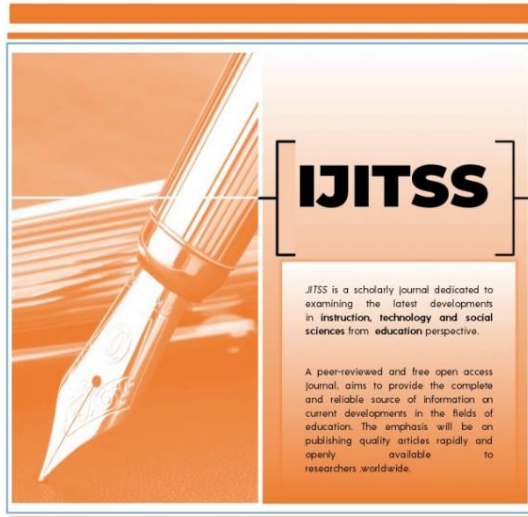


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### Survival of Rural SMEs During Covid- 19 Lockdown in Southern Region of Kwazulu Natal

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### Abstract

Many nations had implemented travel restrictions and movement bans as a result of 19 pandemic outbreaks. One of the industries in South Africa that is most immediately impacted by the movement's control order is rural small business. In actuality, smaller businesses are more significantly impacted than their larger counterparts. Due to the closure of numerous supporting industries including retail and transportation, entrepreneurs endure business cancellation or closure as well as loss of revenue. Studies on the effects of a pandemic epidemic on microbusinesses in underdeveloped nations, particularly with regard to business continuity and recovery plan, are still lacking. The research was conducted in Umzinto and Scottburgh town in Umdoni Municipality. The research recommended that government should be forced to refrain from implementing complete lockdowns. But if the government decides that lockdown is the only workable alternative, it must start financial support programs, such as emergency loans and suspensions of principal and interest payments.

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### Introduction

Globally, the coronavirus pandemic is responsible for significant human misery and widespread death. The worst public health catastrophe in recent memory has also led to a massive economic crisis, with afflicted nations' output ceasing, consumption falling, confidence plummeting, and stock exchanges reacting badly to growing uncertainty. On March 5, 2020, the Minister of Health formally announced a locally verified COVID-19 case in South Africa which resulted in state of emergency declared by SA President. On 26 March 2020, the government declared a state of emergency, placing limits on people's freedom to move around and do business. The main issue, especially in developing nations like South Africa, is making decisions based on the trade-off between the financial expenses of a lockdown and the unrestricted spread of the epidemic. As the coronavirus crippled a large portion of the South African economy and customers stayed at home to prevent the virus' spread, millions of small business owners across the nation faced a similar problem (Rogerson and Rogerson, 2020). According to the survey conducted by OECD indicated that 76.2% of the firms surveyed saw their revenue significantly decline during the first five months of the lockdown. Of the 35.2% who had cash on hand, 62.6% estimated that their financial reserves would last one to three months. Only 29.2% of organizations, however, felt optimistic about their ability to cover expenses for the following month. Rural small companies entered the COVID-19 crisis with compounding, preexisting vulnerabilities while they were still recovering from the Great Recession. Rural small enterprises are heavily concentrated in the sectors that are most immediately exposed to the pandemic's effects and lack adequate access to capital and broadband connectivity. Minority-owned rural small enterprises also suffer increased vulnerabilities, just like in non-rural communities across the country, as structural racism and systemic economic exclusion exacerbate hurdles to finance access, connectivity, and access to relief. Rural communities will likely need coordinated assistance as they deal with these issues if they are to survive this disaster (Anwar, Nasrullah and Hosen, 2020).

Owners quickly adjusted and came up with innovative strategies to alter their operating models in order to survive (Rashid and Ratten, 2020). Many modest firms have yet failed. Others have made it through the pandemic and intend to leverage the innovations they embraced to boost sales and provide new opportunities once the economy

recovers, although it is unclear how this will affect the nation's millions of workers. Studies on the effects of a pandemic epidemic on microbusinesses in underdeveloped nations, particularly with regard to business continuity and recovery plan, are still lacking. It is critical to investigate how rural SMEs handle crises and the choices they make to keep their businesses alive. The aim of this paper is to identify challenges faced by rural SMEs in southern region of Kwazulu natal and suggest solutions to help small businesses to recover from the greatest covid recession. This study adds to the growing body of research on the practices used by SMEs and external support during times of crisis and offers policymakers and SME managers new information about the significance of external support in enhancing the beneficial effects of innovation practices on business survival. The results of our data analysis are then presented and discussed in order to emphasize our key findings

- i. The subsequent research question were asked in order to achieve this goal:
- ii. Do rural SMEs face difficulties running their operations during the pandemic?
- iii. How much have these difficulties impacted their business operations?

## **Literature review**

### *Rurality concept*

The term "rural" is ambiguous and can signify different things to various individuals, groups, and governments (Wineman, Alia and Anderson, 2020). It might be difficult to define "rural" in a country with diverse topography and shifting demographics. For individuals who are concerned with rural concerns, a specific definition of rural is crucial. A definition that is both clearly defined and up to date in its interpretation is necessary for federal and state policymakers, funders, service providers, and researchers. according to Putri, Russell and Kippen (2022) several government agencies have developed detailed and nuanced definitions of rural to inform research, policies, and programs specifically aimed at rural areas. While some definitions of rural are very broad or simply what is left over after urban is defined, others are more specific. These categories also allow for some flexibility, allowing users to choose between several levels of rurality, for example. In an effort to better meet the requirements of the rural population, organizations providing rural health services will keep adapting their criteria. This reference focuses on identifying and outlining the numerous federal definitions and categorization systems for rural that are currently in use, as well as assisting users in locating the correct rural definition for program planning, policymaking, and research.

### *SMEs overview*

Small and medium-sized enterprises (SMEs) make up the great majority of businesses worldwide, making a disproportionately large contribution to the employment situation and economy of the nation in question (Hillary, 2017). Future organic growth potential are found in these small firms and the goals of their business owners, not in large-scale organizations. Small businesses are the backbone of many prosperous economies because they spur innovation and competition in markets (Atkinson and Lind, 2018). The continuous COVID-19 pandemic is wreaking havoc on Africa's small and medium-sized businesses and creating incalculable amounts of human misery (SMEs). According to our definition, a small or medium-sized firm (SME) is "a separate and distinct business entity, together with

its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more principally carried out in any sector or subsector." Our emphasis is on companies with a turnover of more than R15 million but less than R500 million specifically. Although they dominate economies and employ around 80% of the workers on the continent in both the formal and informal sectors, these companies are frequently the least resilient during times of crises. According to Zafar and Mustafa (2017), More than 98 percent of enterprises in South Africa are SMEs, which also employ 50 to 60 percent of the workforce overall and contribute 25 percent of job growth in the private sector. And while South Africa's SMEs contribute less to GDP than other regions—39 percent vs 57 percent in the EU—there is no denying that this industry is an important to economy.

**SMEs are a vital component of economies, creating jobs and enabling inclusive growth**





	 Majority of businesses	 Create private sector jobs	 Meaningful share of the GDP	 Enable inclusive growth
EU	99.8%	68%	57%	30%
G2	99%	65%	46%	25%
SA	98.5%	25.8%	39%	38%

Figure 1.1 SMEs Contribution to the Economy Source: Rajagopaul, Magwentshu and Kalidas (2020).

Covid19 pandemic resulted on a serious crisis on rural SMEs. Rural areas have also been significantly impacted by the COVID-19 disaster (Pierce and Stevermer, 2020). Due to their great dependency on production resources and low income, rural areas, particularly those in developing nations, are the most vulnerable. Due to this vulnerability, rural MSEs have greater challenges in times of crisis, such as the COVID-19 economic shock.

*Highlights of Challenges faced by Rural SMEs in general*

*Lack of skills*

One of the biggest obstacles for rural businesses is the availability of trained workers (Errighi, Khatiwada and Bodwell, 2016). The fact is that they have less formal education and training. In rural areas as well, a lack of technological literacy is prevalent. Due to illiteracy and ignorance, rural business owners struggle with legal requirements and are unable to get permits. The absence of technological expertise is still another issue.

*Access to finance*

Finance is a problem because of the types of enterprises that investors find to be tiny and not as profitable as big ones (Taiwo and Folohun, 2016) Most rural entrepreneurs do not get external funds due to the absence of credit in the market and tangible security. The procedure of taking loan is also so time-consuming that it often disappoints the rural entrepreneur and de- lays her/him. Government does not provide proper infrastructural facilities (Fitriasari, 2020). Because of the less financial resources or external support, entrepreneurs are deemed to have less risk bearing capacity. Lack of lending institutions limits access to capital.

*Challenges faced by rural SMEs during covid -19*

Small businesses moving online has been one of the largest trends to emerge during the COVID-19 epidemic and has opened up numerous chances to address various problems (Bartik, Bertrand, Cullen, Glaeser, Luca, M. and Stanton, 2022). In fact, the internet continues to be a lifeline for many small enterprises, keeping them viable during the pandemic especially in urban communities.

*Lack of demand and reduction of revenue*

The demand for many SMEs has already fallen dramatically. Previous studies indicate that More than 80% of respondents wanted to cut back on spending in all retail categories, and more than 70% wanted to spend less on transportation and travel-related expenses. Small enterprises may have experienced greater relative revenue losses at the start of the COVID-19 crisis than major corporations (Fairlie and Fossen, 2022). When the epidemic struck, small firms probably weren't as well-equipped to respond swiftly to shifts in laws and consumer demand. Small firms may encounter greater challenges when trying to increase their web presence, increase takeout or delivery services, or deal with liability uncertainties during the health crisis due to high fixed costs and necessary

knowledge requirements. In particular, due to lower liquidity reserves, less collateral, and greater uncertainty from the perspective of lenders and investors during the emerging economic crisis, small businesses may have had less ability to obtain financing needed for adjustments, such as investing in online ordering and inventory management (Fairlie and Fossen, 2022)

### *Bankruptcy*

Due to lockdowns, small and medium-sized businesses (SMEs) have experienced significant liquidity shortages at a rate much higher than operational costs (Shafi, Liu and Ren, 2020). Government assistance has been essential for SMEs and business owners experiencing liquidity issues. In fact, a lot of nations implemented transient measures to reduce bankruptcy. Governments will need to implement policies to address this as well as potential contagion effects to the wider economy. There is a risk that the financial support given by governments may have simply delayed the wave of bankruptcies, especially in countries where financial support has increased the level of indebtedness of firms. To guarantee that resources are shifted from non-viable businesses, these policies execute prompt debt restructuring for viable businesses and effective liquidation procedures.

### *Government support*

Studies have demonstrated that the COVID-19 epidemic has caused SMEs to face a number of hurdles and difficulties. Small and medium-sized enterprises (SMEs) have been severely impacted by the period of closure and movement prevention measures implemented by governments in many countries, stalling their operations, weakening their financial situations, and exposing them to financial risk (Omar, Isak and Jusoh, 2020). To stop the spread of COVID-19, many nations restricted their markets and commercial areas. Small firms consequently have fixed expenses like salaries and rent even while they make no money or lose money. Previous studies indicated that SMEs in rural areas did not use payment relief programs like UIF and PAYE, while 36% did not receive government loans or help. Entrepreneurs were not aware of the chances or were unable to locate the information necessary to apply were the top two reasons for not utilizing such support, in addition to not qualifying (Rajagopaul, Magwentshu. and Kalidas, 2020). In order to ensure that public funds are effectively used to finance investments that promote growth and innovation and are not artificially maintaining the so-called "zombie firms," that are not viable in the marketplace in the medium to long term, and distorting competition, governments and public bodies responsible for supporting SMEs should monitor the impact of the financial support provided to SMEs. SMEs should also be fully conscious of the fact that public resources are scarce, and as a result, they should plan their exit strategy from reliance on government assistance through innovation and new business models.

### *Strategies in assisting SMEs*

Encouragement of smaller businesses to get online is one method that governments might lessen the impact of lockdowns on Rural SMEs (Thukral, 2021). In addition to operating direct sales and delivery services to current clients and creating alternative market access, this can help them reach new groups of potential customers. Many businesses, including those in the food delivery, personal entertainment, and clothing sectors, have quickly adopted this choice.

### *preserving company liquidity and reconsidering operational paradigms*

Small enterprises in the informal sector require urgent liquidity support if they are to survive the crisis (Dev and Sengupta, 2020). Such a short-term increase in SMEs' liquidity should pass through the channels that business owners are already familiar with and confident in. This means that, if permitted by regulation, community-based financial and microfinance organizations should be treated as vital services during the crisis and given emergency liquidity. Because of the crisis, business and operating models will need to be fundamentally reevaluated, which will have long-term effects on the small business sector. While short-term solutions could offer immediate assistance, they don't do much to create long-term sustainability. In order to achieve this, the financing gap for SMEs must be structurally reduced. To do this, microfinance systems must be expanded to include additional services like insurance, technical support for obtaining loans, and business trainings.

## **Methodology**

The study was carried out in Southern Region of Kwazulu Natal in Umzinto and scortburgh town. A thorough literature search was done and the results were used to create the survey questions. For the purpose of gathering empirical data for this study, 150 SMEs were requested to complete one page of questionnaire. Telephone calls were used to schedule prior appointments. The respondents had 24 hours to complete the survey.

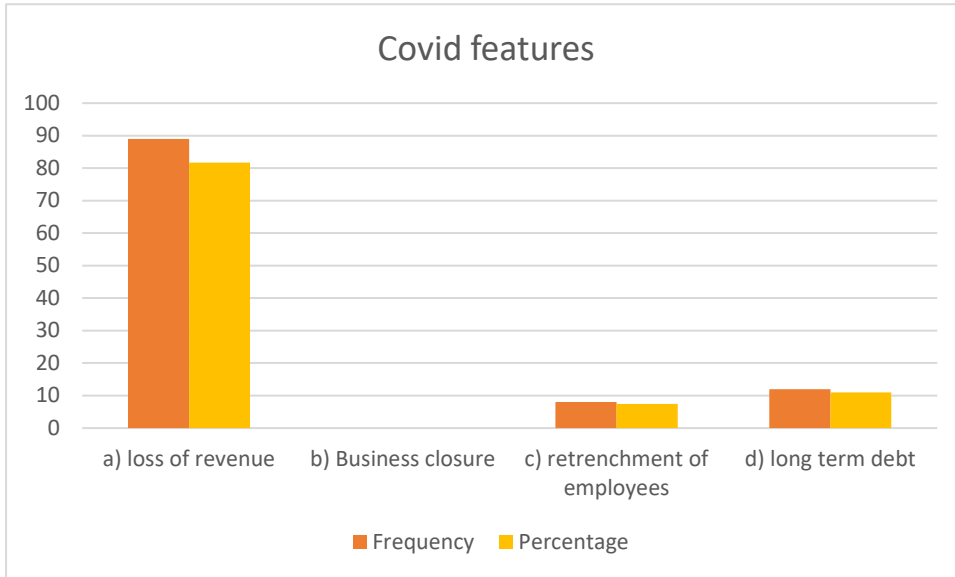
### Summary of key questions

Questions	Alternative response
Please rank the Covid 19 issues that is the most difficult or disturbing.	<i>a) loss of revenue b) business closure c) retrenching employees</i>
The company's model resilient is enough to deal with current crises as well as those that may arise in the future	<i>a) strongly agree, agree, neutral, disagree, strongly disagree</i>
What tactics did you use to keep things running well while the pandemic was present?	<i>a) online orders, b) contactless orders, c) closed d) other</i>
The business have a crisis management teams to handle the effects on short-term liquidity and start the necessary countermeasures	<i>a) strongly agree, agree, neutral, disagree, strongly disagree</i>
How long will it take to fully recover from the pandemic's losses?	<i>a) 6-12 months, b) 1-2 years c) 3-5 years</i>
Any government support received from government during pandemic	<i>a) Yes. b) No</i>

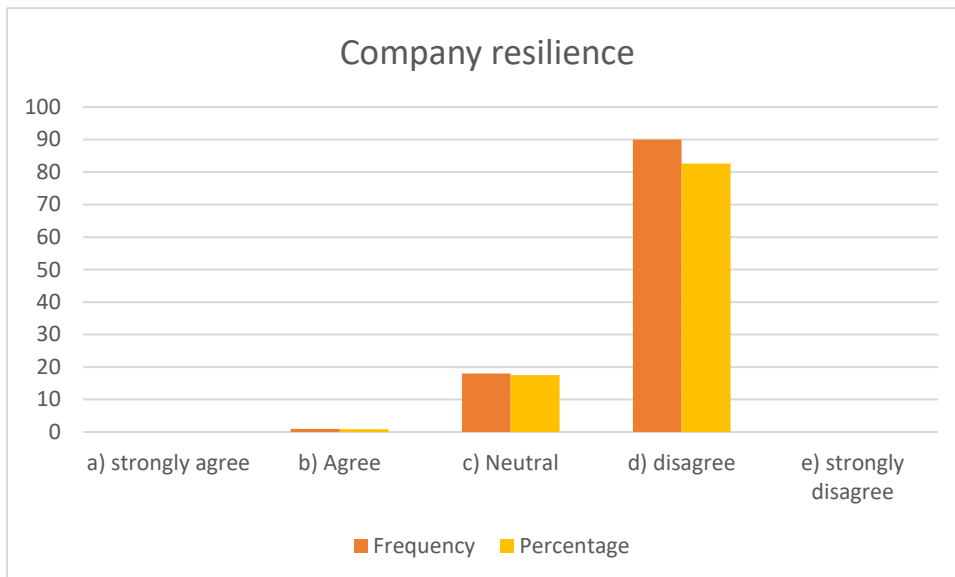
### Results and discussion

The previous sections included a literature review on the issues faced by South African rural SMEs during covid-19 lockdown. The main conclusions from the study are discussed in this section. 109 respondents returned questionnaires that were fully completed.

The respondents were asked to indicate the most challenging feature they experienced. The results of this study revealed that 89 (81.7%.) Suffered loss of revenue , 8 (7,3%) retrenched more employees and 12 (11%) incurred more debts. The covid issues of the SMEs owners is presented in chart below.

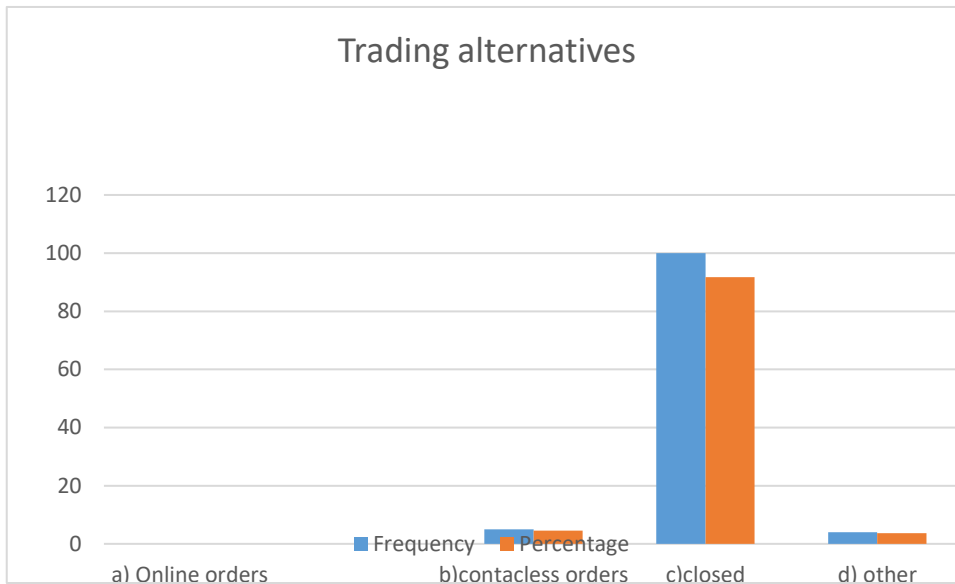


The respondents were asked whether their company resilience is enough for current crisis and those that may rise in the future. The results of this study revealed that 1 (0,9%) agreed of revenue , 18 (16,5%) was neutral and 90 (82,6%) disagreed. The company resilience is presented in chart below.

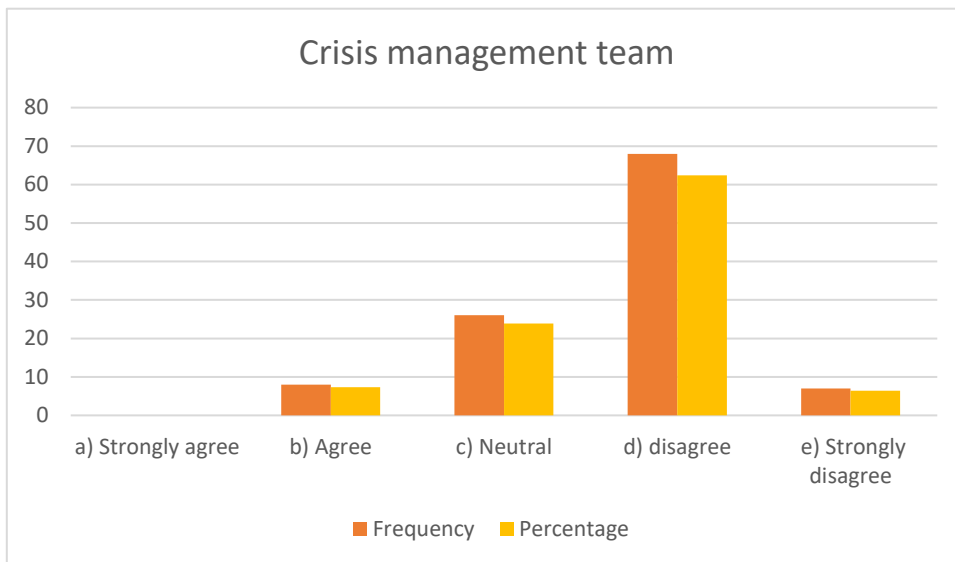


The respondents were asked to indicate the tactics they used to keep their business running during covid -19 lockdown. The results of this study revealed that 5 (4,6%) did contactless orders, 100 (91,7%) closed their businesses and 4 (3,7%) used other ways. Trading alternatives of the SMEs is presented in chart below.

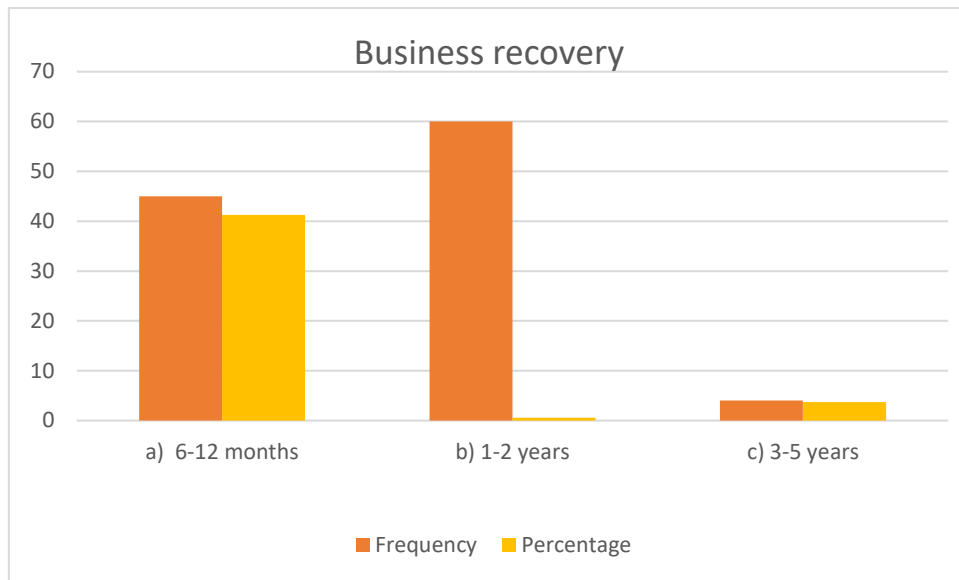




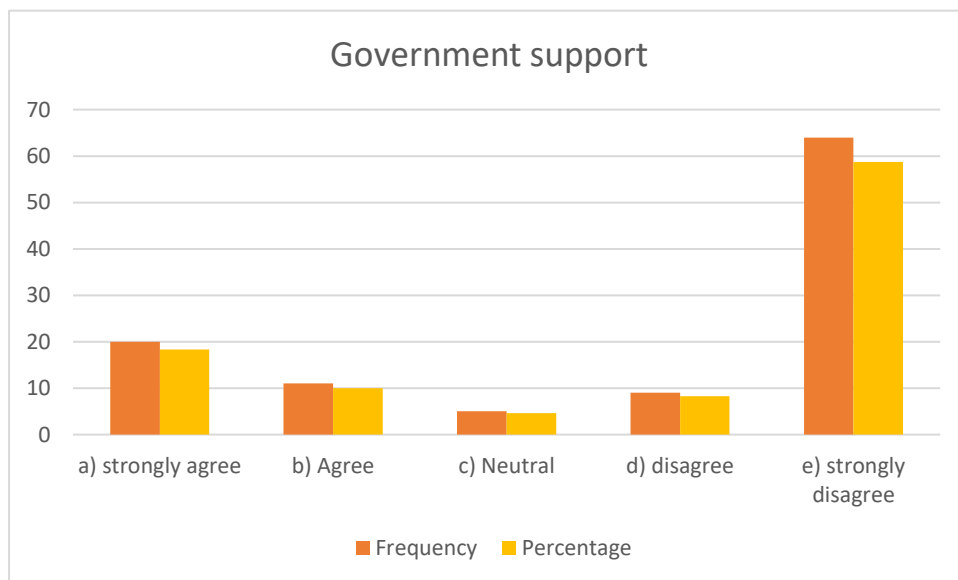
The respondents were asked if they have a crisis management team to handle the effect on short term liquidity. The results of this study revealed that 8 (7,3%) agreed, 26 (23,9%) neutral, 68 (62,4%) disagreed and 7(6,4%) strongly disagreed. Crisis management is presented in chart below.



The respondents were asked to indicate how long it will take to recover from Covid-19 lockdown. The results of this study revealed that 20 (18,3%) 6-12 months, 11 (10%) 1-2 years and 5(4,6%) will take 3-5 years to recover. Business recovery is presented in chart below.



The respondents were asked if they received government support grants during covid lockdown. The results of this study revealed that 20 (18,3%) strongly agreed, 11 (10%) agreed, 5 (4,6%) Neutral, 9 (8,3%), disagreed and 64(58,7%) strongly disagreed. Government support is presented in chart below.



## Discussion

This study's primary goal was to investigate how the COVID-19 pandemic has affected rural small businesses and entrepreneurship economically while also advancing research and economic implications important to comprehending the nature of the pandemic shock, effects, and opportunities for SMEs and large corporations in the short- and long-term perspectives more generally. The following research questions has been answered: Do rural SMEs face difficulties running their operations during the pandemic? How much have these difficulties impacted their business operations?

The findings revealed that 81,7% of small businesses in Southern region of Kwazulu Natal suffered loss of revenue during the Covid-19 pandemic. In the event of losing sales, business were then forced to retrench more employees and their businesses was closed for months not trading. Most rural businesses indicated by 82,6% in Southern region of Kwazulu Natal does not have enough company resilience for future crisis that may occur like covid 19 lockdown. It will take number of years for small businesses to recover and that government support is also limited. More debts were incurred by small business to cover their fixed costs while their businesses were not operating.

## Conclusion

The confinement probably made many rural businesses feel frustrated, stressed and anxious. The COVID-19 pandemic outbreak has had a detrimental impact on small businesses in South Region of Kwazulu-Natal. Numerous studies of small businesses within the context of COVID-19 have shown that smaller enterprises lack the resilience and flexibility of larger firms to endure the crisis (Shrimali, 2020). Cash reserves and cost-cutting methods are employed internally to keep small enterprises from failing during the lockdown restrictions. However, a lot of small firms don't have enough cash on hand (Assefa & Yadavilli, 2020). According to the study, lockdown restrictions have a terrible effect on small enterprises' ability to survive. As a result, the government should be forced to refrain from implementing complete lockdowns. But if the government decides that lockdown is the only workable alternative, it must start financial support programs, such as emergency loans and suspensions of principal and interest payments.

## Recommendations for further research

The majority of COVID-19 studies have focused on the macroeconomic, political, and health effects. Few studies of COVID-19 focused on small companies survival, despite the fact that small enterprises make a significant economic contribution and are highly susceptible to economic shocks. Entrepreneurs who have lost their businesses could be the subject of another study. Knowing more precisely how the failure occurred and what steps might be made to restore these businesses would be prudent given that such failed businesses failed for causes outside of their control. The government entities that oversee the neighborhood SME enterprises would be most suited to handle this.

## Limitations

Due to the rarity of pandemics like COVID-19, there are few empirical studies and hypotheses about small business survivability during a lockdown. In this aspect, the study lacks significant supporting hypotheses and published literatures. Due to the conceptual nature of this paper and the breadth of the research topic while COVID-19 is still in progress, it has some limitations. A newly discovered COVID-19 variation is the cause of the disease's accelerated transmission. It has to be examined and researched how this impact may change over time in company, particularly in SMEs.

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