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| **COSATU Submission:****R200 Billion Loan Guarantee Scheme****19 August2020** |
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**Submitted to:****Portfolio Committee:** **Small Business Development****Parliament****Republic of South Africa** |

1. **Introduction**

COSATU welcomed and supports the government’s R200 billions loan guarantee scheme.

Our support has been based upon it being a central part of the R500 billion economic relief measures announced by government in the beginning of May 2020.

Our economy is on its knees. We were in an economic recession before the lockdown with an unemployment rate of 40% and rising. We are in serious danger of heading into an economic depression with unemployment pushing past 50%.

The Federation supports any measure that will save jobs, create jobs, help businesses to remain open and avoid retrenchments and aid badly affected sectors of the economy.

However COSATU is deeply worried about the tepid pace at which the R200 billion is being dispersed into the economy. Only R13 billion has been approved 3 months after the announcement of the scheme is a massive crisis.

If it is not addressed by Treasury and the banks, it threatens to condemn the economy into a jobs bloodbath and a full blown economic depression.

1. **COSATU Support for Loan Scheme**

COSATU welcomed the announcement of the R200 billion loan guarantee scheme.

Every bit of economic, financial and social relief that can be pumped into the economy is supported by COSATU. It is critical to inject as much as possible into the economy and to provide the maximum amount of relief to workers, consumers, businesses and economic sectors.

The failure to do so, is to condemn the economy into depression and workers into unemployment and their families into poverty.

The loan scheme’s importance is one of the few life-lines for the economy and the survival of millions of workers in the absence of a stimulus plan.

1. **COSATU’s Concerns with the Loan Scheme**

The loan guarantee scheme was announced by the President at the beginning of May. Three months later according to the Banking Association it has managed to disperse only R13.26 billion as of 18 August out of a committed R200 billion.

This is a mere increase from 12.88 billion on 25 June. In short in just under 2 months the banks have only managed to release a further R380 million.

It will take years at this rate to reach the R200 billion commitment by government.

COSATU welcomed the relaxation of the lending criteria by Treasury and the banks at the end of July. However there is no indication from the banks that this is sufficient or making a dent.

Government unveiled an economic relief package of R500 billion, yet very little of that has come from government itself, e.g. R50 billion is from the Unemployment Insurance Fund (workers’ money to which government does not contribute), R40 billion worth of bank loan holidays, R70 billion from the IMF and the R200 billion loan guarantee scheme to which Treasury stands surety.

The R150 billion money that comes from government is merely a reprioritisation of existing budget allocations. So in essence government is not providing any actual new stimulus into the economy.

Yet at the same time Treasury is insisting that the banks write off the first R6 billion worth of any losses from the loan guarantee scheme. This nitpicking is causing the banks to burden applicants with excessively strict criteria in order to qualify for the loan. When government is contributing very little in the way of economic relief for the economy, it simply lacks the moral high ground to lecture the nation.

It is also worrying that to date Treasury has in fact only signed for R100 billion surety and not the R200 billion committed to publicly.

1. **COSATU Proposals**

It is clear at this rate that this loan scheme will not reach R100 billion, let alone R200 billion. It in fact is unlikely to even reach R50 billion.

There are two options. Allow it to continue as is, accept that it is a failure and may not reach 10% of the targeted allocation. It will also mean accepting that the economy will move from a deep recession into a depression and that unemployment will push past 50% and possibly 60%. It will then take at least a decade to recover.

The other option is for decisive interventions. Treasury and the banks must honestly engage at what are the blockages to rolling out the loan scheme. Platitudes and pontifications will not remove what are clear inhibitors to ensuring the scheme actually happens.

COSATU’s key proposed interventions include the following:

* **Treasury stand surety for 100%** (up from 94%) of the loan scheme to remove the major cause for banks to loosen lending criteria for applicants.
* **Provide cash flows up front.**
* **Reduce interest rates** to make the loans more affordable and attractive to struggling businesses.
* **Allow loan funds to be used for salaries.**
* **Allow loans to be used to restructure existing debt** in order to make it more affordable.
* **Convert portions of the loans to be converted into grants and equity** in order to avoid overburdening emerging businesses with unsustainable debt levels and to incentivise saving and creating jobs.
* **Utilise state Development Finance Institutions and state banks** to also disperse funding.
* **Require Treasury and the big 5 commercial banks to report fortnightly to Parliament** on their roll out of the loan scheme.
1. **Conclusion**

COSATU continues to support the R200 billion loan guarantee scheme. It is one of the sole lifelines provided for a battered economy with millions of jobs hanging in the balance.

Yet despite its much vaunted launch, it remains perilously close to being still born. R13 billion three months later is a scandal and indictment upon Treasury and the banks.

Their lethargy is putting the nation’s economic recovery in jeopardy.

It can be salvaged. But it requires decisive intervention and clear political will which to date have not been provided by Treasury and the banks.

Parliament needs to hold them accountable.

COSATU hopes that its submission will assist the Portfolio Committee with its critical task in ensuring an urgent intervention in and overhauling of the loan guarantee scheme.

Parliament must intervene and move with speed. Workers can simply not wait any longer. We do not have the luxury of time.

Thank you.

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