

# SMME RELIEF SCHEMES – CLOSE OUT REPORT

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## 1. Purpose

The purpose of this submission is to present a close-out report for the SMME Relief Scheme that was administered by the Department of Small Business Development and its Agencies (Small Enterprise Development Agency – SEDA as well as Small Enterprise Finance Agency – **sefa**).

## 2. SMME Relief Scheme

### Rationale for facility

The rationale for this scheme was to ensure that SMMEs do not close down completely due to the COVID 19 pandemic lock down that was implemented throughout South Africa on the 26<sup>th</sup> March 2020 and that they were supported with working capital to ensure that jobs are retained in the economy. The scheme was targeted at SMMEs that were operational before the 29<sup>th</sup> February 2020 and primarily targeted enterprises that were negatively impacted (directly or indirectly) by the Coronavirus pandemic and lockdown restrictions

The SMME Relief Scheme covered the following working capital elements:

- a. **Payroll** – aided employers whose employees did not qualify for UIF Relief, on condition that those employers register their employees with UIF or decided with UIF to fulfil their outstanding obligations
- b. **Rental assistance (facility or equipment)** – assisted businesses to pay their rental obligations for either working tools and/or facilities/business premises
- c. **Utilities** – assisted with municipal bills, this also alleviated some pressure from municipalities who were facing severe financial constraints and yet were expected to deliver basic services.

Applications for this Scheme were opened on the 2<sup>nd</sup> April 2020. The Scheme was initially allocated an amount of R200 million and later increased to R500 million, when the Department of Small Business Development (DSBD) changed its approach to the Business Growth and Resilience Facility. These funds were made up of R400mil from DSBD and R113mil from **sefa**.

**sefa** received 35 865 applications of which 14 451 were fully completed whereas 21 414 were incomplete and they were referred to SEDA to assist applicants in collating outstanding documentation. Of the 14 451 complete applications, **sefa** approved 1 497 applications worth R513 million.

The balance of the 12 954 complete applications required an estimated budget of R4.4 billion and the bulk of these applications required assistance with payment of salaries to the total value of R3.6 billion. Communication was sent to all applicants who could not be assisted due to oversubscription to approach the Department of Labour and apply for UIF-TERS.

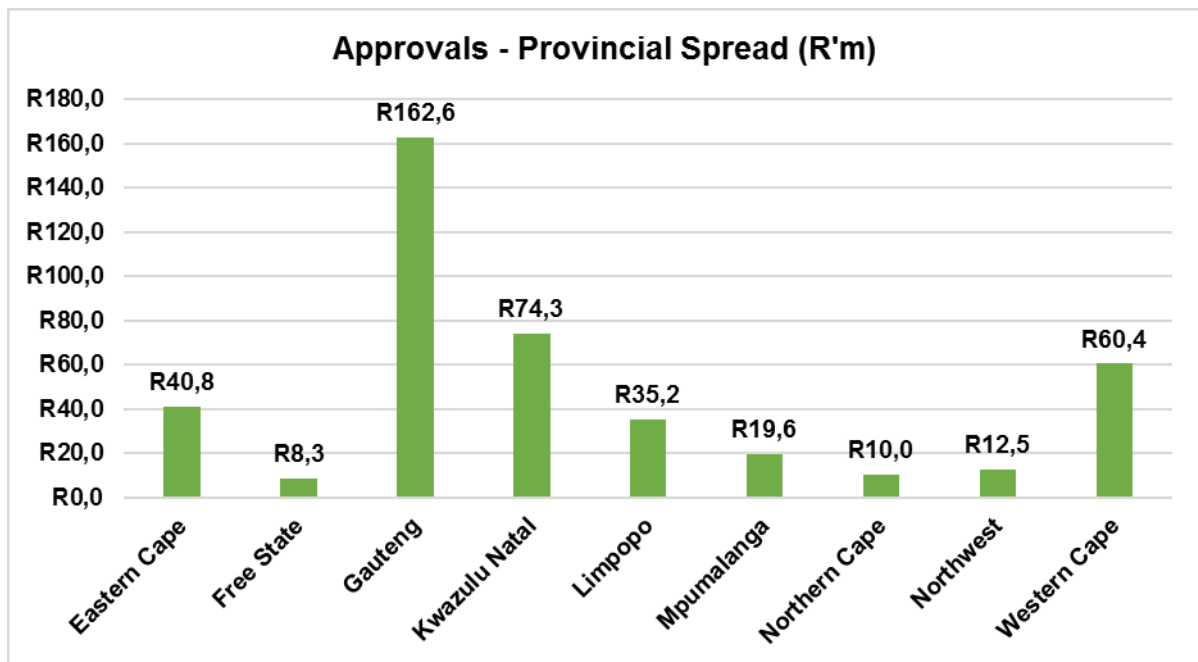
### **3. Budget allocation**

As previously mentioned, the SMME Relief Scheme was originally allocated a budget of R200m whereas the Growth and Resilience Facility had a R300m (budget) allocation. Due to overwhelming demand on the SMME Relief Scheme, the Business Growth and Resilience facility was subsequently closed on the 18<sup>th</sup> April 2020 and the budget was transferred to the SMME Relief Scheme. The SMME Relief Scheme was also oversubscribed and subsequently closed on the 23<sup>rd</sup> May 2020.

## **4. Approvals**

### **4.1. Provincial Spread**

As at 8<sup>th</sup> May 2020, 1 497 SMMEs were approved to the total value of R513mil. The value of the approval was later revised to a total R424mil across the same SMMEs as the country moved from level 5 lockdown to level 4 and ultimately level 3 due to many SMMEs being able to recommence business operations and therefor only requiring support for fewer months.



As per the above graph, Gauteng, KwaZulu Natal and Western Cape received the greater proportion of approvals at 38%, 18% and 14% respectively. This represents the provinces where the bulk of economic activity of the country is taking place.

#### 4.2 Development Impact

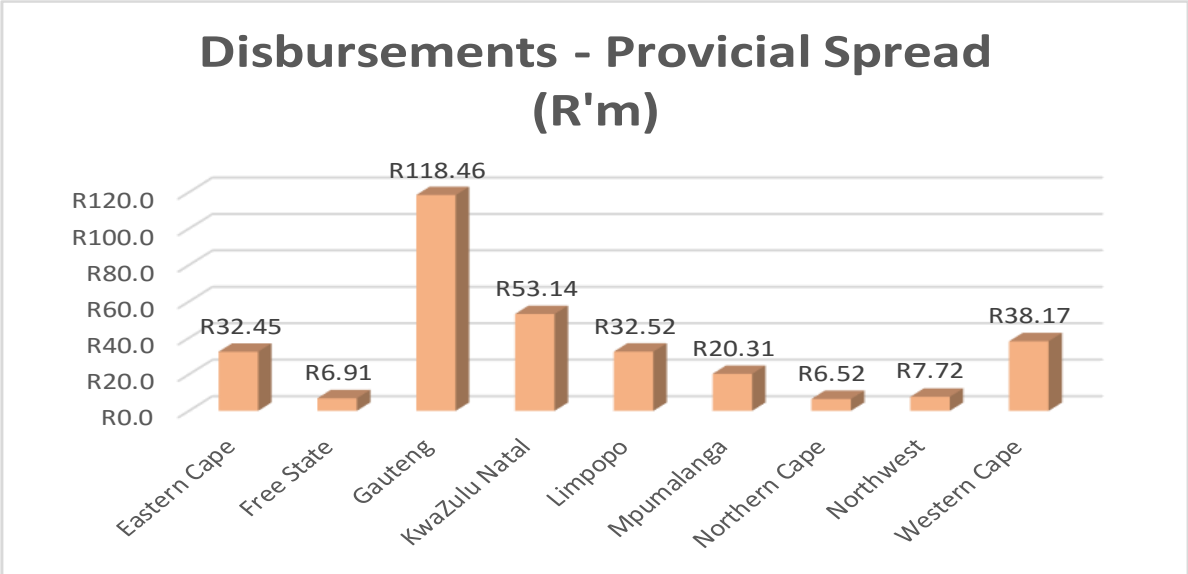
Total SMMEs Approved	1 497
Persons with Disabilities	0.3%
Youth Owned	20.8%
Female Owned	32.8%
Black Owned	66.9%

From a development impact perspective, of the total SMMEs that were approved 66.9% were black owned, 32.8% female owned, 20.8% youth owned and 0.3% were owned by persons with disabilities.

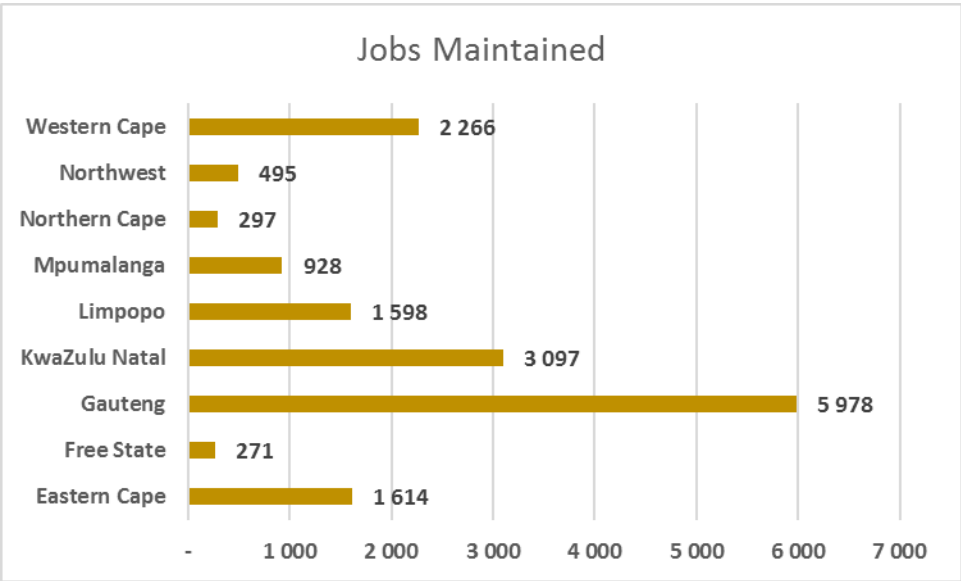
### 5. Disbursements

The disbursements were structured so that SMMEs were paid out monthly according to the approved use of funds. Therefore, every month they had to draw down on their facilities by providing proof that the previous tranche had been utilized for its intended purpose. This was done to prevent fraudulent activity as well as to ensure that the SMMEs are compliant with the terms of the funding. This approach proved a prudent approach as SMMEs did not end up being over indebted by drawing on funding that they did not require as the economy opened up in level 3 at the beginning of June 2020.

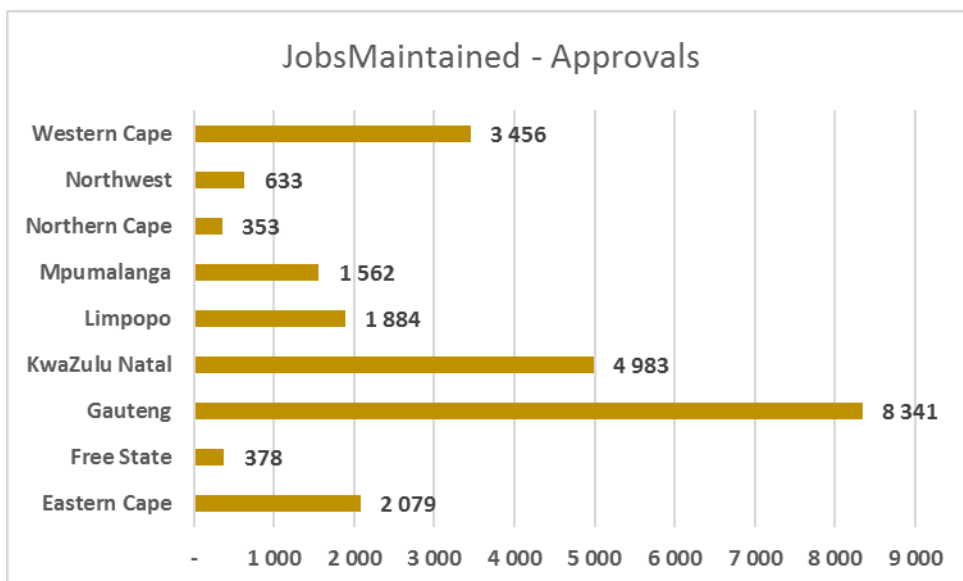
To date R316.2 mil has been disbursed as follows:



The following table shows 16,544 jobs maintained in the economy, spread across the country, through the disbursement that were made during the period:



The following table reflects the jobs (23,669), which would have been maintained had all the approved facilities to SMMEs been disbursed during the period:



The SMMEs disbursed to were in the following sectors:

Level 1 - Sectors	Sum of Disbursed Amount
Agriculture, hunting, forestry and fishing	6 736 537
Community, social and personal services	108 960 795
Construction	40 980 722
Electricity, gas and water supply	2 608 065
Financial intermediation, insurance, real estate and business services	22 530 677
Manufacturing	43 668 489
Mining and quarrying	8 173 728
Transport, storage and communication	15 588 114
Wholesale and retail trade: repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants	66 953 193
<b>Grand Total</b>	<b>316 200 320</b>

## 6. Lessons Learnt

### 6.1 Scheme oversubscribed

It was evident within the first few weeks of the scheme being launched that it was oversubscribed as the initial budget for this scheme was R200mil. However due to the demand DSBD contributed R400mil to the scheme and sefa R113mil in order to assist SMMEs. This made a total of R513mil available. This was not sufficient as is evidenced by the 4.17% approvals vs applications.

- a. In future, it should be anticipated that such schemes open to all SMMEs in the country would receive large volumes of applications and therefore need to be

adequately budgeted for. The total applications received of 35 865 required a budget of R12.3 billion at an average of R343k per application.

- b. The decision to close the scheme should have been made earlier when the applications reached approx. 110% of the allocated budget in order to avoid raising expectations with SMMEs that have not been met.
- c. The reputational risk due to the low budget on an oversubscribed scheme leads to complaints by SMMEs.

## **6.2 Lack of Automated Systems**

When the scheme was conceptualized it was anticipated that the application process would be automated through [www.smme.gov.za](http://www.smme.gov.za). However, this did not materialize in time which resulted in applications being received via a dedicated email inbox. This required manual screening of emails which resulted in capacity constraints and inefficiencies as well as application duplications being received from SMMEs.

- a. It is critical to ensure that the application processes are automated with a customer enabled interface which will be more efficient and result in quicker turnaround times.
- b. The automated system will also ensure that applicants are constantly aware of where their applications are in the process.
- c. Duplicate applications will automatically be eliminated through an automated system.
- d. Lastly an automated system will enable MIS Reports to be easily generated for decision making purposes at any point.

## **6.3 Execution Challenges**

Due to the high volume of applications, lack of automated systems & processes and the required turnaround times there were severe capacity constraints throughout the value chain including call center, deal making, legal teams etc.

- a. In order to respond to the demand adequately, it was necessary to pool the entire investments team at sefa (direct and wholesale) to processing applications.
- b. A delegation was granted by the sefa board to approve the transactions through approval by an Executive and an HOD which improved turnaround times significantly.
- c. Additional resources were sourced to capacitate the legal team and the loan agreements were automated.

- d. The Operations Hub team that processes disbursements were augmented by the credit team to ensure that disbursements are processed timeously.

## **7. Conclusion**

The SMME Relief scheme delivered on its mandate and objectives in that funding was approved within five weeks (2<sup>nd</sup> April – 8<sup>th</sup> May) to the value of R513mil through adapted processes and limited automation. Should there have been additional budget, this scheme could have assisted more SMMEs in the economy as the demand was not met.

The lessons learnt in implementing this scheme has provided sefa as well as Seda and DSBD an opportunity to ensure improve collaboration in the portfolio in delivery of services to SMMEs. This scheme formed as a launch pad for the further schemes being implemented by the portfolio. In addition, sefa was able to enhance its processes to ensure quicker turnaround times.

Lastly through the leadership of DSBD, the early conceptualization and design of the scheme ensured that it was able to be launched days after the lockdown occurred which demonstrated a responsiveness to the needs of SMMEs.