COVID-19 LOAN GUARANTEE SCHEME: WHAT YOU NEED TO KNOW

The COVID-19 Loan Guarantee Scheme is aimed at supporting small and medium businesses who have lost significant income as a result of the steps taken by the South African government to curb the spread of COVID-19. Announced by President Cyril Ramaphosa as part of the R500 billion stimulus package, the details of the scheme were agreed by the National Treasury, the SA Reserve Bank and the Banking Association of SA (Basa) in May.

The National Treasury has provided an initial guarantee of R100 billion to the scheme and it has indicated there is an option to increase the guarantee to R200 billion if necessary and if the scheme is deemed successful.

The scheme will provide government-guaranteed loans through participating banks to firms with an annual turnover of less than R300 million. The loans will improve business liquidity and help these businesses stay active for the duration of lockdown restrictions and return to being economically productive once all restrictions are lifted. In the longer-term, its objective is reviving the economy and preserving jobs.

How it works

The National Treasury, South African Reserve Bank and commercial banks represented by the Banking Association South Africa, have agreed on the relevant legal framework, and financial and operational requirements.

The National Treasury provides a guarantee to the Reserve Bank, which records the guarantee as a contingent liability on the government's account. The Reserve Bank will then lend the money to commercial banks at the repo rate (currently 3.75%) plus a 0.5% guarantee fee.

Banks will lend this money to qualifying small and medium-sized businesses at the repo rate plus a fixed spread of 3.5%. Each applying business may get only one loan under the scheme and they have five years to repay the loan.

The Reserve Bank is the administrator of the scheme and it will publish an annual report setting out how much each bank has used from the scheme and the performance (default rate) of each bank's COVID-19 loan portfolio.

The government and commercial banks are sharing the risks of these loans and while the arrangements are designed to encourage banks to lend more than they would otherwise lend, the Treasury still expects banks to make sound lending decisions and avoid reckless lending.
Treasury said the intention is not for the banks to make a profit from the loans. It said any net profits would be pooled to offset losses in the scheme to minimise total losses to SA taxpayers.

Which banks are participating?

Absa, First National Bank, Investec, Mercantile Bank, Nedbank and Standard Bank are accepting loan applications from eligible businesses which bank with them.

Which businesses qualify?

To qualify for the COVID-19 Loan Guarantee Scheme a business must:

- have a group annual turnover of less than R300 million
- have been up to date with its loan payments to the relevant bank or be an account holder without any loans at the relevant bank as at end-February 2020
- have an existing relationship with the bank that grants it the COVID-19 loan
- be registered with SARS
- be financially distressed as a result of the COVID-19 outbreak and subsequent lockdowns

What are the conditions imposed on the business?

Several conditions are imposed on the business. These include:

- the loan can only be used for operational expenditure (see detailed list below)
- the loan cannot be used to pay dividends, make investments, pay bonuses or pay off other existing loans that the business may have
- the loan amount will be disbursed in up to 3 monthly instalments. Thereafter no repayment will be expected for at least a further 3 months (some banks offer longer payment holidays)
- the relevant business will have 5 years to pay off the loan and set associated interest (refer to rates outlines above)
- each applying business is entitled to only one loan
- banks can require businesses to provide security or suretyships and may impose additional conditions as they deem fit

- banks are not obliged to extend COVID-19 loans and will therefore use their own risk-evaluation and credit application processes to decide whether or not to approve an application.

What expenses can the loan be used for?

The loan is intended to cover specific operational expenditures of the business and are limited to:

- Salaries and wages
    1. Employees (gross payroll = cost to company, including income tax remittances, pension, medical aid but specifically <u>excluding</u> payments in relation to retrenchments)
    2. Directors, trustees, members and other like officers but specifically <u>excluding</u> payments in relation to retrenchments, loan repayments, profit, shareholder or member distributions, directors', members', trustees' and/or management fees and/or royalty payments to directors, members, trustees and/or shareholders
- Rentals and lease payments
- Utilities Insurance premiums
- Other operating expenses limited to security services, cash in transit services, cleaning and maintenance services
- Supply chain costs (direct and indirect costs and expenses associated with the domestic and/or foreign supply of goods, materials and services to a business, including the costs and expenses of importing and exporting goods and materials.

What documentation will you need to submit with an application?

Businesses wanting to apply for a loan under the scheme will need to submit documentation with there application. The list of required documentation may vary slightly depending on the bank approached. As a guideline, the business will need to prepare the following:

- A completed application form (please refer to the links below)
- Proof of Companies and Intellectual Property Commission registration
- A calculation of the facility required by the business to fund up to three months of qualifying expenses
- A detailed cash flow projection should support this and substantiate the facility requested year-to-date management accounts with expenses sufficiently detailed to enable the separate identification of the qualifying operational expenses.
- Most recent annual financial statements
- Proof that the entity is registered with SARS and in good standing
- Constitutional documents of the applicant (if not already in the bank's possession)

What are the benefits of participating in the scheme?

- The loan covers up to three months' full operating expenses.
- There is no upper limit, but the amount is driven by business needs and affordability.
- The interest rate is priced at the prime lending rate
- The interest rate is the same across all participating banks
- No payments due for the first six months (but interest accrues)
- After six months the loan is to be repaid through equal monthly instalments over five years
- Loans can be repaid earlier in full without penalties.

Links

National Treasury http://www.treasury.gov.za/
The South African Reserve Bank https://www.resbank.co.za/Pages/default.aspx
The Banking Association of South Africa https://www.banking.org.za/

Further queries regarding applications should be directed to the individual banks, which are administering the scheme.

However, Business for SA would be interested in hearing about any difficulties people may be experiencing in accessing the loan. Please write to us at info@businessforsa.org

Labour Workstream
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