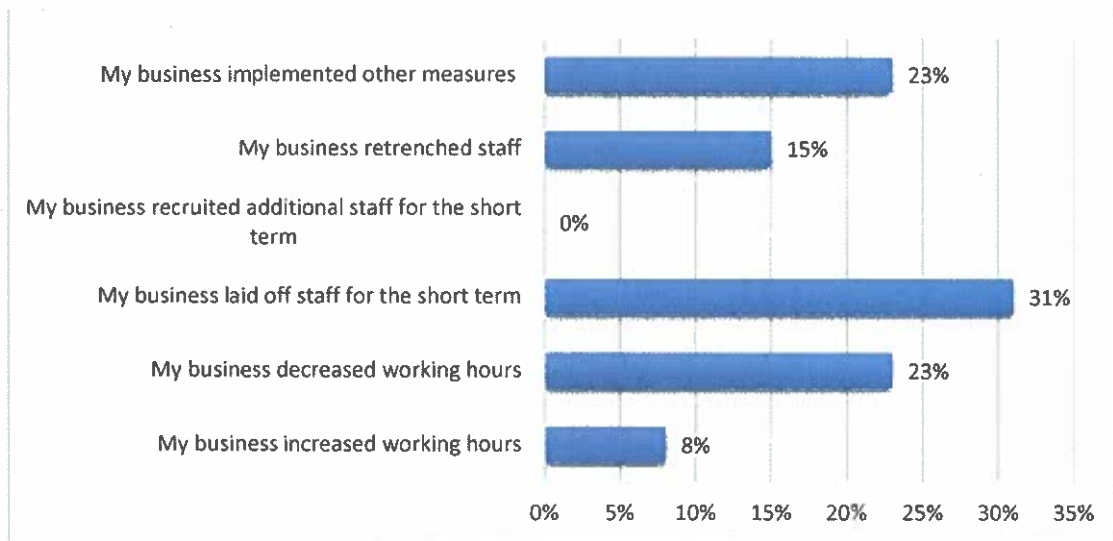
Enterprises were requested to indicate how their workforce changed in size due to the relief interventions. The feedback from the respondents indicates that 50% of their workforce size remained unchanged after the financial relief interventions, whilst none of the respondents experienced an increase in workforce size (figure 8).

Figure 8: Changes in workforce size



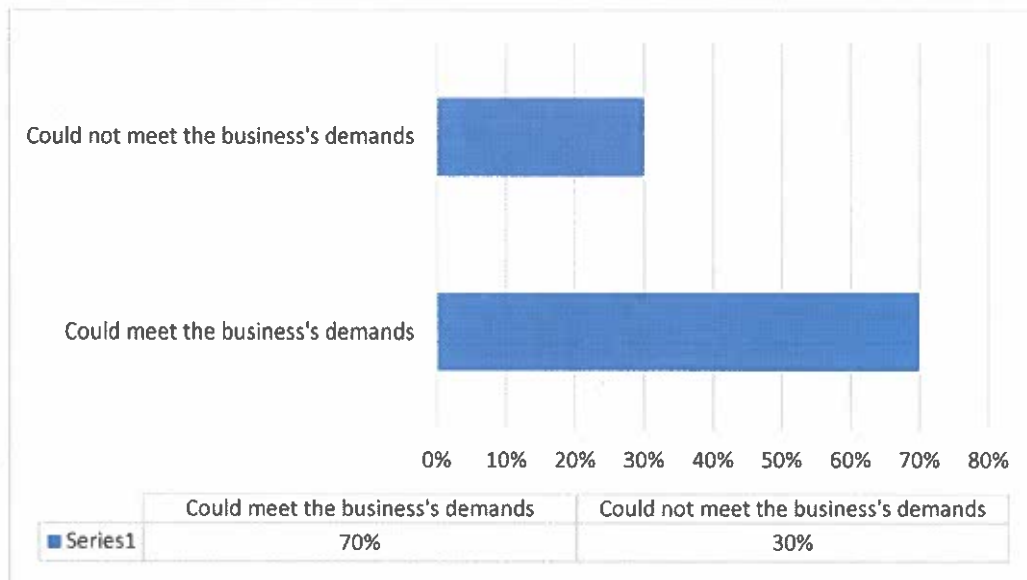
The surveyed also requested businesses to indicate which measures were taken to cope with the impact of Covid-19 on their workforce (as illustrated in figure 9).

**Figure 9: Workforce measures implemented**



A third of the respondents (31%) reported that they laid off staff for the short term while 15% of the respondents indicated that they had retrenched staff during the pandemic. A further 23% reported that they decreased working hours, 8% increased working hours and 23% implemented other measures to cope with the impact of the pandemic. Of the enterprises surveyed (70%) indicated that their workforce was able to meet business demands (figure 10) after the financial relief interventions.

**Figure 10: Ability of workforce to meet business demands**



## 5.4 Additional Findings

The survey requested businesses to elaborate on their experience in applying for the Financial Relief Measures available during the Covid-19 pandemic. Respondents reflected on the ease/or difficulty of completing the application:

“Have not experienced any difficulties. If you are tax compliant processes went smoothly”.

“I personally had a good experience. Was quick and easy”.

“A lot of information required. Easy to do personally”.

“The process was very difficult”.

Another respondent in the manufacturing sector indicated, “My government does not care. Workforce could access the system, administered by the Department of Labour and amounts differs from what originally were entered by the employer. That resulted in discrepancies and mistrust”.

Two enterprises indicated that they have not received any feedback from Desteia and its “subsidiaries” with regard to their applications for the relief measures. Whilst one respondent replied that, they “applied and got approval shortly after the application” but that “the delay was with receiving the funds”.

When asked whether the various Financial Relief Measures addressed the needs of enterprise to minimise the impact of the national lock down, respondents stated the following:

“The assistance provided could not meet the needs of the workforce. Payments were not on a monthly basis”.

“Yes. TERS assisted a lot”.

“The tourism relief fund was too little money to really assist. The UIF TERS Relief Fund assisted employees to get an income during this difficult time”.

“Yes, Desteia paid a portion of our debt with NEF, it helped to reduce our capital amount especially because we could not pay the instalments due because of the impact of Covid-19 on our business”.

“UIF measures helped for example not paying SETA but the impact period has been far beyond relief period”.

Respondents were also asked to comment on what other kind of support other than the current Financial Relief Measures will enhance business operations during and post Covid-19. A respondent highlighted the importance of “streamline the UIF system”. Another respondent replied, “We need assistance from government to make our environment conducive to doing business by improving the infrastructure and service deliver in our area. More marketing of our province is also needed”.

A respondent also referred to, “the reduction of the capital amount, we cannot be able to pay back, the little that we get through sales covers operational costs and cannot cover the costs of debt”. Respondents also made reference to, “the fuel cost is affecting our business very badly. All the legal requirements for operations and audits are affecting us” as well as to provide “staff training and machinery”.

Some of the recommendations by respondents were based on the management of the Financial Relief Measures:

“Department of Labour makes it difficult for the employer to file the necessary info on the system. No access or lack of support when difficulties are experienced. Was a nightmare to call the Call Centre, which was not fully efficient. U-Filing was not helpful. “Honesty and transparency” by the responsible stakeholders managing the relief measures”.

## **6. CONCLUSION**

When the Covid-19 pandemic hit South Africa, the country were already seized with slow economic growth. The lockdown further placed the economy in a dire situation, resulting in a devastating effect on businesses and workers. Hence, the importance for government, including the private sector to introduce and implement financial relief measures to balance curbing the spread of the virus and keep South Africa's economy going.

The national and provincial economy, as reflected in section 2 and 3 respectively, is now under tremendous additional pressure from the coronavirus response. This, in



turn, needs critical interventions, such as government support programmes as the appropriate response to successfully salvage the economy.

To date, more than 160 jurisdictions (including all OECD countries) have announced monetary and fiscal support programmes on an unprecedented scale. This support has included government credit guarantees and central bank liquidity support, debt moratoria, tax relief, direct loans and grants, as well as direct equity support. These measures helped sound companies with otherwise limited access to financing to survive through the crisis.<sup>6</sup>

Some of the key results of the Financial Support to Free State Enterprises Impact Survey included the following:

- 90% of respondents had been impacted financially and/or operationally;
- 80% of enterprises applied for financial assistance;
- Only 66% of enterprises were successful in obtaining the financial relief assistance;
- Only 50 % of enterprises' turnover remains within the normal range post the financial relief interventions;
- Only 23% of enterprises continued to operate at full capacity post the financial relief interventions;
- None of the respondents interviewed indicated that their workforce size increased post the financial relief interventions;
- 15% of enterprises retrenched staff post the financial relief interventions;

Key observations are that 90% of respondents agreed that they had been impacted financially and/or operationally by the COVID-19 pandemic and that 70% could meet the businesses demand post the financial relief interventions. A negative is the indication that only 66% of applications were approved and that 22% did not received any response, which is of great concern.

Covid-19 TERS was by far one of the most effective monetary government interventions, as it constituted 29% of the 41% stimulus package successfully disbursed by 31 March 2021. "It made the difference between companies remaining open and being forced to close, between jobs saved and jobs lost". To date, the UIF

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<sup>6</sup> COVID-19 Government Financing Support Programmes for Businesses: 2021 Update

has disbursed R64 billion to 5.7 million workers, surpassing the initial budget by a colossal R24 billion.<sup>7</sup>

A recent report released in April 2022 by PwC stated that COVID-19 brought fast-moving and unexpected impacts for which many existing crisis plans and teams were unprepared.<sup>8</sup> One is of the opinion that by learning the right lessons from the pandemic and building resilience for the next crisis, businesses have an opportunity to turn the COVID-19 disruption to their advantage.

All relevant stakeholders in both the public and private sectors, including enterprises, can adopt three key lessons that resulted from the Global Crisis Survey 2021 for long-term resilience:

- Designate a crisis response team that can mobilise and execute a plan that have been tested and refined to deal when a crisis hits.
- Design a crisis response plan aligned to the strategy, goals and purpose of the enterprise, institution or organisation.
- Build organisational resilience by establishing high-level resilience governance, revisiting crisis management structures and response strategy, and to foster a culture of resilience.

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<sup>7</sup> <https://www.gov.za/blog/two-year-anniversary-uif%E2%80%99s-covid-19-ters>

<sup>8</sup> <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19.html>