After a disappointing Sona, will the national budget deliver any relief for small business?

By Catherine Wijnberg

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President Ramaphosa's 2024 State of the Nation Address (Sona) did little to instil confidence that the structural reforms necessary to rebuild business and investor confidence will be implemented.

Source: Supplied. Catherine Wijnberg, chief executive officer of Fetola.

Critics have rightly accused the address of containing empty promises and for failing to address the country's biggest challenges, including unemployment, corruption, struggling state enterprises, sluggish economic growth, and rising fiscal debt levels.

They have also raised concerns about the government's preoccupation with signing the National Health Insurance (NHI) into law despite the fact that there is still no indication of how it will be funded.

These are among the issues contributing to persistently poor levels of business confidence. The RMB/BER Business Confidence Index (BCI) dropped by two points to 31 in the fourth quarter of 2023. This indicates that less than a third of respondents to the survey were satisfied with prevailing business conditions.

Consumer confidence indices reveal similarly poor confidence levels. The FNB/BER Consumer Confidence Index fell to -17 points in the fourth quarter of 2023, the worst fourth-quarter reading in more than two decades as consumers felt the impact of the rising cost of living and high interest rates.

The S&P Global South African Purchasing Managers Index (PMI), a survey representing private-sector activity, continued to show a reading below 50 in January as a result of port delays and a decline in new orders as the impact of high inflation and weak confidence continues to reverberate across the economy. A reading below 50 indicates a contraction.

Poor business and consumer confidence weighs heavily on the small business sector. This is a sector which typically struggles to attract investment. A recently published report by *British International Investment* says the SME financing gap “reflects mismatches between what lenders are willing to provide and what borrowers are willing to accept.

Lenders want to easily assess credit risk, protect themselves with collateral and prefer short tenors. Borrowers are often risk averse and want flexible repayment terms, lack well-documented track records and want longer tenor loans for growth investments.”

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Harry Welby-Cooke 12 Feb 2024

South Africa is ranked as one of the most risk averse lending countries globally. Local banks have tightened their lending standards in recent years as higher interest rates and inflation start to bite both businesses and consumers. The slowdown in credit growth is expected to continue in 2024, according to S&P Ratings. The exception to this slowdown will be in high growth sectors including those in the renewable and alternative energy space.

The funding gap for growth-oriented SMEs in our portfolio is between R250,000 - R5m; this covers short-term working-capital requirements to longer-term production infrastructure investments. Those entrepreneurs who are successful at obtaining finance in this range are typically charged exorbitant interest rates.

Addressing funding gaps

Fetola is working with its partners to address this funding gap through catalytic development funds including Nedbank’s Green Economy Fund, SAB Foundation’s Financing for Impact Fund, and Fetola’s home-grown SME fund, all of which are aimed at helping SMEs grow.

The upcoming National Budget speech, scheduled for 21 February, will have a significant impact on determining business and investor confidence in the year ahead. Given the sluggish economy, a tax base of around 7.1 million taxpayers supporting 28 million social-grant beneficiaries and global headwinds, National Treasury once again finds itself having to juggle some awkward balls. South Africa’s growing debt burden will likely weigh heavily on Finance Minister Enoch Godongwana.

There is consensus among tax specialists that increasing the tax rate on already squeezed taxpayers will be counterproductive. The Laffer Curve, a theory showing the relationship between tax rates and total tax revenues, questions the ability of higher tax rates to actually result in higher tax collections. In a watershed election year, it’s also unlikely that National Treasury will choose to raise the VAT rate.

South Africa is forecast to grow by just 1% in 2024. The International Monetary Fund (IMF) cites the country’s logistical challenges, power shortages and high borrowing costs as among the biggest threats to the economy and has called for structural reforms and for an urgent lowering of the budget deficit.

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The ability to attract investment – both foreign and local – is key to achieving faster economic growth. What the small business sector will be hoping to see in this year's budget is the creation of a more business-friendly environment, incentives to go green, a reduction in bureaucratic red tape and enabling policies to help restore business confidence and encourage investment.

In recent years the small business sector has learned to roll with the punches delivered by the pandemic, an economic downturn, supply-chain challenges, load shedding, higher interest rates and inflation.

Its resilience is also due to its agility and ability to pivot when necessary. However, constrained consumer spending and high interest rates are having a negative impact on the sector.

We urgently need to encourage a culture of buying from local SMEs and make it easier for these businesses to access finance so that they can scale up. If the budget delivers any relief for this vitally important sector, it will not only be good news for small businesses around the country, but also for the economy at large.

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