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SMME sector can restart economy, but needs support

South Africa's SMME sector has a significant role to play in jumpstarting the country's economic growth and minimising the recessionary effects of Covid-19, but it will need support from the financial sector, big business and government to exit the worst of the crisis.

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Hans Zachar, head of emerging markets for TransUnion Africa said the sector had been among the hardest hit by the pandemic, and worst-case scenarios could see between 700,000 and 1.6 million formal and informal jobs lost across the SMME community if steps are not taken to mitigate the financial risks faced by key employment segments, which include manufacturing, construction and logistics.

Zachar said the effects of the pandemic, the various lockdowns and the associated slowdown in spending, meant that 12-month commercial defaults were expected to rise by 57% - that is, from an average of 4.08% of debt obligations being defaulted on in 2019, to 6.5% at the end of August 2020.

“Based on the rate at which default risk is rising, and with the relief effects of payment holiday and other relief mechanisms expiring over the next few months, the default rate in the SMME sector could rise to between 10-20%. If this happens, the results could be quite devastating with small businesses forced to reduce staff or close their doors, causing a significant rise in unemployment,” said Zachar.

South Africa's estimated 2.5 million SMMEs form the backbone of the country's economy, providing around 40% of corporate turnover, between 40-60% of gross domestic product (GDP) and creating more than 10 million jobs and employment opportunities.

However, TransUnion's recent research on the SMME market suggested that nearly eight out of every 10 South African small businesses (78%) had seen a significant decrease in their business revenues since the start of the Covid-19 pandemic, with only 18% confident they would survive. At the time, only 9% of SMMEs were operating as normal, and less than 1% of businesses were thriving, raising fears that many would be unable to fulfil critical payment obligations in the coming months.

Zachar said the segments best able to save and create long term jobs, which include manufacturing, construction and logistics, were also those most at risk. This meant business owners in those segments would need to take clear steps to survive in the short-term. These steps included limiting their costs; looking for new distribution channels and platforms that could give them scale; using data and analytics to trade smartly; and remaining as relevant as possible to their target markets.

On the upside, the various relief mechanisms implemented by both the private and public sectors had been relatively effective, said Zachar. Should this relief continue in various forms, coupled with an accelerated lift in economic activity, the risks facing the sector could be significantly mitigated.

"Lockdown easing has certainly opened up new opportunities, while allowing established businesses to re-establish operations. But given the high levels of indebtedness in both the SMME and consumer community, it becomes hugely important to trade carefully given the difficult and risky market conditions," said Zachar.