



June 2023

The Social Relief of Distress Grant: how it stimulated local economies

Senzelwe Mthembu, Sophie Plagerson, and Lauren Graham, University of Johannesburg

The Social Relief of Distress (SRD) grant was a key policy mechanism introduced to mitigate the effects on vulnerable groups of the COVID pandemic and government measures to contain its spread. While there is substantial research on the social impacts of the COVID-19 social relief package, little is known about its economic impacts. This article is based on a study that sought to understand, from the perspectives of local traders, the perceived economic effects of the grant. Evidence gathered in the study showed that the SRD led to an increase in customer demand within local economies. It was a crucial mechanism that helped informal trader businesses survive and, in some cases, enabled new business formation. By stimulating both supply and demand, the SRD supported the circulation of people, goods, and money and promoted higher transaction intensity in food and non-food sectors. Although the SRD could not reverse the negative impacts of COVID-19, and cannot be considered a standalone intervention, it nonetheless functioned as an effective shock-response mechanism for households and informal traders. The detection of some economic multipliers in a time of emergency signals the potential for a long-term intervention that could be beneficial to local economies.

Introduction

A qualitative study conducted by the [Centre for Social Development in Africa](#) in partnership with [WIEGO](#), considered the effects of the Social Relief of Distress (SRD) grant on local economies, through the experiences and perceptions of informal traders. We conducted interviews with 60 informal traders selling cooked food, uncooked food (fresh produce, spices, snacks) and non-food items (clothing, household products, cigarettes, airtime) across five urban and peri-urban locations in three South African provinces. The ZAR350 grant represents the first cash transfer accessible to the working-age population in South Africa (with the exception of the disability grant). What economic effects did it have on a group of people who are amongst the most vulnerable in the labour market?

Informal traders often rely on daily earnings for their survival. Disruption in their ability

to trade therefore has significant personal and household effects. They represent a significant proportion of the approximately 5 million workers in the informal sector. As consumers and investors within local economies, informal traders provide a unique perspective into the complex relationships that make up local economies, and into consumer behavior during times of crisis such as COVID-19. It was for this reason they were well placed to provide insight into whether, and how, the SRD made a difference.

Effects on customer demand

“When they [customers] receive the money, they can buy from us. They can support us because the R350 gives them something to buy with.” [Woman who sells uncooked food in Johannesburg]

The study found that receipt of the SRD was a cash injection that permitted income-constrained customers to spend in both informal and formal businesses. Informal traders were able to see shifts in demand depending on when the SRD was paid out. Having cash in hand, even the relatively small SRD amount, enabled recipients to actively participate in the economy, buy on credit, and support their households in a time of crisis. The increase in customers on payout days was frequently confirmed by traders in cooked and uncooked food as well as in non-food items. They observed that the grant not only allowed existing customers to purchase, but also brought in new customers, particularly youth and the chronically unemployed, who did not qualify for other grants and many of whom had never had a formal job. Those who previously had no income could now go to town, buy themselves essential items and support informal trader businesses.

However, increases in customers as a result of the SRD were small compared with the loss of customers because of the COVID-19 pandemic. Due to COVID-19 and other factors such as the stopping of trains, job losses, and increases in transport costs, traders' customer base decreased at a rate that was not replenished by the increases associated with the grant. Likewise, interruptions in grant availability and payout due to policy and administrative challenges, as well as inflation, rapidly reversed the gains accrued.

SRD effects on supply

“So, when you have this R350, you know that it will help. Your business will not fail. You can buy some things. Bananas are cheap right now at the market. A box is R100. You can buy 3 boxes of bananas and a box of apples for R50.” [A non-food male vendor in Johannesburg].

When asked, many traders acknowledged that the SRD had played an important part in helping their businesses survive during the pandemic, especially when it was consistent and enabled traders to plan.

The SRD supported the survival of businesses by providing small amounts of capital,

which was invested in the purchase of stock, especially for smaller products such as snacks. Money for transport to buy stock was also an important barrier to restocking that the SRD helped to overcome. In some instances, the SRD enabled new businesses to be initiated, particularly when several recipients could pool their grants or accumulate capital from more than one monthly payment.

Buying stock was seen as a way of stretching the SRD, and using it as seed money:

“So, when I get the R350, I’d look at where I need to add on. If I’m missing stock, I’d buy the material and make beads so that I can come back and sell them. I’d get profit and use it for transport. Because if I just use R350, it wouldn’t make a difference. That’s why I ensure that it goes to the stock, so that I can come back with profit. After I’ve come back with profit. I’d see that I continue until month end and get another one again.” [Woman who sells non-food items in Johannesburg].

In this way, the SRD supported the agency and business management of informal traders, allowing them to strategically allocate available resources either to their household needs or to their businesses.

Keeping local economies ‘moving’

The simultaneous intervention of the SRD through both demand and supply, was an important factor in activating local economies and stimulating the mobility of people, goods, and money. Interviews highlighted the close connections within local economies between different types of businesses (for example traders and taxis), and between formal and informal businesses. The SRD increased the volume of economic transactions in food and non-food and across value chains (for example in the food industry directly or indirectly impacting farmers, wholesale markets, supermarkets in urban hubs and townships, informal traders of fresh produce, informal traders of cooked food, suppliers of storage services, and operators in the transport industry). These linkages and value chains, which connect different formal and informal actors in the local economy, reinforced and amplified the effects of both negative (such as COVID) as well as positive (such as the SRD) events.

Conclusion

The SRD had positive effects on local economies, albeit small and severely constrained by the devastating economic impact of COVID-19-related lockdown measures. The evidence demonstrated that the SRD was an important protective mechanism - ensuring that informal businesses could “stay afloat” in a time of crisis. There was also evidence of some new business development as well as a change in the customer base indicating shifts in demand. The fact that these small effects were detected at a time of economic crisis is promising and suggests that there may be opportunities for similar interventions to promote both demand and supply effects in the informal sector under more conducive conditions.

It is helpful to consider the implications of the findings in the context of South Africa’s extreme levels of inequality. Qualitatively, the study highlights a distributive function of

the SRD, which helped to smooth incomes for precarious workers, whose livelihoods can so easily revert to a no work=no income=no food scenario. Informal traders are amongst the most vulnerable and excluded, yet [earnings in the informal economy reduce poverty](#) by relatively more (in relation to their overall earnings) than earnings by formal workers. The [growth of the informal sector in Africa](#) may well go hand-in-hand with continued and increasing precarity without responsive social policies. This study demonstrated how a social protection mechanism has the potential to provide a tangible cushioning and promotive effect, curtailing at least some of the vulnerabilities this group faces. By introducing previously excluded constituencies into the realm of social protection, the SRD supported informal traders within their households and their local economies.

The study was conducted at a time of unprecedented economic crisis. Its findings point towards the potentially positive effects of social protection to both protect and promote supply and demand in the informal economy in better times too.

Download the [report](#)