Briefing Note 1: The small business finance gap in South Africa

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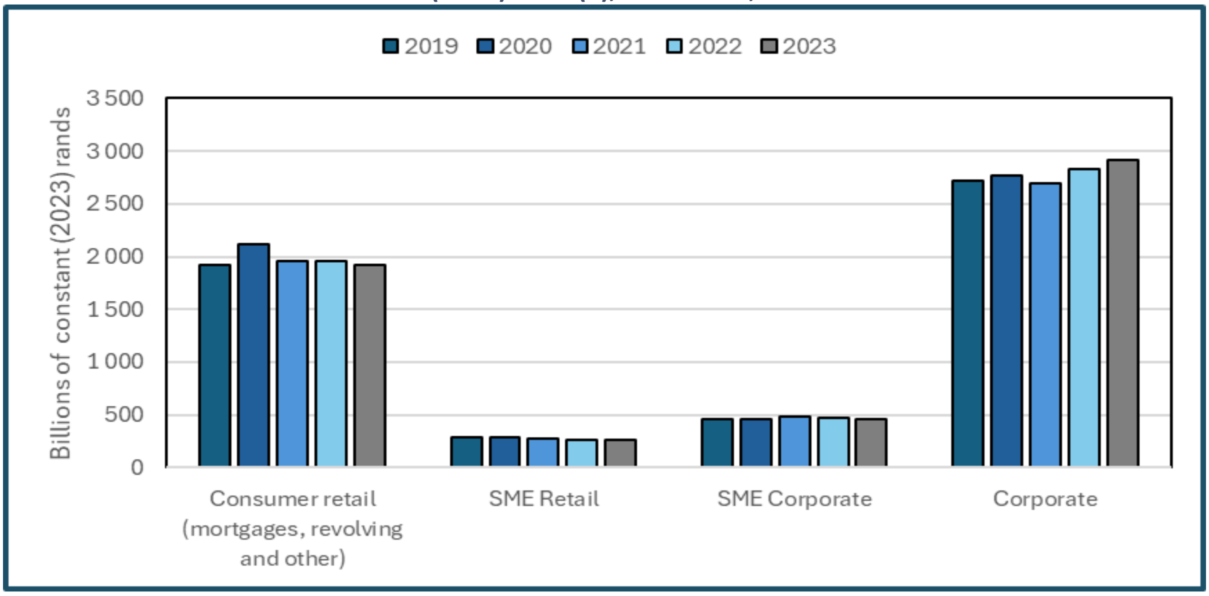
Despite their important role in sustainable economic development, small businesses often face barriers to growth and sustainability, including limited access to formal financing. They secure significantly less external funding than large corporations, creating a persistent financing gap driven by supply and demand-side factors. This brief provides more detail on the funding challenges, drawing on a recent TIPS publication, *Small business finance landscape and a finance gap in South Africa.*

In South Africa, lending disparities are pronounced: over the past six years, retail and corporate small businesses received only 13% of bank loans, while corporate entities received 51% and bank consumer clients 36% (Graph 1). Small businesses in the retail lending category are the least funded, whereas corporate small businesses have relatively better access to credit. Both groups lag far behind corporate borrowers and, in real terms, their access to credit in 2023 remains lower than in 2012.

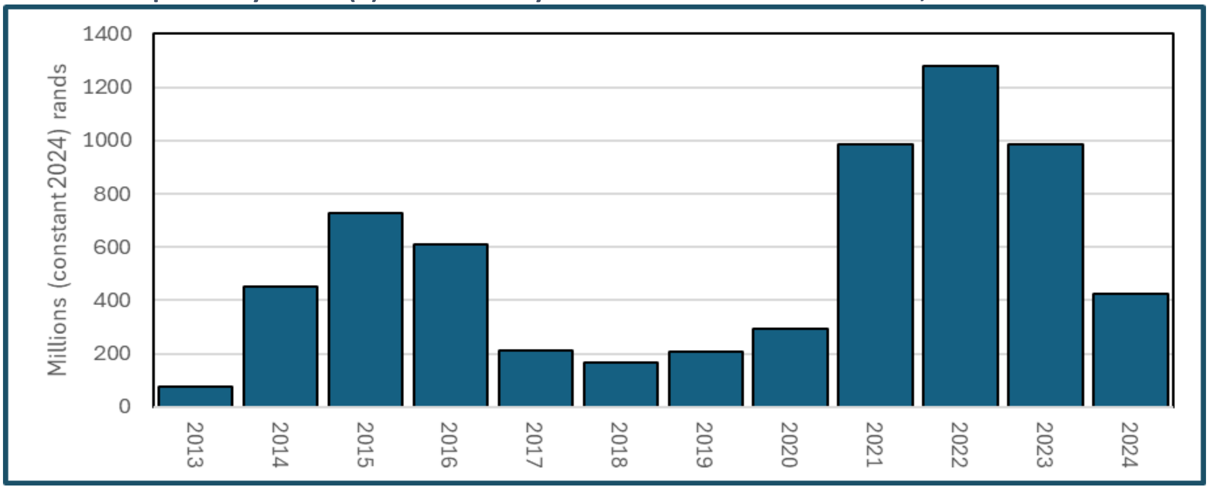
Graph 1: Gross credit exposure by banks to different market segments, 2019-2023 in constant (2023) rand (a), December, 2019 to 2023



Note: (a) Small businesses corporate has turnover of less than R400 million; small businesses retail has credit exposure equal to or below R12.5 million. Consumer retail includes revolving credit and residential mortgage loans. Figures are deflated with CPI. *Source*: Calculated from SARB. Gross Credit Exposure (BA 200) rand.

To bridge the SME financing gap, state development institutions such as the Industrial Development Corporation (IDC) and the Small Enterprise Finance Agency (SEFA) provide targeted financial support. However, IDC funding to small businesses has declined significantly, coinciding with SEFA's establishment in 2012. As shown in Graph 2, SEFA's funding initially grew after its launch in 2012, but fell by 65% between 2016 and 2017 due to fewer approvals and stricter credit conditions.[1] COVID-19 relief programmes temporarily boosted funding in 2021, but allocations have declined since then.

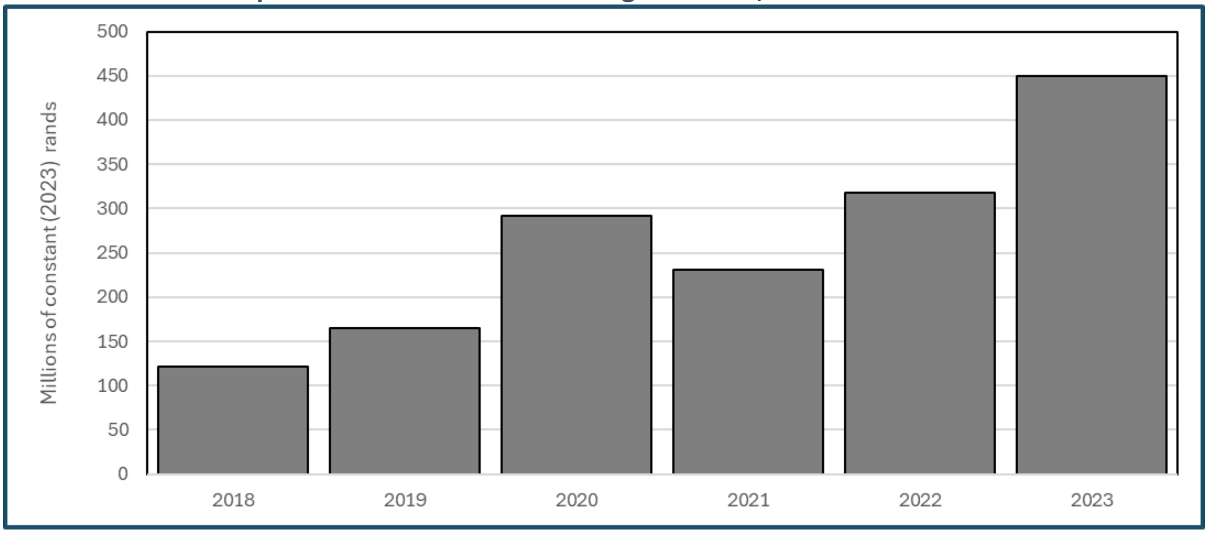
Graph 2: Payments (a) to SMMEs by SEFA in constant million rands, 2013 to 2024.



Note: (a) Payments are measured by disbursements from direct lending to small, medium and micro enterprises (SMMEs) and cooperatives from a minimum of R50 000 to a maximum of R15 million. Direct Lending mainly provides debt funding and, in certain programmes, offers blended financing instruments (a combination of loans and grants). *Source*: SEFA. Annual Reports 2013-2024. Direct Lending: Disbursements. Accessed on www.sefa.org.za in March 2025, deflated using CPI.

Credit guarantees and blended finance mechanisms help ease the barriers to small businesses by reducing risks for lenders. The Khula Credit Guarantee Scheme, administered by SEFA, provides credit guarantees through intermediaries such as banks and trade credit providers. In response to the COVID-19 pandemic, the value of guarantees in constant terms surged by 77%, rising from R165 million in 2019 to R292 million in 2020, and reached a peak in 2023 (Graph 2). Despite this growth, credit guarantees still represent only 0.06% of the roughly R717 billion in loans provided to small businesses by South African banks.

Graph 3: The total value of credit guarantees, from 2018 to 2023



Note: The SEFA's Khula Credit Guarantee scheme makes up the total value of guarantees taken up.
Source: SEFA annual reports 2022-2023. Accessed on www.sefa.org.za in July 2024, deflated using CPI.

[1] SEFA. (2017). Annual Report 2016/17. Pretoria: Small Enterprise Finance Agency. Available at: https://www.sefa.org.za/publications?category=annual%20reports (Accessed March 2025).

To address the funding gap for small business requires a significant scaling up of current programmes. That requires expanding the resources available to both national and provincial development finance institutions. It also needs stronger collaboration with private financial institutions. Furthermore, credit guarantee schemes should be broadened and streamlined, as their uptake remains low, particularly in addressing barriers such as insufficient collateral and limited credit history.