

# SA small business confidence takes a knock as the energy crisis intensifies

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The escalation of the energy crisis in South Africa, which has brought with it the onset of indefinite stage 6 loadshedding, has had an eroding effect on business confidence. Across all indicators, the confidence of small- to medium-sized enterprises (SMEs) has plummeted once more after following an upward trajectory in the lead up to the end of 2022. Hopes of making a comeback will rely on the ability of small businesses to divert to alternative sources of energy.



David Morobe, executive general manager for Impact Investing at Business Partners Limited

This was the conclusion drawn by the Business Partners Limited Q4 2022 SME Confidence Index (SME Index). Commenting on the results is David Morobe, executive general manager for Impact Investing at specialist SME financier Business Partners Limited who predicted that the rising confidence levels seen last year would be hit hard when loadshedding intensified.

As he explains: "We know that the impact of the energy crisis has catalysed a ripple effect across the SME sector, with many businesses facing severe financial losses related to a loss of revenue, supply chain disruptions and a drop in productivity.

"In light of this, small businesses are now faced with the option of investing in alternatives to limit their reliance on the national grid. With loadshedding expected to persist indefinitely, accessing a predictable source of power is imperative to business continuity and should be treated as a top priority, which might remain a challenge for 27% of SMEs surveyed who indicated that their businesses could not afford to

invest in alternative energy solutions."

According to the Index, SME confidence that the local economy will be conducive for business growth within the next 12 months is at 64% – a 13 percentage point decrease from the previous quarter. Showing a similar pattern of decline is business owners' confidence that their ventures will grow in the next 12 months, which currently sits at 56%, having diminished by 9 percentage points compared to the previous quarter.

The most notable decrease in confidence levels was seen in the confidence SMEs have in the private sector and whether it is doing enough to support South African small businesses. This indicator saw a decrease of 14 percentage points when compared to Q3 2022, which as Morobe says: "Is a red flag given the critical role of the private sector in supporting the growth of small businesses. Many SMEs rely on supplier agreements with the private sector and structure their business models around this demand.

"Private sector players also provide small businesses with much-needed access to funding for kickstarting their ventures, purchasing assets and hiring talent. As such, the return of SME confidence in this area is a vital factor in creating an enabling environment for entrepreneurs, who are essential contributors to job creation, social empowerment and economic growth."

Despite the overall negative trajectory in Q4 2022, remarkable increases in confidence levels were noted on two fronts year-on-year, the first of which was a rise in the belief that government is doing enough to foster SME development (a level that is currently at 51% – a 17 percentage point increase compared to Q4 2021). Secondly, year-on-year, there was a 11

percentage point increase in SMEs which are confident that SA labour laws are conducive to growth – currently at 56%.

The latter development may relate to the perception of progress being made to reduce red tape and promote better ease of business including the establishment of the Red Tape team in the Presidency. Furthermore, provinces such as the Western Cape have made strides in this regard, particularly in the area of procurement and extending the opportunity for small businesses to win government tenders.

“Other key developments include the exemption of SMEs who employ less than 50 employees from the annual reporting requirements in terms of the New Employment Equity Act that was tabled late last year and became policy only in 2023. Generally, any reduction in red tape goes a long way in easing the administrative burden involved with conducting business and give small businesses some breathing room to focus on other needs and objectives,” says Morobe.

Cashflow retains its position as the most long-standing challenge identified by South African SMEs in the SME Index. Crime was reported as the second most pressing concern, followed by funding, which replaced ‘economic conditions’ as the third biggest roadblock to success.

In Morobe’s opinion, cash flow challenges have been exacerbated by the increase in load shedding, with the national grid buckling under existing pressures. 41% of SMEs surveyed reported having suffered business interruption and 39% claimed to have experienced a loss in productivity as a direct result of load shedding. This was compounded by rate hikes which escalated significantly towards the end of 2022 – for 60% of local small businesses, this market factor contributed to increased financial distress.

Morobe concludes: “The SME sector is being buffeted by headwinds both on a national and global front. It is therefore not surprising that their confidence has taken a knock. Hopes of recovering this confidence lie in the collaborative efforts of all sectors and stakeholders to provide the support SMEs need to switch to power alternatives and sustain their operations in the long term.

“As a company, we aim to address this need with initiatives like our Energy Fund for SMEs, which will supply loans for small businesses seeking to invest in their own alternative energy systems. We hope that initiatives like these will make the difference that the industry needs to find its feet and work towards the level of success we know it is capable of achieving.”

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