

SA SME business confidence hits all-time low heading into 2022

Business confidence among South African small business owners was decidedly low towards the end of 2021, after a notable increase in the second quarter.



Source: [Fixabay](#)

According to the Q3 2021 SME Index, conducted by Business Partners Limited, the confidence that SME owners have that their businesses will grow in the next 12 months has plummeted from 61% in Q2 2021 to 33% in Q3 2021 – a stark contrast with where confidence was during the same period in 2020 (72%).

The sharp decline can be attributed to multiple market disturbances.

Unfavourable economic conditions, exacerbated by loadshedding, a record petrol-price hike, the lingering effects of Covid-19 and subdued profits are some of the main driving forces behind this reported pessimism. As expected, the unrest that broke out in KZN and Gauteng in July 2021 also made its mark on business confidence.

The results of the SME Index align with the November 2021 SACCI Business Confidence Index and the Q3 Quarterly Labour Force Survey conducted by Statistics SA, which reports record-high unemployment.

Poor cash flow a challenge

Commenting on the results of the SME Index, Rayna Dolphin, executive director at Business Partners Limited explains: “After taking some significant strides towards economic recovery, we saw a slump in GDP in Q3 2021 – the ripple effect of which we saw in the results of the SME Index. Poor economic conditions and cash flow were the main challenges that SMEs predicted for the next six months. The two of course, are inextricably linked.”



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In Q2 2021, Business Partners Limited reported that confidence levels had steadily increased quarter-on-quarter from Q2 2020 – a pivotal period for small businesses who were hard hit by the outbreak of the pandemic and the subsequent imposition of a national lockdown. For many SMEs, better prospects seemed within reach with the onset of the festive season, but hopes were clouded with the arrival of the new Covid-19 variant, Omicron.

Multiple areas of confidence were assessed by the SME Index. Confidence that the local economy will be conducive for business growth in the next 12 months decreased to 20%, dropping by 28 percentage points from the previous quarter and reflecting an overall downward trend when compared to the same quarter last year.

Inaccessible business finance

Also on the decrease was SME confidence that ease of access to business finance will improve, which stood at 21% – a 23 percentage decrease from Q2 2021. Confidence that the necessary skills are available in the market is down to 28% from Q2 2021's 62%.

The clear drop in business confidence should be seen within the context of a number of external factors that were the direct cause of disturbances in the market and ultimately, instability for SMEs. As the SME Index demonstrated, only 44 percent of SMEs report that they are on track to recover some of the profit margins lost in 2020.

As Dolphin expands, “The position of South African SMEs is unique in that they are being buffeted by multiple headwinds. In KwaZulu-Natal and Gauteng, businesses are still feeling the ripple effect of the spate of looting and unrest that took place in July last year. While an issue affecting business across the country are the knock-on effects of a dwindling economy, direct indicators being the GDP which contracted 1,5% in Q3 2021 and a persistent increase in the cost of living as a consequence of the recent petrol-price hike.”



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On the subject of the petrol-price hike in early August 2021, which saw fuel increase by 91 cents, 32% of the SMEs who participated in the survey by Business Partners Limited reported that the increase had put their businesses in jeopardy. “As we know, the fuel hike has had a directly negative impact on SMEs in the transport and logistics sectors as well as on businesses along the retail supply chain,” explains Dolphin.

Lack of reliable power sources

The majority of SMEs (63%) also reported that the recent bout of loadshedding had a direct effect on productivity and profitability, and just under 37% reported that they had put measures in place to mitigate the impact – an observation that

Dolphin finds concerning: “As much as we would never want to accept loadshedding as a permanent part of the South African reality, more SMEs must prioritise finding ways to work around it while it is still a very real part of our lives and a very real threat to business.”

Despite the turbulence of the past two years, which has put South African SMEs through a trial by fire, small businesses in multiple sectors have demonstrated unwavering resilience. “As Business Partners Limited, we will continue to support SMEs as they weather their way through this storm and come out safely on the other side,” says Dolphin.

Dolphin concludes with a ‘wishlist’ of sorts for the SME sector in 2022, among which is the hope that the energy supply will be stabilised. “We encourage financiers, including government institutions, to emulate what we as a company are doing and offer SMEs finance to green their building or invest in alternative sources of electricity supply that can assist them with circumventing the effects of loadshedding,” she comments.

Also, on the ‘wishlist’ for SMEs is the improvement of the reliability of broadband – a crucial factor in the ‘new normal’ which is characterised by remote working. In addition, the rollout of the National Infrastructure Plan is a vital component of recovery.

As Dolphin concludes: “Small businesses are dependent on infrastructure like bridges, rail and roads, as beneficiaries of better service provision and as downstream service providers who compete for the tenders to improve these elements. We encourage government to roll out the National Infrastructure Plan efficiently and quickly by increasing infrastructure spend to give SMEs the boost they need to get through this period.”

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