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Briefing Note: Coronavirus – South Africa's banking system response to SMMEs

The impact of the 2008 global financial crisis on South Africa's financial system was not the massive losses to nefarious financial products but rather the tightening of credit markets that constrained the economy for up to two years after the crises. This constraint was particularly hard on the small business sector and, according to Gabriel Davel from Centre for Credit Market Development, the decline in credit was 20% less between 2008 and 2010 (in the lending to the category of small- and medium-sized businesses (SMEs) receiving finance up to R12.5 million).

With the economic impact of COVID-19 likely to be worse than the 2008 financial crisis, the risk to the economy is a significant reduction in credit and less financial liquidity. The impact would be that small businesses in particular would struggle with cash flow in addition to the myriad of other problems in the post COVID-19 economy, including a drop in consumer credit, constrained demand, and disruptions of supply chains.

Have there been lessons learned from a recent financial crisis, and a resultant shift in the approach taken during this economic crisis by the South African banking system?

Banks accepted the Prudential Authority (PA) temporarily amending Directive 7 of 2015 on Restructured Exposures hence, for the duration of the crisis, loans restructured will not attract a higher capital charge. This amendment covers loans to households, SMEs and corporates, and for specialised lending. For the duration of the crisis, the Liquidity Coverage Ratio (LCR), a ratio setting out the liquid assets a bank has to maintain in relation to its anticipated outflows, is being lowered from 100% to 80%. In relation to capital relief, the Pillar 2A capital buffer, which is set at 1% of risk-weighted assets, is now set at zero. The PA has also provided clear criteria that provide for banks to dip into their capital conservation buffer, which is set at 2.5% of risk-weighted assets. This combined set of measures is an important part of the response as it offers scope for the banks to increase liquidity and lend more at a lower cost during this crisis.

In terms of specific bank actions, Absa, First National Bank (FNB), Nedbank and Standard Bank have partnered with the South African Future Trust (SAFT), the Oppenheimer fund, to administer a soft loan to affected small, micro and medium enterprises (SMMEs), based on number of employees. SMMEs will be able to apply for a five-year interest-free loan to give their employees a lifeline. Qualifying SMMEs will receive weekly payments of R750 per employee over 15 weeks. The loan has no minimum monthly payment requirements, and no interest will be charged; it does, however, need to be settled in full at the end December 2025.

Further, Standard Bank is offering a Coronavirus Payment Interruption Scheme on business loans for small businesses with a turnover of less than R20 million a year, which means a three-month instalment relief for all personal loans for small business owners. Nedbank and Absa also have a similar model, i.e. payment holidays where a business can delay loan repayments through a three-month payment holiday.

FNB has committed R8 million in grant funding to enable micro-entrepreneurs to resume work during and post the COVID-19 pandemic. In addition, firms with Asset Based Finance or Commercial Property Finance can apply for a payment break on the loan for up to three months, and firms may qualify for a reduction from 10% to 5% on their minimum monthly Business Credit Card instalments. FNB also has a loan scheme whereby the loan period is 66 months and includes a six-month payment break.

A further measure is the government loan guarantee programme that sees the National Treasury offering guarantees via the South African Reserve Bank to the banks for a specialised COVID-19 loan. The uptake of this facility has been exceptionally low, and most recent reports show that two months after its launch the uptake was approximately R10 billion of the R200 billion available. This low uptake of the single largest intervention in response to the current economic crisis is a concern; businesses are either not applying for, or able to access, this facility. Improvements have been made in structuring the facility, with considerations given to the size of loan, asset requirements, and other factors. A bigger shift may, however, be needed, and consideration should be given to shifting some of the resources from this COVID-19 Loan Guarantee into the more generalised loans made by banks to SMEs and provide a guarantee for those loans, and thereby stabilise access to credit by small businesses.