

# **A year later, South Africa's R200 billion Covid-19 loan plan looks like it has failed – BusinessTech 17 March 2021**

The Banking Association of South Africa (BASA) says that as of 27 February 2021, R18.01 billion in loans had been approved by banks and taken up by small businesses under the Covid-19 Loan Guarantee Scheme.

In the preceding two weeks, participating banks received only 258 applications for loans, of which only 61 were approved, the association said.

Announced by president Cyril Ramaphosa in April 2020 alongside other measures, the scheme aimed to encourage banks to lend more money, on more favourable terms, to businesses whose operations had been affected by the pandemic.

Initially, the National Treasury provided a guarantee of R100 billion to the scheme, with the option to increase the guarantee to R200 billion if necessary, if the scheme was deemed successful.

However, just under a year since it was first introduced, less than a fifth of the original R100 billion has been utilised, and less than 10% of the total available.

Basa said that based on present trends, the weak demand for loans from the scheme – which expires on 11 April 2021 – is expected to decrease even further in its final weeks.

The association's review of the scheme indicates that qualifying business owners are reluctant to take on more debt in a weak and uncertain business environment, or they have made their own financial relief arrangements directly with individual banks.

It added that the loan guarantee scheme is only a small part of the relief that banks offer their clients and customers who are in financial distress.

“Many of the financial and business challenges facing small enterprises pre-date the Covid-19 pandemic and were caused by a weak economy and uncertain business conditions,” it said.

“Small businesses in financial distress prefer grant or equity funding, rather than applying for credit that they may struggle to repay.”

Basa said it would welcome the opportunity to work with government to leverage state grants and equity funding in support of small businesses.

The group has previously criticised government, for not doing more to offer support to businesses.

“Government will have to implement other business and financial support programmes to ensure small and medium enterprises survive the present crises and can create jobs and spur inclusive economic growth.”

“The slow pace of economic reform, an unreliable electricity supply and lack of inclusive growth, as well as the subsequent weak consumer and business confidence, has also reduced opportunities for enterprise and the associated need for credit.”

Until 27 February 2021, the scheme received 49,317 applications for loans, of which 26% were approved by banks and were taken-up by the applicants. 5% of the applications are still in the process of being assessed.

47% of applications received so far were rejected because they did not meet the eligibility criteria for the scheme, as set out by the Treasury and the Reserve Bank or because they did not meet banks’ risk criteria.

The main reasons for rejection include: the requested value of the loan being too high for the business to be reasonably expected to be able repay it; or the enterprise was not in good financial standing before the pandemic.

82% of the loans approved – with a value of R6.62 billion – went to enterprises with a turnover of up to R20 million per annum. The average size of a loan was R1.23 million.