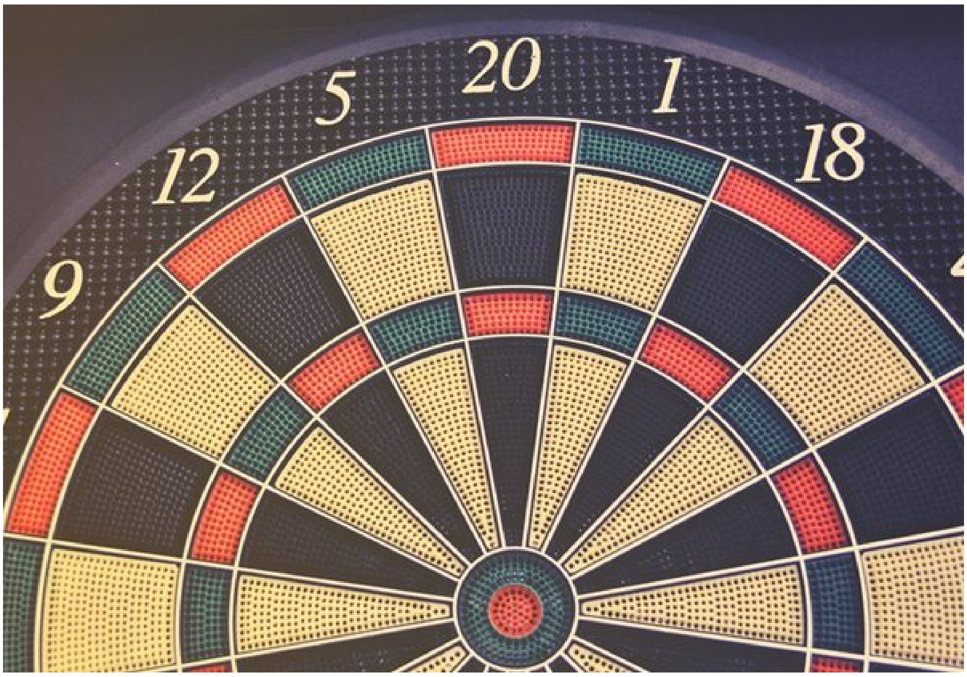
Emergency budget misses the mark for SMEs

There was little in the supplementary budget for small and medium enterprises (SMEs) to cheer about, according to Guy Hosking, chief financial officer at Retail Capital.



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As expected, Finance Minister Tito Mboweni painted a grim picture of a shrinking economy, the massive drop in tax revenue, dented consumer confidence and the burgeoning health cost of the pandemic. This meant that there were very little funds available to support small businesses.

The R200bn loan guarantee scheme set up by Government to help SMEs has proven difficult and onerous for the intended recipients to access, said Hosking. “Because of that, uptake has been minimal.”

“Although Mboweni announced that government will be relaxing the qualification restrictions for SMEs, the fact that it is administered by risk-averse banks hampers its ability to support small businesses. Banks traditionally fund larger businesses - the R300m cap set on the loan guarantee scheme is a pretty big business. This leaves out the smaller SMEs doing turnovers under R30m. These companies make up the most vulnerable sector of the economy and banks are simply not geared to helping them.”

The Banks' lending criteria are not structured to lend to distressed businesses, but considering these uncertain times, not many business owners can guarantee their businesses will be safe if only they could get funding.

With this in mind, Hosking noted the positive mention that Treasury was working to expand the scheme to include non-bank lenders. According to him, these lenders were best placed to fund smaller businesses. They have cash flow-based lending models, use risk scorecards and have a data-driven approach, as opposed to the collateral-based models used by the banks.

The alternative lenders have systems in place, he explains. They can see who is trading, can assess risk quickly and get funds into the hands of those who need it. It is for this reason that they have been speaking to Government. However, they have faced challenges due to every proposal they made being passed on to the banking association to decide on, and not Treasury.

"As such, we have to wait and see how and when non-bank lenders get pulled into the scheme," Hosking added. "But we cannot wait for that to stimulate the economy. We have to strengthen the SME sector now by improving its ability to trade."

Hosking explained that the best way to achieve this was to reduce the trading restrictions put in place to slow the spread of the virus. Opening trade will create cash flow in the SME sector. This, in turn, will give the SME lenders a viable sector to finance, generating yet more cash flow. This will also save many jobs and create more employment in this vital sector.

Minister Mboweni said that unemployment was South Africa's greatest challenge. Millions of jobs were at risk, but Hosking pointed out that only the private sector, especially SMEs, could create sustainable jobs. For that to happen, SMEs had to be free to do business.

"Although removing trade restrictions could potentially increase the transmission rate of the virus, it has to be done. The damage to the economy is too big for the government to repair," Hosking added. "As the budget clearly showed, South Africa has run out of options."