

Loadshedding, petrol and interest rate hikes hit SME confidence levels

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South African small and medium-sized enterprises (SMEs) confidence levels took a dip in second quarter of 2022. This is according to the recently released Q2 2022 SME Confidence Index conducted by specialist SME financier, Business Partners Ltd, which reveals that SME confidence that the South African economy will be conducive to business growth in the next 12 months declined during Q2 of 2022, a stark contrast to the first quarter.



Rayna Dolphin, financial director at Business Partners Limited

The Business Partners Ltd SME Confidence Index, which celebrates its 10th year anniversary in 2022, measures business confidence levels relative to labour laws, access to finance, state-level interventions and broader socioeconomic realities. During this quarter, the index recorded its highest number of respondents.

Confidence levels that the SA economy will be conducive for growth in the next 12 months has decreased to 63%, a 14 percentage point decrease from Q1 2022. Concurrently, SME's confidence levels in their own business growth over the next 12 months also dropped to 70% down 4 percentage points from the previous quarter.

The continued threats of loadshedding and crime, coupled with the effects of the rising petrol price and interest rate hikes, have had knock-on effects on small businesses.

"Despite the noticeably lower confidence levels relating to the next 12 months, the South African SME sector remains resilient, and this set of

data is evidence of the sector not letting the socio-economic challenges break their spirit," explains Business Partners Limited's financial director, Rayna Dolphin.

In fact, the Q2 SME Index recorded a rise in confidence levels in certain areas. SMEs have confidence levels of 55% that government is doing enough to foster SME development in South Africa – a year-on-year (YOY) increase in 26 percentage points. 66% of SMEs surveyed are also feeling more positive about finding staff with the right skill set, a 17 percentage point increase from Q1 2022 and a 4 percentage point increase YOY.

"Aligning with a decline in confidence of growth over the next 12 months, when compared to Q1, the general outlook is generally negative but does have some areas of positivity, despite the many challenges that the sector faces," says Dolphin.

A very good indicator that the SME ecosystem is showing visible signs of progress is the increase in the level of confidence that the country's current labour laws are conducive to growth. Up by 18 percentage points YOY, this indicator is now at 59% for Q2 2022. Another indicator worth mentioning is the fact that 58% of SMEs surveyed have employed people in the last 12 months, with 45% saying that they have employed staff in the last quarter.

"These paint a much brighter picture when compared with the last quarter, when confidence levels in finding the right skills to employ was at an all-time low," she says.

For the first time in several years, the top three challenges that SMEs face have shifted. This quarter, funding has dropped

out of the top three listed challenges, now overtaken by crime. As it stands, the biggest challenges facing SMEs for Q2 2022 are cash flow, economic conditions and crime.

These results beg the question: Does this mean that SMEs are now receiving the required level of funding or has crime become just become a greater concern? This sentiment aligns with the steep rise in crime rate statistics released in Q2 and furthermore, the industry has also seen new entrants in the SME lending arena, which has increased the supply of funding. "Only time will tell which elements are influencing these differing results," says Dolphin.

In addition to these concerns, 88% of SMEs surveyed were affected by the interest rate hikes during the first half of the year, with 59% noting that their businesses were negatively impacted by consumers spending less as they cut back on non-essentials.

Record high petrol prices saw 89% of SMEs surveyed feeling the crunch, confirming that the hikes directly affected their businesses. Loadshedding, which has persisted and intensified during 2022, impacted 81% of respondents, with 45% of this constituency experiencing a loss in productivity, and 36% suffering business interruptions that resulted in insurance claims.

"The local SME sector has had to weather a number of storms over the past two years. Despite having survived the worst of the pandemic, they continue to face global and local challenges. We at Business Partners Ltd supported our clients through the Covid-19 pandemic and we will continue to provide support SMEs with finance and mentorship. We hope and look forward to more positive times ahead for SMEs," concludes Dolphin.

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