The Feasibility of Plastic Bag Usage for Newly Established South African Small, Medium and Micro Enterprises Amidst Increases in Sin tax: An Online Desktop Study

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Abstract

Small, Medium and Micro Enterprises (SMMEs) contribute socio-economic value to the South African economy and assist with the alleviation of poverty, the distribution of wealth and the creation of jobs. Regardless of the latter, prior research shows that these business entities have among the highest failure rates in the world with 71% of start-up South African SMMEs failing within their first year of operation. Apart from operating in a non-conducive economic environment and being influenced by the “liability of newness”, these business entities are adversely affected by taxation. Apart from having to pay direct taxation, some South African SMMEs are also subject to indirect taxation, especially those that sell goods. One such taxation is that of Sin tax; taxation levied on goods that are harmful to human health and/or the environment such as tobacco products, alcohol products and plastic bags. Particularly, Sin tax has been levied on plastic bags (US$ 0.015) since 1 April 2013, but the demand for it has not significantly decreased since then. Since newly established South African SMMEs are susceptible to the “liability of newness”, it is disconcerting to note that these business entities have to pay Sin tax on plastic bags before selling them. Although Sin tax levied on plastic bags has a negative influence on South African SMME profitability, it may be that further increases in this levy may affect newly established South African SMMEs’ profitability to such an extent that the buying and selling of plastic bags are no longer feasible – the objective of the study. This non-empirical study took on the form of an online desktop review whereby secondary data were scrutinised; making the study qualitative in nature. From the research conducted, it appears that further increases in Sin tax levied on plastic bags will render the use of plastic bags by newly established South African SMMEs not feasible.

Keywords: Sin Tax, Profitability, SMMEs, Cape Metropole, Plastic Bags, Usage.

1. INTRODUCTION

In 1996, the concept of Small, Medium and Micro Enterprises (SMMEs) were formally recognised by the South African government, for the first time. This was made possible through the publication of the National Small Business Act No. 102 of 1996; defining an SMME as "*a distinct and separate entity, including any relevant subsidiaries or branches, that conduct business with one or more natural persons owning and/or managing these entities which function in sectors or sub-sectors of a national economy*" [1, 2]. Moreover, this Act classified SMMEs in terms of their size ("micro-enterprises", "very small enterprises", "small enterprises" and "medium enterprises") based on the number of full-time employees employed, the annual turnover and/or gross asset value [3].

Over more than two decades since the inception of the National Small Business Act No. 102 of 1996, the definition of an SMME remained the same, despite undergoing three amendments[1]. In the most recent *Revised Schedule 1 of the National Definition of Small Enterprises in South Africa of 2019*, an update was made to the size classification criteria of SMMEs to be in line with international standards (See Annexure A), based solely on their number of full-time employees employed and their total annual turnover. Moreover, the "micro-enterprises", "small enterprises" and "medium enterprises" are formally recognised as SMME-sizes [4, 75].

Since the mid-1990s, the South African government has emphasized the development of SMMEs. This is particularly the case since more than 80% of all businesses operating in South Africa are described as SMMEs; responsible for contributing towards an estimated 40% of all economic activities in the country [5]. For this reason alone, the national government views SMMEs as drivers of the South African economy as they assist with the alleviation of poverty; the equal distribution of wealth and the creation of jobs [2, 6, 7].

Notwithstanding the foregoing, South African SMMEs have one of the highest failure rates in the world [8]. According to previous research studies [9, 10, 11], on average, 71% of start-up South African SMMEs fail after being in operation for only one year; 75% of operational South African SMMEs fail after being in existence for only 3 years. Though the latter dispensation is likely related to the "liability of newness" [49] (expanded on in Section 2), prior research [12, 13] suggests that the high South African SMMEs failure rate is caused by the non-management of economic factors and related risks in a volatile economic environment. Not only do these phenomena directly affect these business entities' attainment of relevant objectives, but it also directly affects their actual existence [14]. Examples of economic factors and related risks include a lack of financing, a lack of basic business skills, extreme competition, fluctuations in supply and demand of products and/or services, and changes in interest rates [15]. Another key factor that affects SMME sustainability is that of taxation [13].

Taxation is defined as a mandatory contribution to a nation's government, as required by law [16, 47]. This contribution can be seen as a levy, as imposed by the relevant government on products, services and/or transactions which, in turn, allow for the generation of income by natural entities (e.g. employees) and non-natural entities (e.g. businesses) [17]. In a South African dispensation, types of taxation include capital gains tax, income tax, value-added tax, skills development levies

[1] The first two amendments were the National Small Business Amendment Act No. 26 of 2003, and the National Small Business Amendment Act No. 29 of 2004.

and provisional tax [18]. One type of taxation that has a direct influence on many South African SMMEs is that of customs and excise duties – often referred to as Sin tax[2] [19].

Sin tax, as levied on plastic bags, was first introduced on 1 April 2013 to manage the problem of plastic bags ending up as windblown litter on the streets as well as in waste facilities [22]. It should be noted that before this date, plastic bags were almost always distributed to consumers free of charge [82]. Although the consumption levels of plastic bags should have decreased as a result of Sin tax levies imposed on them, plastic bags are still widely used in South Africa [4, 23, 24, 48].

When taking into account that newly established South African SMMEs are susceptible to the "liability of newness", it is disconcerting to note that these business entities have to pay US$0.015 per plastic bag, in the form of Sin tax, without making any sale [43]. Although South African SMMEs will probably "stick to the trend" of the use of plastic bags for the foreseeable future, research shows that increases in Sin tax, as levied on plastic bags, have an adverse influence on their profitability and overall existence [18, 19]. Thus, with these entities potentially having to absorb further levies imposed on plastic bags, by the national government, it appears that the feasibility of newly established South African SMMEs using plastic bags becomes less. For this reason, the primary objective of this study was to ascertain whether further increases in Sin tax, as levied on plastic bags, may significantly affect the feasibility of newly established South African SMMEs' to use plastic bags, at least in a theoretical dispensation. For the remainder of this paper, relevant discussion takes place under the following headings: 1) research design 2) conceptual framework, 3) discussion, and 4) implications, and 5) conclusion.

2. RESEARCH DESIGN

This research study was non-empirical and constituted exploratory research. Exploratory research is defined as a type of research that places "*emphasis on the discovery of ideas and insights*" [71] "*into a hypothetical or theoretical idea*" [72]. Furthermore, an inductive approach was followed to aid in the "*development of a theory as a result of the observation of empirical data*" [73]. Also, the study was also nascent since its primary aim has, at the time of publication, attracted restricted research and/or theorising [83, 84]. Prior research does suggest that South African SMMEs' profitability (including the existence of these business entities) is adversely influenced by Sin tax levied on plastic bags [18, 19]; hence the theory developed within the ambit of this study pertained to whether further increases in Sin tax levies on plastic bags may abolish the feasibility of newly established South African SMMEs to use plastic bags.

A qualitative research methodology was adopted for this study as it involved the use of secondary data – "*the analysis of existing dataset*[s]*, which* [have] *previously been collected by another researcher*[s]*, usually for a different research question*" [74]. Specifically, online desktop research (also known as online desk research) was conducted. Generally, this type of research has to do with the reviewing of "*secondary data* [that were] *gathered from pre-existing sources*" to shed light on a particular phenomenon, which can include, *inter alia* libraries, journals and websites [25, 70]. Limitations of online desktop research include, but are not limited to the scope of selected secondary data, and author subjectivity [81]. The authors did, however, take reasonable steps to minimise the foregoing limitations by searching for secondary data containing an array of keywords which included, either separately and/or conjoined: "sin tax", "small business", "SMME", "plastic bag", "profitability", "profit", "taxation" and "excise tax", "South Africa".

[2] Sin tax is regulated by the Customs and Excise Act No. 91 of 1964, and is levied on products that are physically, socially and/or environmentally harmful [19, 20]. Examples of products that are subject to Sin tax include tobacco products, alcohol products and plastic bags [19]. In fundamental nature, the main purpose of Sin tax is to deter the use of products that are harmful to the wellbeing of humans, society and the environment [18, 21].

For the sake of clarity, the primary reason why an online desktop research approach was chosen above a systematic literature review approach is that limited research has been conducted on the research matter at hand. Otherwise stated, since a systematic literature review is generally used to "*identify, assess, and interpret all available research evidence* [on a set topic] *with the purpose to provide answers for specific research questions*" [80], it did not best fit the design of this (exploratory) research study. Moreover, with the topic being nascent, a foundation for further research was established through scouting reputable secondary sources which, in turn, were reviewed to assist with the conceptualisation and contextualisation of terminologies, as well as the attainment of the primary research objective.

3. CONCEPTUAL FRAMEWORK

2.1 Liability of Newness and Its Advancement: A Premise

Arthur Stinchcombe, an American Sociologist, is credited for the development of the concept "liability of newness" while studying the life cycles of newly established business entities [76]. The term "liability of newness" was conceptualised during the mid-1960s and has to do with the tendency of newly established business entities to have higher failure rates than their established counterparts [49].

The argument behind this phenomenon is that newly established business entities often need to: 1) implement (and learn) new roles and tasks which, 2) need to be invented with limited resources on hand by, 3) internal stakeholders who do not often share commonalities and/or points of view along with, 4) limited existing and/or potential leads to clients [50]. Essentially, the "liability of newness" is embedded in the fact that newly established businesses generally entities lack knowledge (skills), experience, opportunities and/or financial resources which, in turn, adversely affect their performance [76, 77, 78].

Over the years, research has been conducted on newly established business entities, especially small businesses, and although the "liability of newness" is still recognised as a viable concept, while possible solutions have been provided to overcome it [51], it is more relevant than ever in the 21st century [52]. Apart from newly established businesses having to overcome economic environments, political environments and technological environments [77], they also need to have sufficient levels of '*legitimacy'*, they need to have a sound reputation that precedes them, to enable them to have access to relevant resources and support [53]. In turn, reputation is extremely relevant in a day and age that is synonymous with the fourth industrial revolution [54].

Notwithstanding the foregoing, the severity of the "liability of newness" is also directly affected by *inter alia* the economic environment in which newly established business entities operate [56] [57]. For this reason, it can be argued that the "liability of newness" is more severe for newly established business entities in developing economies, with non-conducive economic environments, when compared to that of developed economies [55].

2.2 South African SMME Sustainability and The South African Economic Environment

With South Africa being a developing economy [58], it is not surprising that the national government has encouraged SMME sustainability in a national dispensation [3]. Notwithstanding the socio-economic value that South African SMMEs add to the national economy in terms of creating jobs, alleviating poverty and boosting the national economy, research shows that these business entities have among the worst failure rates in the world [3]. Since the early-2000s the failure rate of South African SMMEs remained at an estimated 75% failing within 36 months of operation [9,11]. The latter view is supported by the high South African unemployment rate; serving as evidence that SMMEs are not achieving their legally imposed socio-economic objectives to a large extent [13, 26].

More often than not, the excessive SMME failure rate is blamed on the non-management of economic factors and subsequent risks [15], as summarised in Table 2. In particular, and related to the foregoing, interventions implemented by governments through *inter alia* government policy, political stability or instability in markets in other countries, foreign trade policy, tax policy, labour law and trade restrictions, affect SMME sustainability [27].

Micro-Economic Factors	Macro-Economic Factors
Lack of management skills	Government regulations
Lack of finance	High interest rates
Lack of access to credit	Inadequate infrastructure development
Lack of marketing skills	Unreliable supply of water and electricity
Insufficient product demand	High crime levels
High labour turnover	High unemployment rate
Size of business	
Location of business	
Decreased profits	

TABLE 2: Economic Factors identified to adversely influence SMME sustainability in the early-2000s. Source: [13].

Reverting to the "liability of newness", it is worth noting that macro-economic factors play a significant role in the "existence" of newly established business entities [77]. This is mainly due to the uncontrollable nature of these factors; business entities have to either 'adapt or die' [78, 79]. One manner in which the severity of macro-economic factors in a country can be depicted is through means of evaluating its economic environment.

The term "economic environment" refers to the overall well-being of a country's economy [60, 61, 62]. Generally, a country's economic environment is measured through six key economic indicators, namely that of the GDP, GDP per capita, Gini-index, Inflation rate, estimated population size, and unemployment rate [3].

When taking into account findings made by prior research [3] South Africa is believed to have a non-conducive economic environment. To test the latter, a summary of the six key economic indicators, to measure the economic environment, are shown for 2017 to 2019[3] in Table 3 below.

Economic indicator	2017	2018	2019
GDP (nominal)	US$ 348.9 billion	US$ 366.3 billion	US$ 350.0 billion
GDP per capita (nominal)	US$ 6 271.16	US$ 6 509.03	US$ 6 130.30
Gini-index	± 0.65		
Inflation rate	5.28%	4.62%	4.14%
Estimated population size	57 009 756	57 792 518	58 558 270
Unemployment rate	27.70%	27.03%	29.10%

TABLE 3: Six key South African economic indicators from 2017 - 2019. Source: [59].

From the statistics evident in Table 3 the following observations can be made:

- <u>GDP (nominal)</u>: Between 2017 and 2018, the GDP (nominal) increased by US$ 16.4 billion (▲ 4.48%), while between 2018 and 2019 the GDP (nominal) decreased by US$ 16.3 billion (▼ 4.66%). In effect, the GDP (nominal) increased by US$ 0.1 billion (▲ 0.03%) over the three-year period.
- <u>GDP per capita (nominal)</u>: Between 2017 and 2018 the GDP per capita (nominal) increased by US$ 237.87 (▲ 3.65%), and between 2018 and 2019 the GDP per capita (nominal) decreased by US$ 378.73 (▼ 6.18%). In effect, the GDP per capita (nominal) decreased by US$ 140.86 (▼ 2.25%) over the three-year period. The inference can therefore be made that

[3] Considering the influence that Coronavirus-2019 (COVID-19) has had on global economies, data for 2020 were excluded from the table.

either the productivity of the average South African citizen became less, and/or that the unemployment rate increased between 2017 and 2019.

- Gini-index: In layperson's terms, 35% of all the wealth in South Africa was shared among 65% of the population, while 65% of the wealth in South Africa was shared among 35% of the population. Alternatively stated, wealth was not fairly distributed in South Africa and the inference can be made that the average South African faced poverty as a stark reality.
- Inflation rate: If a product had a cost of US$ 100 at the end of 2016, this same product would, due to inflation, cost US$ 105.28 at the end of 2017, US$ 110.14 at the end of 2018, and US$ 114.70 at the end of 2019. The inference can therefore be made that the cost of living increased, year-on-year, over the three-year period.
- Estimated population size: The estimated number of South African citizens increased by 782 762 (▲ 1.35%) between 2017 and 2018; increased by 765 752 (▲ 1.31%) between 2018 and 2019. In effect, over the three-year period, the South African population increased by 1 548 514 (▲ 2.72%) citizens.
- Unemployment rate: Although the unemployment rate effectively increased by 1.4% between 2017 and 2019, the estimated number of unemployed South African citizens amounted to 15 791 702 in 2017, 15 621 318 in 2018, and 17 040 457 in 2019. In effect, the estimated number of unemployed South African citizens increased by 1 248 754 (2.19% of the South African population) over the three-year period.

Taking into account the above, clear tangent planes emerge that the South African economic environment is unconducive for small businesses to operate in; justifying the argument that the "liability of newness" is more severe for newly established business entities in developing economies with non-conducive economic environments.

2.3 A Brief Overview of South African Taxation

Taxation is an integral part of a country's development, interwoven with numerous other areas, from good governance and formalising the economy and even spurring growth through promoting SMMEs [28]. In layperson's terms, taxation has to do with the levying of payment on goods and/or services and/or income to benefit a taxing authority [63]. More often than not, countries have two categories of taxation, namely that of direct taxation (taxation is levied directly on money earned by entities) and indirect taxation (taxation is levied indirectly on money earned by entities) [21, 29]. Although direct taxation generally yields more taxation income from employed individuals and/or business entities, indirect taxation is largely payable by almost all citizens in a country [64].

In a South African dispensation, direct taxation on business entities (close corporations, private companies and public companies) are taxed at 28% of their taxable income while direct taxation on individuals (including business entities that are sole traders and partnerships) is taxed between 18% and 45% of their taxable income [30, 31, 32]. In the most recent fiscal year, direct taxation on business entities and individuals amounted to US$ 43 393 million; 55% of all taxation income generated [65]. In turn, indirect taxation, in South Africa, is inclusive of Value Added Tax, a fuel levy, customs and excise taxation (Sin tax), property taxes, and a skill development levy [33, 34]. In the most recent fiscal year, the indirect taxation yielded US$ 35 504 million; 45% of all taxation income generated [65]. In the same fiscal year, Sin tax yielded US$ 2 501 million [45].

2.4 Sin Tax and Profitability

Sin tax can be seen as a part of a group of consumption taxes (indirect taxation) that are put in place to raise funds while also curbing the consumption of specific taxed goods [18, 35, 36]. Although Sin tax should ideally have a positive influence on the behaviour of people surrounding the utilisation of products that are harmful to the environment and/or their own health, price elasticity tends to hamper the latter [23, 37, 38, 66]. In an international dispensation, Sin tax is generally charged on alcoholic products (e.g. beer, wine, and whiskey) as well as tobacco products (e.g. cigarettes, e-cigarettes, and cigars) [67, 68].

Although price elasticity may be viewed as a favourable phenomenon from a business perspective, it should be noted that consumers of Sin tax-linked products are more likely to purchase goods from larger retailers for cheaper (in bulk) and/or on credit rather than pay inflated prices charged by smaller business entities [15]. To this end, SMMEs – especially newly established ones – may incur an imminent reduction in sales which, in turn, may adversely affect their profitability; their ability to cover direct taxation [39, 40].

2.5 South African Sin Tax On Plastic Bags

Sin Tax was formally introduced to South Africa through the publication of the Customs and Excise Act No. 91 of 1964 [69]. In this legislative document, a 'Tariff Book' is referred to that is usually updated on an annual basis, by the Minister of Finance, on levies charged on alcoholic products, tobacco products and plastic bags [45]. Sin tax has been charged on plastic bags since 1 April 2013 (before this date plastic bags were not sold by retailers but rather freely distributed to consumers after relevant purchases were made); over the years, this levy gradually increased by a few cents [4, 22, 42]. As of 1 April 2020 (and at the time of publication), the official levy on plastic bags stood at US$0.015 per plastic bag; generating an average of US$ 14.74 million in indirect taxation income [43, 46]. A summary of the changes in plastic bag levies from 2013 to 2020 is shown in Table 3 below.

Year	**Plastic bag levy change**[4]
2013	+US$0.004 per bag
2014	+NIL per bag
2015	+NIL per bag
2016	+US$ 0.0012 per bag
2017	+NIL per bag
2018	+US$0.0024 per bag
2019	+NIL per bag
2020	+US$0.0079 per bag

TABLE 3: Summary of South African plastic bag levy changes
Source: [45].

The levy on plastic bags applies to the manufacturers from which South African business entities (including SMMEs) purchase plastic bags; after which it is passed on to consumers who may need to pay for it, at a price from the business entity, that may vary from business to business [44]. Taking into account that SMMEs generally do not have sufficient resources on hand, opt to recoup costs incurred to obtain plastic bags directly from customers (which includes the cost price of plastic bags as well as the Sin tax attached to it) [41].

4. DISCUSSION

Taking into account the phenomenon of "liability of newness" [49], including the facts that 71% of startup South African SMMEs seize to exist after 1 year of operation [9, 10, 11], and the non-conducive economic environment South African SMMEs have to operate in [59], it is highly likely that these business entities do not overcome having limited resources on hand to optimise its operations. As such, it becomes ostensible that the "liability of newness" may be more significant to South Africa than any other country, considering that South African SMMEs have among the worst failure rates in the world [3, 55].

[4] It should be noted that although US$0.015 per plastic bag does not appear significant in a developed economy, US$ 1, as the time of publication, was equivalent to R16.39 (South African Rand); 60% of South Africans live below the poverty line which transpires to US$ 450.00 per annum / US$ 37.50 per month [3].

Taking into account the above, South African SMMEs are influenced by an array of economic factors and subsequent risks (while operating in a non-conducive economic environment) which includes a lack of financing, a lack of basic business skills, extreme competition, fluctuations in supply and demand of products and/or services, changes in interest rates, as well as taxation [13, 15]. In essence, the South African economic environment is indicative of high unemployment and high costs of living – macro-economic factors which makes it difficult for newly established business entities (and existing ones) to make ends meet [59, 78].

Notwithstanding the fact that South African SMMEs are subject to direct taxation [30, 31, 32] business entities that sell alcoholic products, tobacco products and plastic bags are also subject to indirect taxation in the form of Sin tax [39, 40, 45]. Despite the South African government generating an estimated US$ 78 517 million from total taxation in the most recent fiscal year, the income derived from Sin tax is a little more than 3.1% of the foregoing amount [45]. Of this US$78 519, the levies on plastic bags made up only US$ 14.74 million (0.18% the size of income generated by Sin tax, in general) [43, 46]. To this end, the inference can be made that since 1 April 2013, the South African government has put in the effort to levy Sin tax, an indirect taxation, on plastic bags that, largely, did not discourage its purchase and/or usage thereof, while inadvertently placing an additional tax burden on both South African individuals and business entities alike.

5. IMPLICATIONS

From the study conducted, the following three key observations are made: 1) Sin tax, as levied on plastic bags, do not generate significant income for the South African government, 2) the usage of plastic bags in South Africa has not been greatly discouraged through Sin tax, and 3) Sin tax levied on plastic bags already has an adverse influence on the profitability of South African SMMEs (both existing and newly established). When taking into account the non-conducive economic environment in which South African SMMEs have to operate, it becomes apparent that further Sin tax increases on plastic bags may abolish the feasibility of newly established (and possibly established) South African SMMEs to make use of plastic bags. Environmentally friendly (recycled and/or compostable) yet affordable (cost-friendly) alternatives for plastic bags may become the foreland of these business entities. In addition, policymakers may consider putting a cap on Sin tax, as levied on plastic bags, at US$ 0.015 per bag to avoid any further increases to negate any additional adverse repercussions on the profitability and/or existence of South African SMMEs, especially taking into account that 60% of the South African population has to make ends meet on less than US$37.50 per month.

6. CONCLUSION

Throughout this online desktop study, the main aim was to ascertain whether further levy increases on plastic bags may significantly affect the feasibility of newly established South African SMMEs' to use plastic bags. To achieve the latter, relevant discussion took place surrounding the "liability of newness", South African SMMEs, their sustainability and the South African economic environment, a brief overview of South African taxation, Sin tax and profitability, and South African Sin tax on plastic bags.

From the research conducted, it became apparent that Sin tax, as levied on plastic bags, places a burden on South African SMMEs and its citizens even though the mandate of such levies – to reduce the purchasing and/or use of plastic bags – is not achieved to a large extent. Moreover, the literature reviewed suggests that further increases in plastic bag levies may nullify the feasibility of newly established (and possibly established) South African SMMEs to make use of plastic bags, at least in a theoretical sense.

Considering the limitations of this online desktop research study, the deductions made in this study cannot be generalisable. They are, however, to the best knowledge of the authors, relevant and applicable in a South African SMME dispensation.

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Annexure A: Classification of South African SMMEs

Sector	Size	Number of full-time employees employed	Total annual turnover
Agriculture	Medium	51-250	<=R35 million
	Small	11-50	<=R17 Million
	Micro	0-10	<=R7 Million
Mining and quarrying	Medium	51-250	<=R210 Million
	Small	11-50	<=R 50Million
	Micro	0-10	<=R15 Million
Manufacturing	Medium	51-250	<=R170 Million
	Small	11-50	<=R50 Million
	Micro	0-10	<=R10 Million
Electricity, Gas and Water	Medium	51-250	<=R180 Million
	Small	11-50	<=R60 Million
	Micro	0-10	<=R10 Million
Construction	Medium	51-250	<=R170 Million
	Small	11-50	<=R75 Million
	Micro	0-10	<=R10 Million
Retail, motor trade and repairs services	Medium	51-250	<=R80 Million
	Small	11-50	<=R25 Million
	Micro	0-10	<=R7.5 Million
Wholesale	Medium	51-250	<=R220Million
	Small	11-50	<=R80 Million
	Micro	0-10	<=R20 Million
Catering, accommodation and other trade	Medium	51-250	<=R40 Million
	Small	11-50	<=R15 Million
	Micro	0-10	<=R5 Million
Transport, storage and communication	Medium	51-250	<=R140 Million
	Small	11-50	<=R45 Million
	Micro	0-10	<=R4.5 Million

Finance and business services	Medium	51-250	<=R85 Million
	Small	11-50	<=R35 Million
	Micro	0-10	<=R7.5 Million
Community, Social and personal service	Medium	51-250	<=R70 Million
	Small	11-50	<=R22 Million
	Micro	0-10	<=R5 Million

Source: [4].