

South Africa

No thanks, say informal-sector entrepreneurs to easy loans offer

Government's precondition is to register for tax and UIF.

Ciaran Ryan 1 Jun 2020 09:00



The sector is regarded with hostility by lawmakers, but when the Small Enterprise Foundation granted a payment holiday to clients, about 60% still paid their dues. Image: Moneyweb

Government is showering money on informal sector businesses to tide them over the Covid-19 crisis, but many township entrepreneurs seem less than enthusiastic about the offer.

To qualify for the relief offered by the Department of Small Business Development, they will have to obtain a licence to operate from the local municipality.

They will also need to register with an alphabet soup of regulatory agencies – including the Companies and Intellectual Properties Commission (CIPC), the South African Revenue Service (Sars) and the Unemployment Insurance Fund (UIF).

And they will need a bank account – a red flag to many micro enterprises that deal only in cash.

A survey by the Small Enterprise Foundation (SEF), which has 216 000 informal sector entrepreneurs on its loan books, found only 12% had bothered applying for

business permits. SEF founder John de Wit says this means even fewer will likely have applied for loans.

“In our discussions with informal sector entrepreneurs, we are finding that very few of them are willing to go through the process of moving from the informal to the formal sector, mainly because they don’t want to be hounded by the taxman going forward.

“They’re quite happy flying under the radar and not having to comply with all sorts of regulations and having to pay tax,” he says.

Motive?

“We find it incredibly impractical and irresponsible to be offering assistance at this time to informal sector businesses on the condition that they formalise themselves, and it makes us wonder what is the purpose of these programmes – to genuinely assist businesses or to rope them into the formal sector,” says De Wit.

The Department of Small Business Development has launched a number of initiatives to assist small businesses, including the SMME Debt Relief Scheme, a Spazashop Support Scheme and more recently, a scheme to support township and village businesses.

The department’s website says the SMME Debt Relief Scheme closed recently, with R513 million approved for funding and nearly 13 000 applications received, of which 4 840 are currently being processed. A further 21 200 applications were incomplete, resulting in delays.

‘Underwhelming’ response to state relief

The response appears to be underwhelming says De Wit, based on a sampling of businesses in the SEF network. More than half of informal sector entrepreneurs had returned to work in the last two weeks, and the figure will likely jump to 100% in June, he says.

“The policing of the lockdown has been a mess, with some police trying a blind-eye to workers trying to eke out a living, and others preventing people from doing so,” he adds.

“These are desperate times and you cannot stop people from trying to put food on the table. Law enforcement officers and government officials need to understand this.”

Excellent informal sector data resource

SEF is a non-profit organisation that has lent more than R10 billion to some 650 000 entrepreneurs over the last two decades, and keeps excellent data on the health of the informal sector.

Its bad debt ratio is an astonishingly low 0.22% over the history of the organisation, far superior to anything achieved by the commercial banking sector.

It is able to keep bad debts to a minimum by ongoing contact and mentoring of informal sector businesses, and by arranging borrowers into cells of five or six, all of whom are expected to vouch for each other and stand good for each other's loans if one members of the cell defaults.

SEF granted a repayment holiday in May for those unable to work and meet their repayment obligations, but still about 60% paid their dues.

Listen to Nompu Siziba's 2019 interview with SEF co-founder and MD John de Wit:

Sector accounts for around one in six of all jobs

According to a study published by HSRC Press, 'The South African Informal Sector: Creating Jobs, Reducing Poverty', the informal sector provides employment and income for 2.5 million people, or about one in six of all jobs in the country, and contributes an estimated 6% of national GDP.

The figures are likely outdated, particularly since the onset of the Covid-19 crisis, but the study paints a picture of a sector that is regarded with hostility by lawmakers keen to control everything that moves.

Crucially, the informal sector is the last refuge for those unable to find entry to formal sector employment and is also a vital backstop for workers in the formal sector who have lost their jobs.

There is a hierarchy within the informal sector: lower tier firms are more survivalist in nature while upper tier firms are more growth oriented and enjoy higher earnings, according to authors Nwabisa Makaluza and Rulof Burger.

While rudimentary entry-level firms predominate, growth-oriented firms accounting for roughly a quarter of the total.