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Real SME support critical to an economic recovery plan

The myriad of support measures and interventions to assist small and emerging business is insufficient and inadequate as compared to what our global partners have in place with the result that there is limited impact leading to the worsening of a sector which is critical for economic recovery and job creation.

In view of the impact of the pandemic on the sector, key stakeholders have called for more resources allocated to the sector in a more co-ordinated response so that interventions can be upscaled to have the desired impact.

This emerged as some central themes along with the need for a proper credit guarantee fund, strong partnerships between the private and public sector as well as mentorship programmes embedded at a district level during a TIPS development dialogue held yesterday on Post COVID-19 Recovery and Small Business. The dialogue sought to understand the impact of the pandemic on small businesses and what was needed as part of a post recovery period so as to rebuild the sector to provide people with opportunities for accessing the economy.

In setting the scene for the emerging and robust discussion, TIPS economist Thobile Mawelela provided an overview of the impact of the pandemic on the small business sector. The data highlighted that the number of informal businesses remained 6% below pre-pandemic levels by the end of the fourth quarter of 2020 and 10% below pre pandemic levels by the first quarter of 2021. In terms of formal businesses, they remained 7% below pre-pandemic levels for the first quarter of 2021 and the impact has been "persistent and prolonged." The number of formal small enterprises are back to levels last seen in 2015.

Mawelela pointed out that the impact of the pandemic was not uniformly felt across small enterprises of different sizes. For example, "figures from the first half of 2020 show that on average, small enterprises with lower employment and in particular own account workers, were significantly affected." Meanwhile, the impact of the pandemic was less severe for relatively capitalised businesses. In terms of job losses, small businesses shed around a fifth (641 000) of total employment through the first and second quarters of 2020 and recovered slightly 2% (84 000) through the third and fourth quarter of 2020. By the end of the first quarter of 2021, employment in small businesses remained 6% lower compared to the first quarter of 2019.

Turning to ownership patterns amongst formal sector enterprises, there was a constant decline in the black share of the number of small businesses owned in the fourth quarter of 2020. This, she indicated could be attributed to "having less historically accumulated/ inherited assets, finance, or digital connectivity." By the end of the first quarter of 2021, black people's share of formal sector enterprises remained a fifth lower than the first quarter of 2020, while white people's share of formal sector enterprises was a tenth higher. This change has negatively impacted on transformation within the small business sector which had made significant progress up to the beginning of COVID-19 in the fir4st quarter of 2020.

Mawelela also commented on the impact of the pandemic on women owned formal businesses which became the subject of significant debate during the dialogue. She indicated that women owned formal businesses, declined by 16% through the first and second quarter of 2020, and by an additional 5% from the first quarter of 2020 to the same quarter in 2021. Interestingly, despite the early impact on woman owned business, they proved to be more resilient and recovered faster than formal sector enterprises owned by men. During discussion on the disproportionate impact of the pandemic on women, Mawelela explained that the pandemic led to a shift in woman taking on more care work than men.

Mojalefa Mohoto, a Chief Director in the Department of Small Business Development highlighted the work of the department in relation to trying to assist small business in terms of technology and especially ensuring women owned businesses could access technology to increase production. He pointed out that the ecommerce space has grown and small businesses were starting to take up opportunities to sell through online mechanisms. He elaborated upon his department's work in rural areas and township support measures as well as putting in place a digital hub to encourage entry level digital businesses. He also focused on the need to collaborate with private sector players.

Dave Wilson, the CEO of the National Mentorship Movement pointed out that the SME sector had been in trouble before the pandemic, but the possibility existed to harness a mentorship programme to scale across the country and it had the potential to "empower entrepreneurs, youth, women and students to become confident and successful." Wilson stressed the importance of improving social trust and a mentorship programme was critical. There were numerous examples, where such a programme was working but needed to be upscaled. He emphasised that its real impact could be provided at a district level which could boost the entire district and mobilise skilled people in that district and through that support municipalities and ultimately uplift the entire environment where people live. Mojalefa concurred with Wilson's focus on working with the district as key to unlocking economic potential.

Finally, Gabriel Davel, CEO for the Centre for Credit Market Development stressed the importance of "getting things to scale" to have a real impact and the need to ensure that credit continued to flow to small businesses in the post-COVID recovery period as that is when small businesses will need it most rather that during the pandemic itself. He highlighted that "we don't want to take risks on the credit guarantee fund so we don't have the impact that's needed. Other countries are doing it as they recognize the importance of the small business sector and getting things to scale." Davel was clear that a guarantee fund was a critical component of a recovery plan as it will unlock lending by banks to small businesses. He highlighted that "our COVID-19 guarantee fund was terribly designed compared to international best practice." He pointed out that too much risk was left to the banks and "bankers were justifiably concerned with the level of risk they would have to take on in order to increase lending under the COVID-19 guarantee fund." In view of a range of factors, banks were trying to avoid SME exposure and therefore there was a strong incentive to reduce credit exposures in order to minimise the risk of future losses. Unfortunately, he indicated, “this response can become a self-fulfilling prophecy. It will push businesses that are on the margin into bankruptcy. It also means that the stronger businesses, which may see opportunities to expand, for instance by taking over weaker competitors, will also not be able to get finance for such transactions.”

To reverse this cycle, he stressed the need for better statistics and monitoring of credit flows to the SME sector; a sensible and well managed National SME Guarantee Fund, including non-bank lenders and ramping up the SME support interventions. Davel stressed that a “Guarantee Fund will really be needed when recovery starts, when businesses want to recapitalize, or expand or take others over.” He concluded that whilst it was critical to address the racial inequality in SME ownership, the data has shown how black owned businesses have been worse affected by the pandemic, hence the need for targeted policy for the most vulnerable. However, at the same time it had to be acknowledged that “we are sitting in a crisis position” so key was getting all businesses to recover. “Our priority should be to maximize employment and recover to pre pandemic levels.”

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