NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 84 [NW87E]

84. Inkosi R N Cebekhulu (IFP) to ask the Minister of Finance:

What are the full relevant details of the shortfall in businesses receiving 40% of the R500 billion stimulus package in loan (details furnished)?

NW87E

REPLY:

I presume that the Honourable Member is referring to the R200 billion Loan Guarantee Scheme (LGS), which is 40 per cent of the broader government-led R500 billion package that was announced by the President on 20 April 2020.

Firstly, there is no shortfall, or grant or loan, that any business is entitled to receive directly from the R200 billion scheme. Since it was introduced on 4 May 2020, the purpose of the loan guarantee scheme was to assist financially distressed businesses due to the Covid-19 pandemic. As stated in my response to a previous Parliamentary Question, **No 1346 [NW1716E]** on 24 August 2020, National Treasury entered into a partnership with the South African Reserve Bank (SARB) and the Banking Association South Africa, to launch the Covid-19 loan guarantee scheme on May 2020, to make it easier for banks to lend more than they normally would have, to small businesses during the lockdown, to assist them in their efforts to survive the pandemic. When the scheme launched, it applied to small businesses with a turnover below R300 million. On 27 July 2020, the scheme was improved and this turnover limit was abolished and replaced with a maximum loan R100 million per loan to qualifying businesses. Banks were to fund such loans from their own funds, using their own balance sheets. Government would only pay from the fiscus if these small businesses defaulted on their payments to their bank, and only after the bank had taken the initial losses, as follows:

- First loss is absorbed by the lending bank, 2% on each Covid-19 guaranteed loan;
- Second loss is indirectly absorbed by the lending bank – there is a guarantee fee with the SARB of 0.5%;
- Third loss is also absorbed by the lending bank to a maximum of 6% of the Covid-19 guaranteed loans; and

- Fourth loss is the guarantee provided, to be paid by Government.

As of February 2021, banks had provided R17.8 billion in relief to 13 173 approved beneficiaries. It should be noted that the actual take-up was lower than initially expected, as the demand for such loans was low, possibly because many small businesses were reluctant to take up additional debt, given the uncertainty around how long the pandemic would last. Companies may not want to re-invest and borrow more until they feel more confident about the future strength of the economy. In addition, even before the loan guarantee scheme took effect, many banks took their own initiatives to assist their customers, by allowing for payment holidays and other forms of forbearance, which provided significantly more relief than the loan guarantee scheme.

It is important to note that the National Treasury and the SARB never intended for the guarantee to be called in full, and expected only a relatively small portion of the R200 billion to be paid. Any call on the guarantee would impact negatively on our fiscal framework and our efforts to stabilise the debt-to-GDP ratio. As such, any underutilized portion of the scheme cannot be regarded as a "shortfall" nor should there be any expectation that it can be used to fund other programmes, as it would effectively increase such debt-to-GDP.

There is regular information on the take-up of the loan guarantee scheme, which is published in Treasury documents like the 2021 Budget Review, as well as on the website of the Banking Association South Africa at https://www.banking.org.za/news/jan-loan-scheme-update/ .