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Overview of Department of Small Business Development and its Entities

1. Introduction

The Department of Small Business Development was established as a national department in accordance with the reorganisation of some national departments announced by the President in May 2014. The department is tasked with the responsibility to lead an integrated approach to the promotion and development of small businesses and cooperatives through a focus on the economic and legislative drivers that stimulate entrepreneurship to contribute to radical economic transformation. The realisation of this mandate will lead to increased employment, poverty reduction and reduced inequality.¹ The context from which the Department was formed was due to fragmented approach and misalignment in relation to ANC resolutions and government decisions on economic transformation, lack of specialised and focused support with limited resources, low number of survivalist and high failure rate as well as poor performance relative to peers as well as other developing countries whilst it was embedded within the Department of Trade and Industry.²

In 2015, the Department received its first standalone budget allocation to the tune of R1 103 billion, Vote 31, for sectoral cohesion for advancing the objectives of Small, Medium and Micro Enterprises (SMMEs) and Cooperatives.³ Furthermore, a decision of the establishment of a designated department aimed at advancing the development of SMMEs and Cooperatives for job creation, poverty reduction and inequalities, with more focus on youth, women and people with disabilities. In the 5th Parliament, oversight over small enterprises and cooperatives issues were assigned to the Select Committee on Economic and Business Development together with its sister committee from the National Assembly - the Portfolio Committee on Small Business Development. It is thus the objective of this paper to provide a broad overview of the Department of Small Business Development and its entities and to complement with some analytic information on the operational processes of the department and determine on whether the intended strategic objectives are being achieved in line with outcome 4 of MTSF 2014 -2019 framework.

2. Expenditure analysis on Department of Small Business Development⁴

The national development plan articulates the important role of small businesses and cooperatives in achieving inclusive economic growth, and that these small enterprises are key to achieving the plan's job creation target for 2030. The plan further identifies that regulatory compliance costs need to be reduced in order to transform the economy, for small businesses in particular. Against this background, a designated department to advance the interests and role of small businesses and cooperatives was established in 2014. The

¹ Treasury (2015)

² Draft budget vote report by the Portfolio Committee on Small Business Development (2015)

³ Treasury (2015) Estimate of National Expenditure page 1

⁴ Section 2 which covers expenditure trends of the Department have been copied directly from pages 2 and 3 of the Estimates of National Expenditure for Members of Parliament ease of reference.



department's work will contribute to outcome 4 of government's medium term strategic framework: decent employment through inclusive economic growth, particularly sub-outcome 3, which deals with the elimination of unnecessary regulatory burdens and lower price increases for key inputs and wage goods. The department will advocate for a conducive regulatory environment for small businesses and cooperatives to access finance, investment and markets, in an equitable and sustainable manner. The department provides various customised intervention programmes, designed to increase the sustainability of cooperatives so that they can contribute to the economy, particularly in the manufacturing, agro-processing, mining and services sector. By encouraging government procurement with small businesses and cooperatives, the department will facilitate their development and growth. It will facilitate partnerships with all spheres of government as well as the private sector to ensure mutual cooperation that will benefit small businesses and cooperatives.

The department's total budget is R3.5 billion over the MTEF period, including a Cabinet approved additional allocation of R139.3 million to support the establishment of the department. Expenditure on compensation of employees is expected to grow by 13.3 per cent over the medium term as the department expands its personnel to 171 in 2017/18. 64.3 per cent of personnel will be in the *Enterprise Development and Entrepreneurship* programme to provide customised interventions to support small businesses and cooperatives. This is also where the bulk of the department's spending over the medium term is, at R3.2 billion over the period. The *Cooperative Support and Development* programme funds the implementation of a new support model for cooperatives, including implementing the Cooperatives Amendment Act (2013). The programme's budget over the medium term is R48 million.

2.1 Regulatory and institutional support for cooperatives

Over the medium term, the department will finalise regulations for cooperatives to ensure that the Cooperatives Amendment Act (2013) will be properly implemented. The act aims to improve the failure rate of cooperatives and address past problems in cooperative governance, structures, compliance and sustainability. It will also improve coordination between national, provincial and local government to strengthen their support for cooperatives. The department will conclude transversal agreements with other government departments to enhance the implementation of the act in support of the growth of cooperatives. These activities are funded in the *Cooperatives Support and Development* programme.

2.2 Non-financial and financial support for small businesses and cooperatives

Transfers and subsidies account for 85.5 per cent of the department's expenditure over the medium term. R2 billion, the bulk of this funding, is earmarked for the Small Enterprise Development Agency, which provides non-financial support services to small businesses and cooperatives, including business and technology incubation services in specific sectors, focusing on start-ups and enterprises that need rehabilitation. The department will also provide R686 million in incentives to small enterprises in the mining, manufacturing, agro-



processing and services sectors through transfers to the black business supplier development programme, as well as R229 million to cooperatives through transfers to the cooperatives incentive scheme. Both these incentive initiatives are also funded in the *Enterprise Development and Entrepreneurship* programme. Over 3000 small businesses and cooperatives are expected to be supported over the medium term by these incentives.

2.3 Women, youth and people with disabilities

The department supports the South African Women Entrepreneurs Network and the Isivande Women's Fund through transfers in the *Enterprise Development and Entrepreneurship* programme. Over the medium term, these transfers total R83.6 million. The department's Bavumile skills enhancement programme aims to enhance women's existing skills to produce quality, commercially viable products for major local and international markets. Over the medium term, the programme prioritises the creative industries and women in rural areas and townships, and aims to train 1 500 women entrepreneurs, a significant increase from the 65 women that were trained in 2014/15. Women with craft skills such as sewing and beading are provided with specialist skills training and assistance in establishing their own enterprises and cooperatives. Funding is in the *Enterprise Development and Entrepreneurship* programme's *Gender, Youth and People with Disabilities Economic Empowerment* subprogramme, which is allocated R154.9 million over the medium term. The department will facilitate the implementation of the Youth Black Business Supplier Development Programme which is intended to benefit 1 100 youth enterprises by 2017/18.

3. Small Enterprise Development Agency Expenditure analysis⁵

The national development plan and outcome 4 of government's 2014-19 medium term strategic framework (decent employment through inclusive economic growth) identify small businesses as a key element in achieving the nation's job creation targets by 2030. In support of these objectives, the Small Enterprise Development Agency strives to ensure that the small enterprise sector grows and increases its contribution to sustainable and equitable social and economic development, employment and wealth creation. The agency does this through providing business advice, consultancy, training and mentoring, and by assisting SMMEs with technology through the technology programme. It also provides for the incubation of businesses through technology demonstration centres, technology incubators, and hybrid centres as part of the technology programme, as well as for the development of rural enterprises and cooperatives through the cooperatives and community private partnerships programme.

In line with the medium term strategic framework's objectives, the agency's focus over the medium term will be on continuing to develop, support and promote small enterprises to ensure their growth and sustainability by providing them with non-financial services. Thus, goods and services will remain a key cost driver, accounting for 55.8 per cent of the agency's total expenditure over the medium term. The agency intends to increase its support of clients

⁵ Section 3 which covers expenditure trends of Small Enterprise Development Agency (SEDA) have been copied directly from pages 11 and 12 of the Estimates of National Expenditure for Members of Parliament ease of reference.



through the incubation programme from 1 710 in 2014/15 to 1 980 in 2017/18, and increase its assistance of clients through technology transfer incentives from 63 in 2014/15 to 72 in 2017/18.

Expenditure on compensation of employees will continue to drive the expenditure in the agency, accounting for an estimated 41.8 per cent of total expenditure over the medium term. This expenditure is expected to increase to R315.1 million by 2017/18 to account for inflationary increases due to the delivery network being national. The agency's network comprises 1 national office, 9 provincial offices and 46 branches nationwide, with a projected 32 520 clients over the medium term. An average of 94.6 per cent of the agency's revenue is expected to be derived from transfers from the Department of Small Business Development over the medium term. Other sources of revenue include funding from provincial and local governments, and specific projects from signed memorandums of agreement. Revenue is expected to decrease by R123.2 million over the medium term as a result of Cabinet approved budget reductions of R49.3 million in 2015/16 and R73.9 million in 2016/17 being effected on the agency's allocation due to its accumulated level of reserves.

4. Questions for Parliamentary Consideration

1. When DSBD did a presentation to Parliament on its APP during 2014/15 FY, one of the challenges you mentioned was that your programme structure is underdeveloped and the budget at the time continued to be managed from the DTI. Having received your own allocation in 2015 budget, the Department is up and running and can now initiate its review of the programmes that used to be managed under the auspices of the DTI. These include Black Business Supplier Development Programme (BBSDP), Cooperative Incentive Scheme (CIS) and incubation programmes such as SEDA Technology Programme (STP). How does the department plan to do things any differently and are there any baseline statistics or studies that informs us on why the previous approach did not work so well in growing SMMEs for women, youth, people with disabilities etc.?

2. Also related to the issue of capacity the Committee also need to get a progress update on the establishment and operationalization of Cooperative Development Agency and its Tribunal.

3. Still on the BBSDP which cannot be separated from the Broad Based Black Economic Empowerment (BBBEE) and the Preferential Procurement Policy Framework Act of 2011 which are both meant for expediting the absorption of SMMEs into the mainstream economy, what challenges we have on this front and what policy and remedial instruments are in place to address those?

4. Also related to the issue of BBSDP just highlight to the committee on how is this programme related to the Youth Black Business Supplier Development Programme and what funding mechanism do you have in place if the programme is targeting the youth as it seems?



5. Also the committee would like get your views on the success and challenges related to growing black-owned enterprises by means of fostering linkages between black SMMEs, private and public sector entities. Is this a model to be reckoned with or is also structurally misplaced?

6. What is the progress being made on the Isivande Womens Fund (IWF) given that the programme is addressing a bad legacy of the past which rendered black women being the majority in the society less capacitated on skills development and the ones mostly facing the brunt of poverty?

7. In the presentation that was made to Parliament on the 11 March 2015 by the Department of Small Business Development (DSBD) under the subject of: **Strategy for SMMEs and Cooperatives in Water and Sanitation sector**, the DSBD mentioned as an achievement of note that R75 million has been spent on procurement on SMMEs as at end of December 2014. This is a very encouraging progress that was reported in this presentation, however a break down indicating on which subsectors in water industry and to some extent the sections of construction industry and a provincial spread as well as different levels of SMMES who benefited from this procurement would even be more useful?

References

1. Treasury (2015). Estimates of National Expenditure. Small Business Development - Vote 31 page 1. Available [online] www.treasury.gov.za <Accessed on 18/09/2015>
2. Draft Budget Vote Report by the Portfolio Committee on Small Business Development (2015).