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Covid-19 Loan Guarantee Scheme Update

As at 21 November 2020, banks had approved R17,49 billion in loans to small businesses under the Covid-19 Loan Guarantee Scheme.

The scheme is a partnership between participating commercial banks, the National Treasury and the South African Reserve Bank (SARB). It provides loans for salaries and other operating and start-up costs to small businesses who are under financial stress because of the economic impact of the Covid-19 pandemic and restrictions imposed by the National State of Disaster. The scheme does not extend non-repayable grants to companies in financial difficulties nor assist those that are in distress for reasons other than those related to the pandemic.

Seventy-two percent of the 13 085 loans approved by banks went to companies with a turnover of less than R20 million. The average value of a loan granted is R1 246 421.

Until 21 November 2020, participating banks had received 47 159 applications for loans from the guarantee scheme. Of these, 12 933 (27%) have been approved by banks and taken-up by businesses. Thirteen percent of applications are still in the process of being assessed, while 43% of applications 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 the rejections are that the businesses were not in good standing before the pandemic and did not have a good record of paying their debts, or the requested loan value was too high making the repayments unaffordable for the business. Banks, along with the Reserve Bank and National Treasury, are continuing to monitor the reasons for the rejection of loan applications, with a view to making the scheme more accessible, while ensuring that taxpayers' funds are not exposed to undue risk because of loans not being repaid.

Since August 2020, banks have been granted more flexibility to assess the ability of businesses to repay their Covid-19 loans as economic activity resumes. However demand for the scheme remains below original expectations. Based on present trends, banks expect to probably extend R24,41 billion in Covid-19 loans to enterprises by January 2021, largely due to the prevailing weakness in business and economic conditions. Owners are reluctant to incur more debt, while uncertain business conditions and a weak economic outlook hamper their ability to generate sustainable income, which they need to repay the loans. The slow pace of economic reform and the lack of inclusive growth, with the resulting weak consumer and business confidence, has also reduced opportunities for enterprise and the need for credit. Debt cannot replace sustainable revenue in business.

Because of the criteria for the scheme and the need to balance protecting taxpayers with sustainable banking practices, banks are unfortunately not able to assist everyone who applied. Those businesses that feel their Covid-19 Loan Guarantee Scheme application was unfairly rejected, can lodge a complaint at the Ombudsman for Banking Services (OBS). The OBS can investigate and adjudicate complaints from businesses, involving amounts up to R10 million.

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