

# Covid undoes a decade of progress in small-business ownership

Sarah Smit 25 Jun 2021



*Covid-19 has reversed a decade's worth of progress made to close the race gap in small business ownership, according to data collected by the economic research institution, Trade & Industrial Policy Strategies (TIPS). (Dwayne Senior/Bloomberg via Getty Images)*

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Presenting the findings during a webinar on Wednesday, TIPS economist Thobile Mawelela showed that between 2010 and 2019 the proportion of formal black-owned small businesses was steadily rising at 3% a year.

But, from the third quarter of 2020, the proportion of formal small businesses owned by white people started to increase and the number of black-owned businesses declined by over a quarter, Mawelela said.

And the number of formal sector businesses owned by women declined by an average of 16% through the first and second quarter

of 2020.

“These enterprises tend to have less access to financing and less accumulated historical wealth and assets ... So the effect was disproportionate for women-owned enterprises, both within the formal and informal sectors, compared to businesses owned by men,” Mawelela said.

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The TIPS research shows that Covid-19 had an immediate effect on businesses in the informal sector, which dropped from 1.6-million enterprises in the first quarter of 2020 to 1.2-million in the second quarter.

Although there was a partial rebound in the second half of the year, the number of informal sector businesses remained 6% below pre-pandemic levels in the fourth quarter of 2020, Mawelela noted.

Gabriel Davel, the chief executive of the Centre for Credit Market Development, presented his findings on how financing can aid small business recovery.

## Ramp up support

Davel looked at how small businesses fared through the 2008 financial crisis, using this to forecast the trajectory of recovery after the Covid-induced economic downturn. “The picture shows some



huge warnings — warnings that I don't think we are taking seriously enough.”



According to Davel's research, gross credit exposures to small and medium enterprises declined in the aftermath of the **2008 global financial crisis**. It took seven years before credit exposure in the small and medium enterprise retail credit segment started growing beyond pre-crisis levels. “So all logic says that we should not just worry about what is happening through the Covid crisis,” Davel said.

“It may well be, I would say, 10 years easily after the pandemic, before the SME [small and medium enterprise] sector starts growing strongly again. And our policy choices make a big impact on this.”

Davel said there are good reasons for banks wanting to avoid financing small businesses and to reduce their credit exposure. But, he noted, this means businesses that do have the capacity to grow cannot get credit either.

To counter this effect, the country needs a well-managed guarantee fund, Davel said. “We need to ramp up the support interventions. But we do sit with huge challenges in South Africa, in the political context, of the implementation of these interventions.”

In May last year, the **treasury** and the **South African Reserve Bank** launched the Covid-19 **loan guarantee scheme**, designed to support small businesses experiencing financial distress as a result of the pandemic.

As of 27 March this year, banks had approved 14 827 loans through the scheme to the value of R18.16-billion. The scheme is expected to come to an end next month.

But, Davel said, compared to guarantee schemes in other countries, South Africa's is “shockingly insignificant”. Taiwan's central bank is running a \$14-billion guarantee scheme for small and medium businesses.

“If we want to provide support through the financial sector, we have to scale up ... [but] I think that boat may have left the

harbour, because we are now in the middle of the crisis,” Davel said.

“The fear that I have is that we may have greater job losses after the financial crisis ... And we are already sitting at astronomically high **unemployment** levels in South Africa.”

