

The small and medium-sized enterprises (SME) finance landscape and the financial gap in South Africa.

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the dtic

Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA



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TIPS FORUM 2024: Small business, inclusive growth and industrial policy in South Africa



Overview

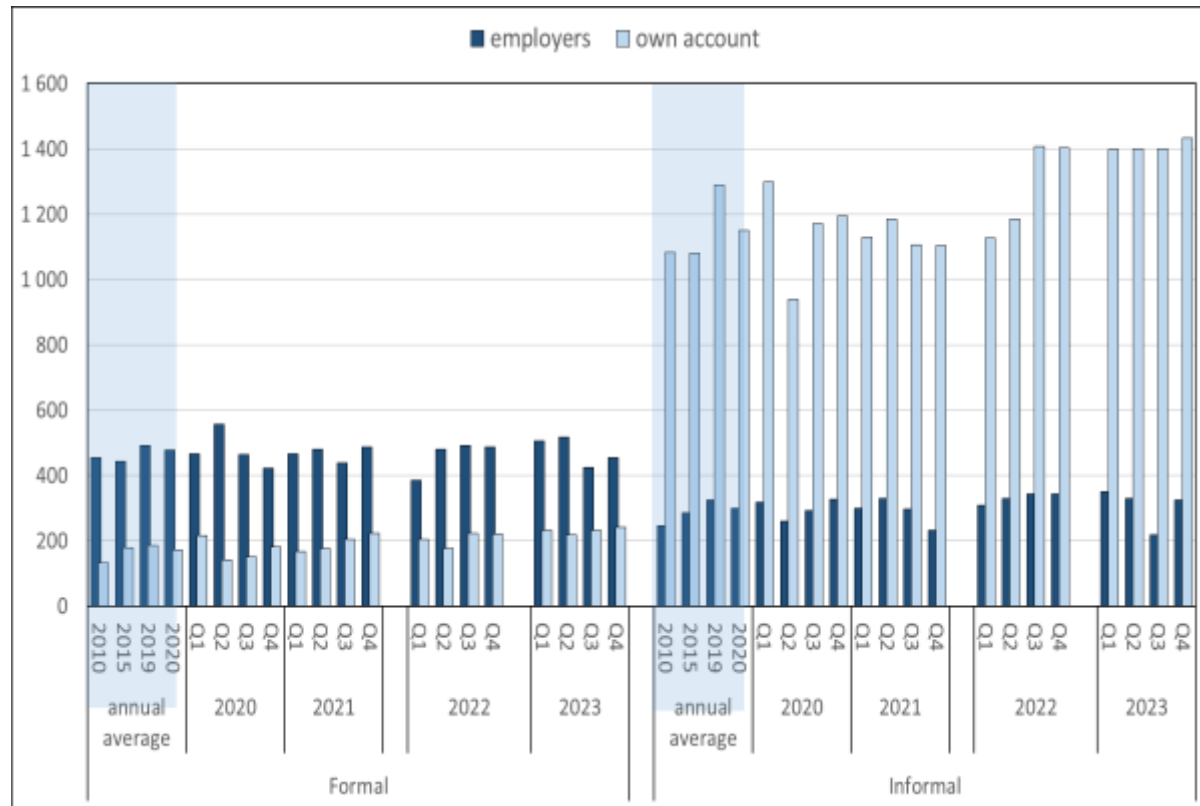
- South Africa urgently needs to structurally transform its economy, be more inclusive and support employment creation, and at scale.
 - To do so a massive (not incremental) shift in support to small business is required
- The South African state, through its Development Finance Institutions has a core role to play in shaping lending to small businesses, these interventions are necessary because:
 - The banking sector has comparatively low levels of lending to manufacturing and to SMEs
 - Other non-bank sources of finance while available are inadequate
 - Access to finance and related support forms an important part of the small business support eco-system
 - In addition to direct lending, the state has mechanisms to bring about change in the overall lending to small business

Argument

- What does the data tell us
- What are the gaps
- Policy options

Profile of SMMEs in SA

Number of formal and informal small businesses (a), 2010 to 2020 and quarterly from 2020 to 2023.

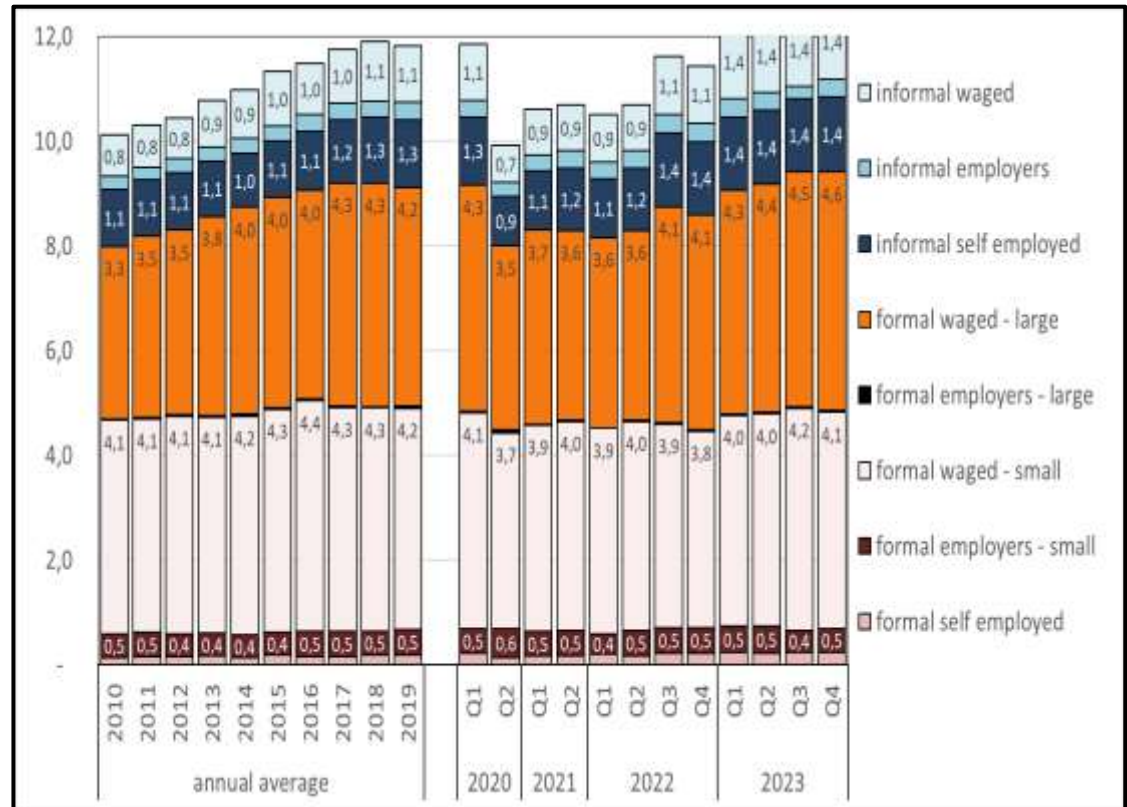


Note: (a) Defined as the number of employers with under 50 employees plus own-account workers. Source: TIPS. Real Economy Bulletin, State of Small Business 2023. Calculated from Statistics South Africa. Labour Market Dynamics Surveys for 2010 to 2020, and Quarterly Labour Force Surveys for the first quarter of 2020 to the fourth quarter of 2023. Electronic datasets. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

- The number of formal businesses, both employers and self-employed, grew during the decade of 2010 to 2020, from 587 000 in 2010 to 650 000 in 2020.
- The small informal business sector is dominated by self-employed/own-account enterprises, and the COVID-19 pandemic affected these enterprises significantly where 28% closed down.

Profile of SMMEs in SA

Employment in millions by sector, type, and size of employer, annual averages for 2010 to 2019, and quarterly from 2020 to 2023.

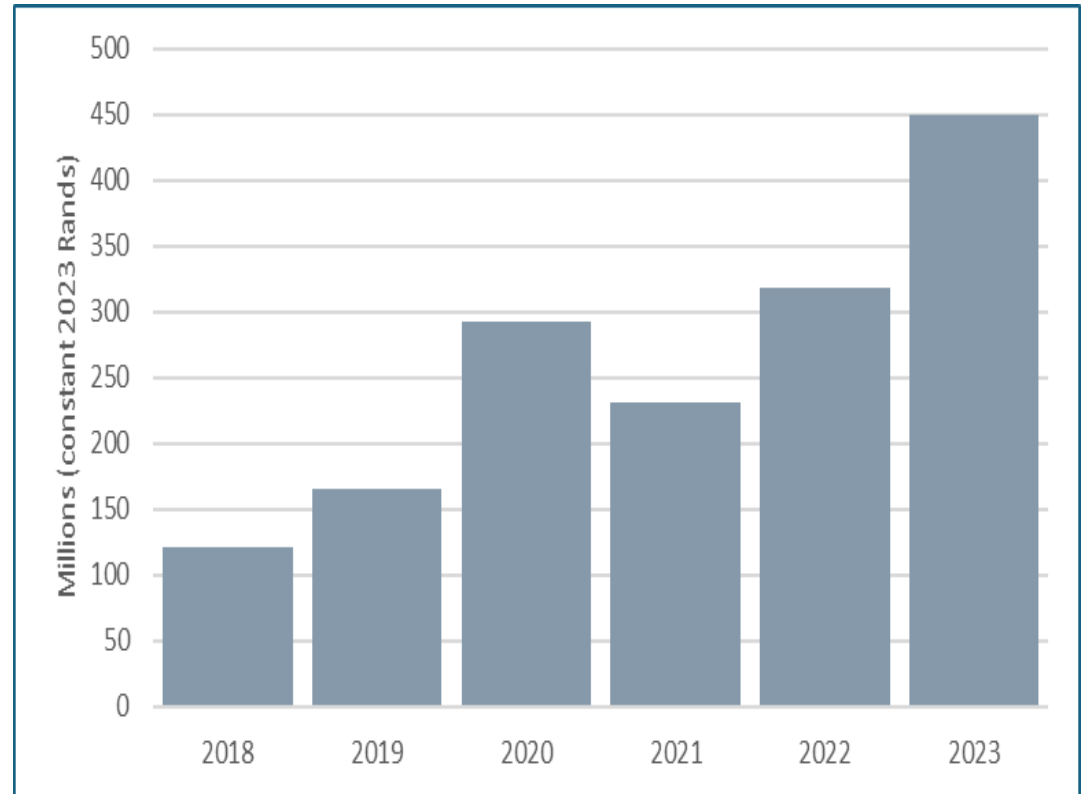


Source: TIPS. Real Economy Bulletin, State of Small Business 2023. Calculated from Statistics South Africa. Labour Market Dynamics Surveys for 2010 to 2020, and Quarterly Labour Force Surveys for the first quarter of 2020 to the fourth quarter of 2023. Electronic datasets. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

- Employment in the formal small-business sector is primarily driven by formal waged employment, which has remained relatively stable at about 4 million workers annually since 2010, except during the COVID-19 period.
- Informal self-employment businesses created employment opportunities, with 1.4 million in the third quarter of 2022.

Government credit guarantees to SMMEs

The total value of credit guarantees, 2018 to 2023.



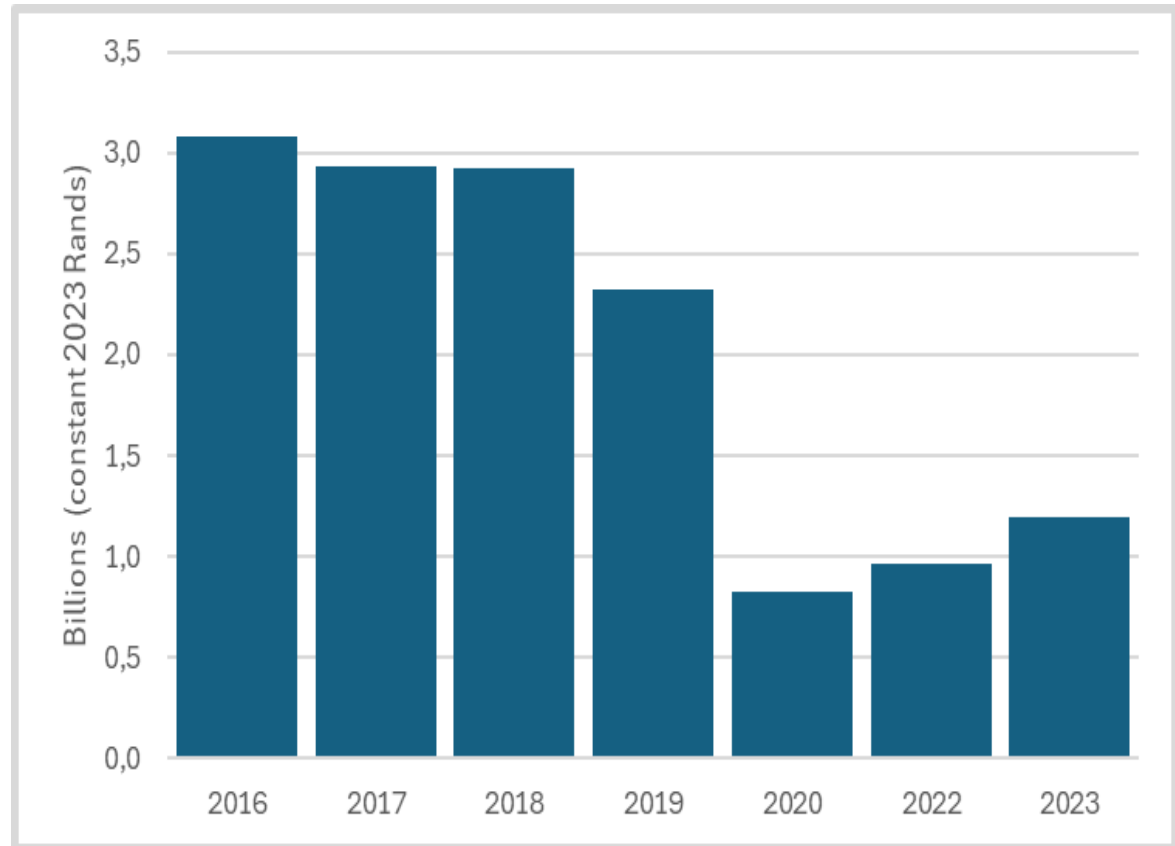
Source: Small Enterprise Finance Agency (SEFA) annual reports 2022-2023. Khula Credit Guarantees (KCG) the total value of guarantees taken up. Accessed on www.sefa.org.za in July 2024, deflated using CPI.

- In response to the COVID-19 pandemic, the credit guarantees increased significantly by 77% to R292 million (2020) from R165 million in 2019.
- There has been further growth and in 2023 the SEFA credit guarantees grew to R450 million in 2023 from R121 million in 2018 (in constant rand). While this is a significant improvement and growth, it represents just 5% of the approximate R8.4 billion in loans to small businesses by South African banks.

DFIs loans to SMMEs

- The Industrial Development Corporation (IDC) has reduced its funding to small and medium-sized businesses (SMEs) from R3.1 billion in 2016 to R1.2 billion in 2023 (in constant rands).

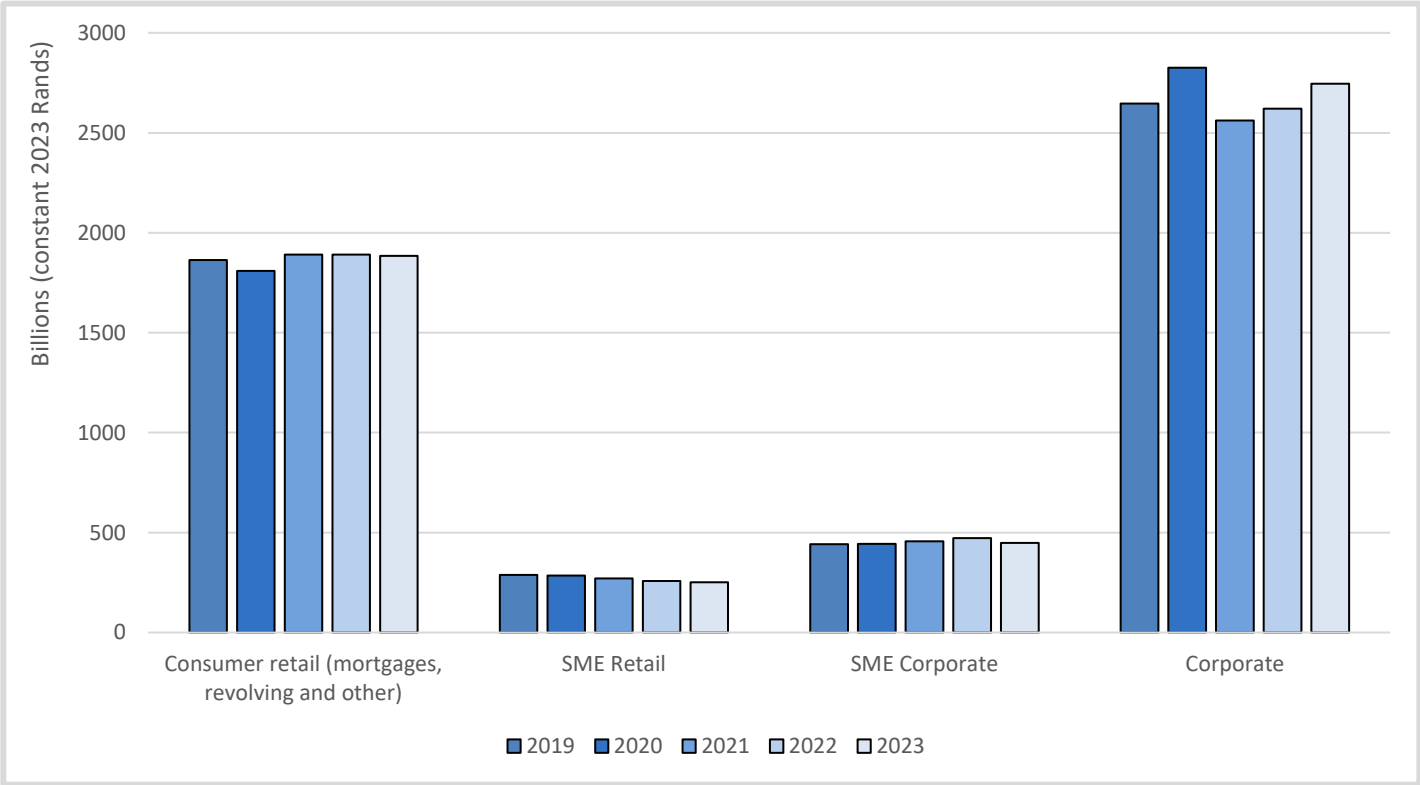
The total funding provided by IDC in constant billions of rands, 2016-2023.



Source: Industrial Development Corporation (IDC) Integrated Annual Reports 2020, 2022 and 2023. Accessed on www.idc.co.za in July 2024, deflated using CPI.

Small business lending by banks

Gross Credit exposure by banks to different market segments



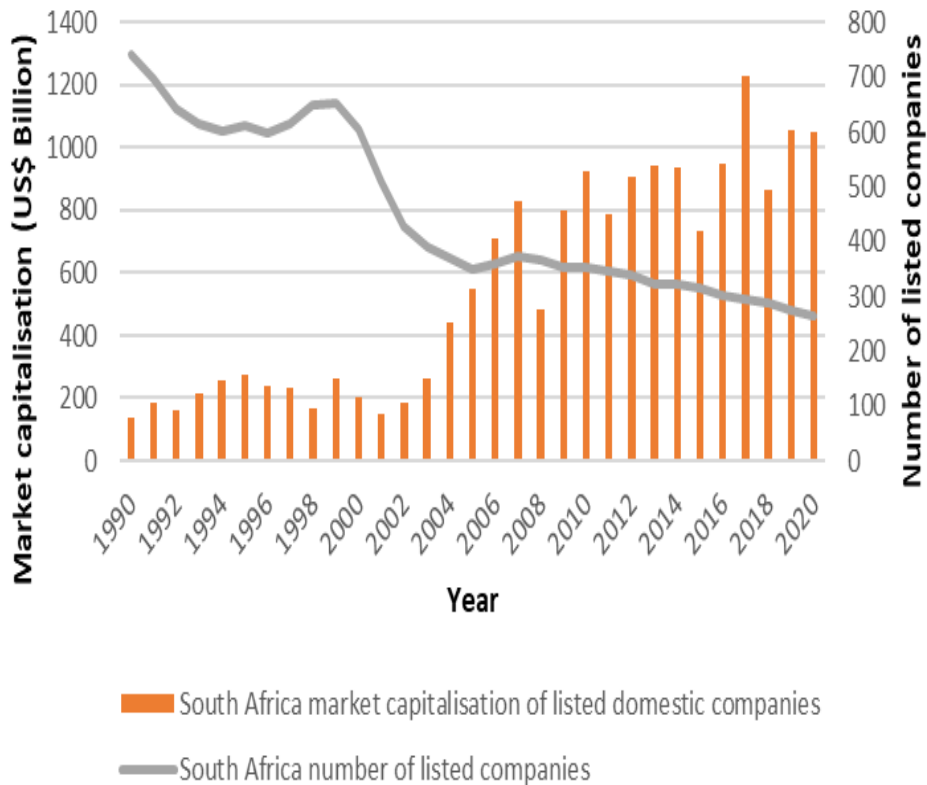
Source: SARB BA 200.

Notes: Gross Credit Exposure BA 200 in June of each year, constant 2023 rand. Author has deflated with StatsSA CPI index. Categories are from SARB Data BA 200.

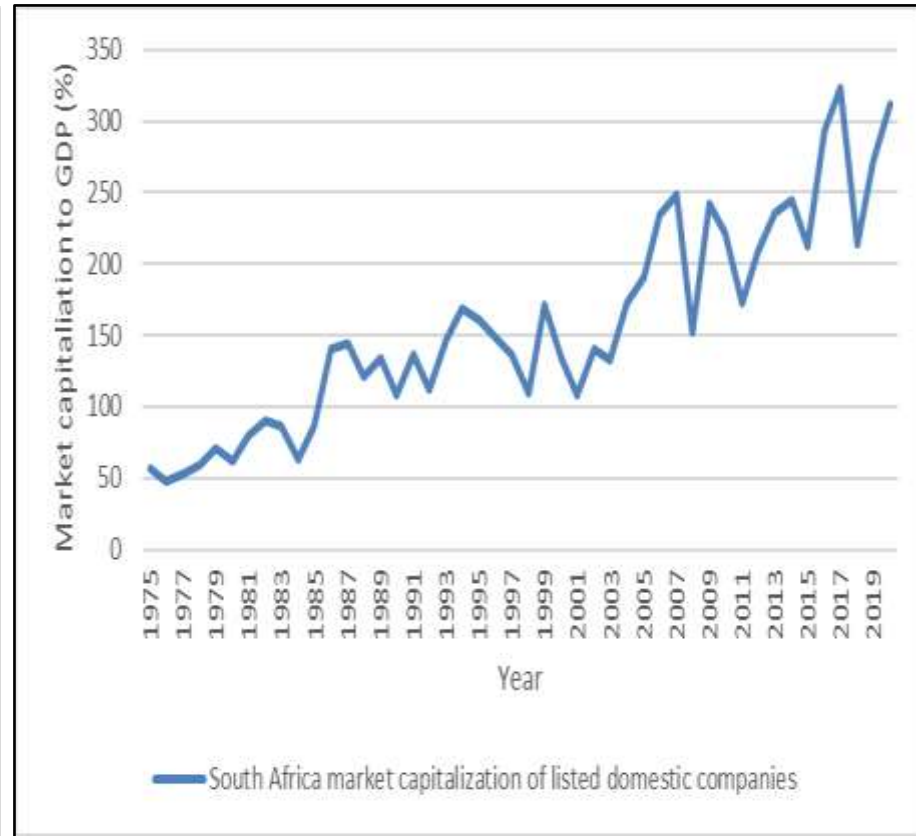


The JSE

Number of listed companies and market capitalisation (US\$) JSE



Market capitalisation of JSE as a percent of GDP

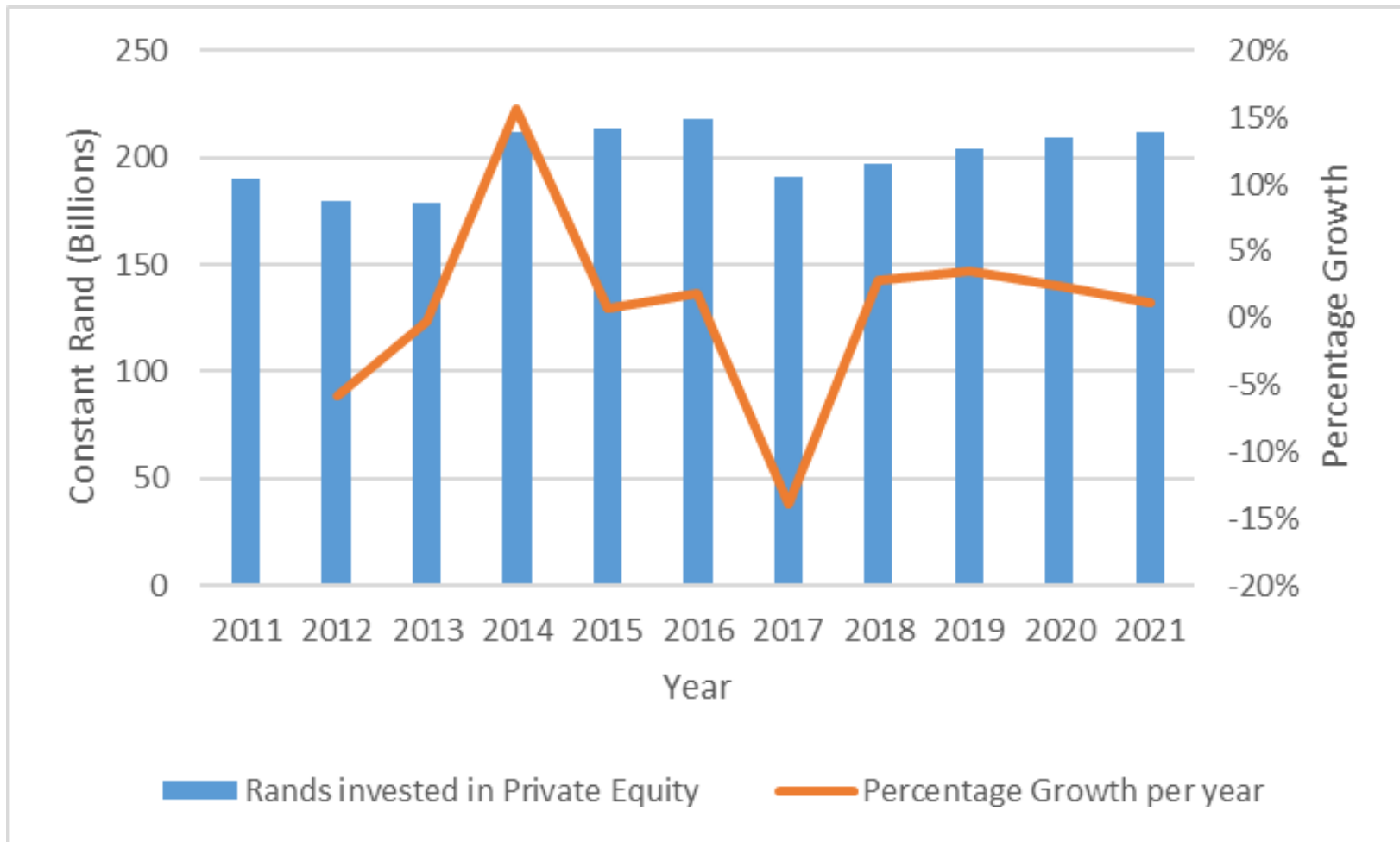


Source: World Bank indicators: Market capitalization of listed domestic companies (current US\$); Listed domestic companies, total. Notes: Data downloaded October 2022. Data in current US\$

Source: World Bank indicators: Market capitalisation of listed domestic companies (% of GDP). Note: Data downloaded May 2023.

Private equity finance in SA

Private equity funds under management in South Africa



Source: SAVCA, annual reports 2011-2022.

Note: Author's compilation of data invested from annual reports, billions of constant 2022 rand (Levin 2024)

Policy options: What measures does the state have?

- Strengthen the capacity of DFIs that lend to small businesses (nationally and provincially), does ongoing restructuring help?
- Increase resourcing to national and provincial DFIs – even in a fiscally constrained environment there are resource options
- Remove the politics and patronage from lending, esp. if default. Rather DFIs accountable on targets & impact
- Collaboration between DFIs and private finance institution to grow SMME lending
- Credit guarantees – our best measure was during COVID, need to expand and make it more systematic
- SARB has liquidity and targeting tools available some used during COVID – is the unemployment in SA a national emergency?
- Credit profile of businesses to build a track record to obtain credit (like with consumer credit)
- Other eco-system measures, i.e. accounting support; industrial space, esp. townships; access to markets

Trade & Industrial Policy Strategies

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