SMALL BUSINESS WEBINAR QUESTIONS AND ANSWERS

Economic: Busisiwe Radebe – Nedbank Economist

You said many countries were busy doing quantitative easing. (printing money from nothing since we aren't on the gold standard anymore). Many economists say this can lead to hyperinflation. Since the start of lockdown until yesterday, a 2 litre bottle of soda water has cost R9,99; yesterday it was priced at R11,99. My real question is this: how do you balance quantitative easing and (hyper) inflation?

Answer: Many countries are easing monetary policy currently. They are doing this in response to weak demand and low inflation. If they were doing it in an environment of brisk demand, then the risk of higher inflation would be elevated. The countries that are doing some form of quantitative easing have low inflation, and the additional money – as we have learned from the Great Recession – does not readily go to the real economy, but remains in the financial sector. So, the risks to inflation are not that high; something else we learned in the aftermath of the 2009 Financial Crisis.

Can these numbers be achieved in consumer spending? The eight weeks of hard lockdown have slaughtered any cushion consumers had.

Answer: The current crisis has made economic forecasting difficult. This means that the forecasts given for household consumption expenditure (HCE) growth of -2,4%, 2,2% and 1,9%, in 2020, 2021 and 2022 respectively, are our best forecasts based on what we know at the moment. If new information that we have included in our models becomes available, then we will relook the numbers. The best way to think about our current HCE forecasts is to compare them to typical HCE growth numbers before the Great Recession. It was not unusual for HCE growth to be upwards of 5% or 3% per year in that period. So for HCE growth to decline by 2,4% as we are forecasting for 2020, underscores just how weak consumer spending is.

There is interest rate relief from the Reserve Bank. Why is there nothing from the banks? They just keep on adding 3,5% onto the repo rate. Surely banks can also come to the party?

Answer: The repurchase rate (repo rate) is a policy indicator and does not necessarily reflect the rate at which commercial banks raise their funding. A study commissioned by the Reserve Bank a few years ago concluded that the average cost of funding for the banking sector is higher than the repo rate. That means if a bank lends money to a client at the prime rate, the maximum margin it can make over the repo is 3,5% (that is, if the commercial bank's funding is at repo, which the study showed it on average was not). Also note that the prime interest rate is an indicative rate and banks can and do offer rates lower than the prime rate.

Could you give me some clarity please, is the GDP growth for 2021 and 2022 negative, and negative respectively, or are these numbers positive? It's a bit confusing seeing they are coloured red with no negative signs.

Answer: Our forecasts for GDP growth are: (negative) 7% for 2020, (positive) 3,1% in 2021 and (positive) 1,2% in 2022. That is, a deep contraction this year and then some recovery over 2021 and 2022 from the low base in 2020. Think of the 3,1%

in 2021 this way: if you are a car manufacturer and make no cars this month and make one car next month, it would seem as if your production went up by 100% in the following month. The 100% is because of the low base in the preceding month. Note that growth is forecast to be 1,2% in 2022. This is similar to growth rates in the years before 2020. This shows that in 2022 growth just goes back to trend.

What is the forecast for 2020 and 2021? There has been no confirmation for such a forecast since 2012 to date. I would appreciate it if you could explain how this is feasible in layman's terms?

Answer: The actual GDP growth rates for 2012 to 2019 are such because of the prevailing conditions over that period. Our forecasts looking forward are based on expected conditions. For example, the decline in growth of 7% we forecast for 2020 is based on the fact that the world is in the grip of a pandemic and South Africa had the strictest lockdown in the world. One would not expect to see growth shrink by 7% in the years just before 2020 because the prevailing conditions were different, and the world was not in the grip of a pandemic. The increase in the growth forecast to 3,1% in 2021 is premised on things going back to some normality after the pandemic and the 1,2% growth rate of 2022 just shows that we believe that growth will return to its recent trend.

Is it now the time for pumping in new money – from both the public and private sectors – into infrastructure and property to support the recovery of households?

Answer: It can be argued that the best stimulus in times of crises, is stimulus that goes directly to households and businesses and can be used immediately. That can come in the form of government-guaranteed loan schemes for businesses and increasing social grants to households – both of which are part of government's Covid-19 relief package. If investing in new infrastructure fulfils the two conditions, money goes directly and immediately into businesses and households. Then yes, the answer is to invest new money into infrastructure during a crisis.

If household expenditure is the driver of our economy in these difficult times, is it not best for our government to restrict most goods that form the basket of household expenditure, such as furniture and building materials, to be imported into our country?

Answer: Economically, the type of restrictions you suggest could lower a consumer's utility. Consumers should be allowed to shop from the supplier that gives them the best quality and price. Limiting suppliers, limits consumer choice. For example, if there are three suppliers of a good and only one is local and a consumer is forced to buy local, the local supplier can raise their price and lower the quality because they know that the consumer has no other choice. By opening up the market for competition, the local supplier will then have to ensure that they can compete with the other two offshore suppliers with regard to quality and price. This is positive for the consumer.

With Covid-19 changing how businesses operate, how is the airline business going to survive since there will be less traveling? Do we see air tickets going down in an attempt to achieve small profit, quick return?

Answer: There is an economic argument that can be made for air travel (especially international air travel) being too cheap. While I am not a transport economist, I think there will have to be a change in the way air tickets are priced. As economies open up, more and more air travel is permitted. The new pricing (if any) and the long-term health of the aviation industry will become more apparent.

The best emerging-market example of economic growth that we have is China. Their strategy to achieve consistently good GDP growth for the last two decades is simple: they made big capital investment in manufacturing/production. Do we have a similar approach in SA? Or are we 'throwing too much good money after bad ideas', eg with ESKOM and SAA?

Answer: South Africa needs investment to grow. In order to obtain that investment, the country needs to be investor-friendly. This is especially important because, unlike China, the South African government is not in the fiscal position to undertake all these major investments and therefore needs to rely on the non-government sector. The answer seems simple – more investment – but in the case of South Africa, it is more complicated, and the answer below explains why this is so.

What fundamental reforms does our Government have to adopt to help stimulate growth above the stimulus package?

Answer: To improve the situation in South Africa, investment is needed. With investment will come higher GDP growth and with higher GDP growth will come job creation (note that GDP growth in

SA leads to job creation). It is therefore important for the country to deal with all the factors that impede investment. These factors include a sometimes-uncertain policy environment. Over the years policies around mining legislation, visa rules and the auctioning of spectrum among others have probably hurt investment more than they have helped. A young population such as ours should be an asset for companies wanting to invest in South Africa, but without upskilling the population properly we have at times lost some of the advantage our population gives us. These factors that have impeded investment in South Africa were there before Covid-19 and will now need to be dealt with together with the new challenges to investment that Covid-19 has brought about if growth is to improve.

Are you expecting massive layoffs in the government sector?

Answer: Government employees also include teachers, nurses and policemen/women among others. For example to lay off nurses during this time would probably be unwise and the laying off of teachers, given the educational situation in the country, would probably also not be for the best. So, I do not foresee major layoffs in the government sector.

Allon Raiz – Founder and CEO, Raizcorp

Do you have tips or advice to small businesses regarding what steps could be taken between now and when that recovery starts setting in?

Answer: It's really about all the points that I made in my presentation. But more specifically, I think right now, it's about looking at broadening your product set, broadening your market set, and broadening your ability or your capability to create a new product. Competency needs to be built right now – I call it the Lego pieces in their business, where they are able to produce a new product very quickly as they identify a new opportunity. They need to come back to their Lego pieces. You have to get back to your core competency, and you have to reconstruct that in a new way to produce a new product very quickly. Most companies are very slow to produce a new product and right now I think the small businesses that are going to survive are the ones that are able to produce new products by using their core competencies very quickly.

In addition, reflect very carefully on your cost base, given the type of new normal that we are likely to be faced with in terms of volume and the time it's going to take to recover. Staring down your costs and seeing where you can reduce costs in the short term, should also be considered.

How do we reach consumers globally?

Answer: The boundaries of geography have disappeared. The boundaries of being in Johannesburg, therefore, only being able to deliver in Johannesburg have changed. The whole world is ready to consume products and services from anywhere else in the world. I know that I am consuming products from all over the world right now – whatever serves me right now. What I'm trying to get entrepreneurs to reimagine is that there are no boundaries to their businesses and many businesses that are producing services locally are having to reimagine how those services are delivered. And the example that I gave is that the baker doesn't necessarily need to make bread; the baker can produce a recipe book or a guide on how to make bread. So, the knowledge, the skill is translated not into the physical product or into service, but into information. And that information can be sold. And to me that's really the route that I'm asking entrepreneurs to start thinking along.

How can we make it in the film industry, given the changes?

Answer: This is an ideal industry to be in right now as everyone will be wanting to digitise their products. You have the equipment and can create fantastic learning material. I have just hired a 'movie' producer to do exactly that for all our training.

What is the one metric you would focus on to get scale regarding sales (sell, sell, sell)?

Answer: You need to know your fixed-cost amortisation number. This means that you might have some fixed costs that go into the creation of a product, eg research and development (not cost of sales). You would aim to recover these costs over a certain number of units sold. That's your first target. Thereafter you would want to keep doubling that number as your target.

Our business is a retail accessories shop with 80% tourist trade. How are we going to survive when locals don't have the money for luxury items?

Answer: Here are a few thoughts:
Sell your products online to the exact type of clientele who were buying from your shop. Hopefully you have kept records of whom you sold to in the past and can make contact with them and tell them that you are now online.

Find niches in the luxury goods market where the manufacturers are good at manufacturing but bad at selling/marketing. Then begin to find international websites to sell to your intended market and sell via those websites.

As the owner of a beauty salon, how do I do business internationally?
Answer:You have skills. The idea is how to reuse those skills and not to think about the actual salon. For example, have you ever thought of a new methodology of doing beauty therapy? Why not create a course and sell the course? Why not help people (for a fee) to do their own treatments virtually? There are hair salons that are getting women to send them their hair from home but talking them through the colouring, etc.

What do you need to consider when you want to name a price for a service rendered specifically in Training and Development?
Answer:This is a complex answer, without context. But I will try to name a few things:
- What did it cost you to develop in terms of time? What is the cost of that time? How many 'units' do you want to amortise that cost over? Take that cost and make a mark-up on that plus the actual time to deliver.
- Consider competitor pricing.
- Reflect on the pricing based on your positioning of your product. Do you have a bums-on-seats (volume) business or only a few exclusive clients?

Relief Fund, Banking and Finance: Alan Shannon – Executive: Nedbank Small Business

Why don't you offer a six-month adjustment to mortgage loans with only interest and admin fees payable? The three-month instalment-holiday just increases the debt burden.

Answer: The rules governing payment holidays have been agreed with the authorities, and they require us to provide three-month payment holidays, with the possibility of extending them for a further three months as long as the tenure of the payment holiday does not extend beyond September of this year. All home loans for which a payment holiday have been granted will ultimately be restructured providing for the adjustment referred to in the question.

How dangerous are new debt engagements to SMEs now, with an uncertain 12 to 24 months ahead?

Answer: Each business needs to assess the merits associated with taking on additional debt to fund their business operations. Debt should only be entered into if the business owner has a high degree of certainty that the debt funding will assist the longer-term sustainability of the enterprise.

Why does Nedbank require a personal guarantee in terms of clients signing personal surety for this SME loan, which is guaranteed by government?

Answer: This will not always be required. However, providing the surety of the business owner allows us to consider the owner's loan to the company as capital, and not debt. This improves the assessment prospects when considered by a bank's credit assessment process. The banks are also assuming a level of risk with Covid-19 loans. The risk is not fully mitigated by the government guarantee; it is partly mitigated.

I haven't exhausted my liquidity yet. How long will these lending options be available, in case we need to access this type of funding a little later in the year?
Answer: As it stands, applications will be considered up to the middle of August. This may change and be extended.

What if you do not have assets? Are tools part of the assets?
Answer: Tools are deemed as assets. Assets are not a prerequisite for loan applications.

My company has a confirmed purchase order and needs funding to service the order. Can the Nedbank SME Loan Scheme assist?
Answer: Please engage with your relationship banker who will discuss all funding options available; purchase orders can contribute to the strength of a funding application.

If there are no shareholder loans (lent to or borrowed from shareholders), does the bank still require a surety?

Answer: This can only be determined once we've assessed the specifics of a particular application; each application is assessed on its individual merits

As a small business that has not been trading as a day-to-day business, do you lend to a business that does small tenders?

Answer: This can only be determined once we've assessed the specifics of a particular application; each application is assessed on its individual merits.

What is the turnaround time for the SME fund to be approved?

Answer: Typically, three to four days.

What happens if you don't have audited financial statements?

Answer: There is no need to have audited financial statements; you are required to provide annual financial statements, signed off by an independent accountant.

My bank account has been in good standing from last year. I can only produce five months' statements that end February 2020. Does it mean that I don't qualify?

Answer: Unfortunately, you would not qualify in terms of the Covid-19 SME Loan Scheme. You should rather pursue funding alternatives outside of this arrangement.

If you have applied for relief and met all the criteria except the 'good standing' rating as at the end of February 2020, but you can motivate why, will you still be considered?

Answer: To the extent that the motivation can satisfy the bank that you were in good standing as at 29 February, then the answer would be 'yes, to the extent that the motivation can satisfy the bank' .

Does the Covid-19 SME Loan Scheme still have funds available?

Answer: There is still plenty of scope to facilitate loans under the Covid-19 SME Loan Scheme.

Can you please give us an indication of the rejection rate on the government loan and the most common reason for rejection? Since it was a collective decision with the government, could you please reconsider the requirements so you could reach more people?

Answer: Rejections are predominantly related to applicants in good standing prior to 29 February 2020. We are supplying updates to all stakeholders associated with the scheme on approval and decline rates.

Is assistance only Covid-19 based? What about businesses that have been established since 2019 but that have never been able to get funding to kick off?

Answer: Regrettably the terms associated with the Covid-19 SME Loan Scheme suggest that the scheme is not an appropriate mechanism for new businesses. The scheme is designed to sustain businesses that had a sustainable record prior to Covid-19.

If my business has been going for almost a year, can I still apply for relief? Do you do bureau checks on individuals or businesses?

Answer: Bureau checks are done on the individual. Businesses that have not been in business for a year would generally not qualify for the Covid-19 SME Loan Scheme.

Is property a better investment than cash now, due to the low interest rates?

Answer: Investment decisions are a personal choice; we suggest a conversation with a Nedbank Financial Planner to discuss the best investment alternatives at this time.