

Short Notes on:

ECONOMIC DOWNTURN 2020: IMPACT ON SMALL BUSINESSES

Introduction

Small businesses are a vital part of any market's commercial ecosystem. They provide range in respect of goods and services, allow large companies access to a bigger consumer market and facilitate economic growth and diversity.¹ However, the recent economic downturn as a result of the Covid-19 pandemic, the resultant "lock-downs" and limitations on domestic and global trade, has had specific negative implications for small businesses.

Overview

Despite the aforementioned roll that these business play in the health of an economy; small and medium size businesses often suffer from poor access to financing, lack of infrastructure, poor management systems and a lack of adequate training and development mechanisms.²

Be that as it may, the economic downturn experienced in 2020 has resulted in further difficulties. According to the International Trade Centre, the Covid-19 pandemic has had the following phased impact on small businesses globally³:

- **Shutdown Impacts:** almost crippling effect on the hospitality and travel sectors as business for the most part came to a complete standstill.
- **Supply Chain Impacts:** Lockdowns and bans on imports and exports effected supply and demand powers within the economy. Demand was drastically reduced resulting in severe effects on input and output.

¹ I A Zeidy (2020), "Economic Impact of Covid-19 on Micro Small and Medium Enterprise (MSME's) In Africa and Policy Options for Mitigation", COMESA Monetary Institute, www.tralac.org Accessed on: 22 October 2020.

² I A Zeidy (2020), "Economic Impact of Covid-19 on Micro Small and Medium Enterprise (MSME's) In Africa and Policy Options for Mitigation", COMESA Monetary Institute, www.tralac.org Accessed on: 22 October 2020.

³ International Trade Centre (2020), "SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and its Impact on Small Business" ITC, Geneva, www.intracen.org Accessed on 22 October 2020.

- **Demand Depression:** Business investment decreased, household spending decreased, companies became more reliant on credit followed by eventual bankruptcy for a large number of small businesses.
- **Recovery:** This appears to be dependent in how well countries have responded to the health crises. Economic activity will likely increase as restrictions and limitations decrease.

At present, it appears that South Africa may be in the recovery phase of the Covid-19 economic impact. Predictions indicate that demand is likely to sharply increase in certain industries as a result of the return of certain goods and services to the market.⁴ We can possibly expect a certain level of “flattening out” once the excitement of such return fades and the dust begins to settle.

In saying that however, it cannot be expected that the economic landscape will ever look the same again.

As much as demand and supply, on a broad spectrum, has been negatively impacted; the global pandemic and the very human emergency has resulted in certain positives and welcome change. Innovation and ingenuity has been at the forefront of such change as markets responded to a shift in demand and supply powers.

Online services, as opposed to the above, experienced a sharp increase in demand and provided much needed relief in respect of access in certain markets. Businesses likely responded to the “new normal” and adapted their business models and strategies to allow for a “different” range of services.

The aforementioned adaptation, is what allowed certain businesses to survive the lurching movements of demand and supply within the economy.

Conclusion

For the most part, small businesses which were likely unable to adapt to the changing markets did not survive the impact of the global pandemic and economic downturn. Reform, capital injections and possible regulatory intervention will in all likelihood be required to push small businesses forward into this economic recovery phase.

⁴ International Trade Centre (2020), “*SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and its Impact on Small Business*” ITC, Geneva, www.intracen.org Accessed on 22 October 2020.

Contact an attorney at SchoemanLaw for your small business needs.

