

# SA SME confidence levels rise in Q1:2022 signalling a better 2022, will recent loadshedding put a damper on this in Q2?

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The confidence that South African small and medium-sized enterprise (SME) owners have that the South African economy will be conducive to business growth in the next 12 months is at its highest level in a decade. This is according to the Q1 2022 SME Index conducted by specialist SME financier, Business Partners Limited.

The SME Index, which measures business confidence as it relates to labour laws, access to finance, state-level interventions and broader socioeconomic realities was indicative of an overwhelmingly positive sentiment in the first quarter of this year. The only factor to dampen this optimism is the challenge that SME owners are facing around finding staff with the right skillset – a reality that can be attributed to affordability and the global skills shortage. It remains to be seen how the recent loadshedding will impact this SME confidence in Q2: 2022.

Overall, the results of the SME Index suggest that SMEs have weathered the worst of the pandemic. Small businesses have confidence levels of 77% that the current economic conditions are conducive to business growth – a 24 percentage point increase from Q4 of 2021 and a significant year-on-year (YOY) increase of 34 percentage points. However, the confidence levels that business owners will find staff with the right skills and experience to facilitate the growth of their business has decreased by 5 percentage points YOY. Business confidence levels within this context has showed a steady decline, having fallen by 14 percentage points in quarter four of 2021.



Rayna Dolphin

Commenting on the results of the SME Index, Business Partners Limited's financial director, Rayna Dolphin explains: "All results point to the fact that South African SMEs are working hard to recover their pandemic losses. This is an encouraging finding that correlates strongly with the further lifting of lockdown restrictions during the first few months of the year. Now, as the SME Index highlights, a renewed focus needs to be placed on skills development and creating an enabling environment in which SMEs can thrive in a highly competitive global arena."

The skills shortage is one of the eroding factors in terms of business confidence. Arguably, as Dolphin suggests, this can be attributed to the fact that the pandemic compelled many SMEs to pivot their product or service offerings. Post-pandemic, these fundamental changes have necessitated an entire new cluster of skills, which are in short supply. SMEs are also up against an increasing number of international companies who are now competing against local players for South African skills given the onset of remote working.

Despite these challenges, there are a number of indicators that the SME ecosystem is showing visible signs of progress. This is clearly illustrated by the sharp increase in the level of confidence that the government is doing enough to create an enabling environment for business, which was up by 34 percentage points YOY (and 17 percentage points from the previous quarter). At 51%, confidence levels in this regard are at its highest since the launch of the SME Index nearly ten years ago.

SMEs' confidence levels that the ease of access to business funding will improve in the next 12 months is up by 14

percentage points YOY. Likewise, confidence levels that the private sector is providing enough support to SMEs is up by 13 percentage points from the previous quarter, albeit this increase comes off a relatively low base.

Somewhat unsurprisingly, the top three challenges facing South African SMEs have remained the same for over a decade. They include cashflow, economic conditions, and funding. In addition to these concerns, 79% of SMEs were affected by the two rate hikes which took place in the first quarter of this year which led to consumers spending less and cutting back on non-essentials. Loadshedding, which has persisted into 2022 (stage 4 in Q1), impacted 75% of the SMEs surveyed. And 46% of this constituency experienced a loss in productivity and 29% suffered business interruptions that resulted in insurance claims.

Another key insight to emerge from the results of the SME Index was that SMEs have confidence levels of only 51% that their clients will pay within the stipulated times – a decrease of 9 percentage points from the previous quarter and 5 percentage points YOY.

For Dolphin, this insight points to the urgency that exists for government to ratify and implement the National Small Business Amendment Act, which as she explains, will afford SMEs with the right to reasonable payment dates and to charge interest on late payments. For small businesses for whom efficient cashflow is crucial, the amendment will be a giant leap in the right direction.

Dolphin concludes: “The first quarter SME Index has demonstrated that South African SMEs are slowly renewing their belief that their businesses can grow and thrive. Their resilience during the pandemic and their efforts to recover revenue and build their businesses within the post-pandemic context, is something to be admired. However, small businesses face several headwinds in the form of global challenges and unique hurdles such as load shedding that face South Africa on a macroeconomic level. To this end, we continue to encourage private-public partnerships that will give the SME sector the stimulus it needs to surge onwards and continue its important contributions to the country’s GDP.”

#### **About Business Partners Ltd.**

Business Partners Limited (Business Partners Ltd) is a specialist risk finance company for formal small and medium owner-managed businesses in South Africa and selected African countries. The company actively supports entrepreneurial growth by providing financing from R500,000 to R50m, specialist sectoral knowledge, business premises and added-value services for viable small and medium businesses. Since establishment in 1981, Business Partners Ltd has provided business finance worth over R21,5bn in over 72,000 transactions facilitating over 671,000 jobs. Business Partners Ltd was named the 2019 Gold winner in the SME Bank of the Year – Africa category at the Global SME Finance Awards.\*

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