**7. Report of the Portfolio Committee on Small Business Development on Annual Performance Plan (Budget Vote 31) of the Department of Small Business Development, Small Enterprise Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA) for financial year 2016/17**

The Portfolio Committee on Small Business Development, having considered the Annual Performance Plan (APP) and Budget of the Department of Small Business Development (DSBD) for 2016/17 on the 15 March 2016, 16 March 2016 and 06 April 2016 reports as follows:

1. **Introduction**

The Department of Small Business Development (“the DSBD”) was established as a national department in accordance with the reorganisation of some national departments announced by the President in May 2014 following the national elections. The context within which DSBD was conceptualised and formed was largely informed by the fragmented nature and misalignment of the Small, Micro and Enterprise (SMME) as well as Cooperatives sector in relation to the African National Congress(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 of SMMEs and Cooperatives, and poor performance relative to peers in other developing countries.

In 2015, DSBD received its first standalone budget allocation, Vote 31, for sectoral cohesion in an effort to advancing the objectives of the SMMEs and Cooperatives sector. Furthermore, a decision on the establishment of a designated department was aimed at advancing the development of SMMEs and Cooperatives mainly for job creation, reduction of poverty and inequalities, with more focus on youth, women and people with disabilities. Accordingly, during the 5th Parliament, oversight over small enterprises and cooperatives issues was assigned to the Portfolio Committee on Small Business Development (“the Committee”). In performing its constitutional mandate, the Committee engaged with the DSBD’s Strategic and Annual Performance Plans, Budget for 2016/17 on March 15 2016, Small Enterprise Finance Agency (SEFA) Strategic and Annual Performance Plans on March 16 2016 as well as Small Enterprise Development Agency (SEDA) Strategic and Annual Performance Plans on April 06 2016.

1. **Mandate of the DSBD**

The mandate of the Department of Small Business Development (DSBD) is informed by the Resolution of the 53rd Congress of ANC and the 2014 ANC Election Manifesto. Additionally, the mandate is derived from the different pieces of legislations and policies such as the discussion Paper of October 1994: Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa, White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, which was basically a culmination of the discussion paper of October 1994, the National Small Business Act (1996) as amended in 2004, the Companies Act (2008), the Co-operatives Act (2005), the Cooperatives Amendment Act (2013), Industrial Development Corporation Act (1940), Broad Black Business Economic Empowerment Act, National Empowerment Act, Preferential Procurement Policy Framework Act, Youth Enterprise Strategy, Women and Gender Empowerment Strategy, Cooperatives Strategy, Innovation and Technology Strategy, the National Development Plan (NDP), the New Growth Path and the National Industrial Policy Framework (NIPF).

On the policy front the Department has embarked on a process of modifying the National Small Business Act, 1996 as amended, and review the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise largely to bolster and propel the SMME and Cooperatives forward. DSBD chief responsibility is to forge an integrated approach to the promotion and development of small business 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. **Vision of DSBD**

A radically transformed economy through effective development and increased participation of SMMEs and Cooperatives in the mainstream economy.

1. **Mission of the DSBD**

The DSBD’s mission is to create a conducive environment for the development and growth of small businesses and cooperatives through the provision of enhanced financial and non-financial support services, competitiveness, market access, promotion of entrepreneurship, advancing localization and leveraging on public and private sector procurement.

1. **Values**

It is important to note that the DSBD has reviewed its values in the Strategic Plan it submitted during this Budget Vote. Initially the DSBD has constructed a list of five (5) values which include, amongst others, Customer focused, Integrity, Honesty, Efficiency, Accessibility, Commitment and Human dignity. Currently, the DSBD has constructed the following values in which it will ensure on how it conduct itself:-

* Integrity
* Professionalism
* Accessibility
* Commitment
1. **Strategic Outcomes-Oriented Goal**
	1. To create a stable public service organisation as reflected by efficient service delivery, policy implementation, sound governance and systems and processes to ensure the effective utilisation and leveraging of resources;
	2. To promote integrated planning and the review of existing legislation and policies to create a simplified environment for the development and promotion of small businesses;
	3. To provide business support services to small businesses and cooperatives in township and rural areas in particular, to stimulate jobs, wealth creation and business ownership by previously excluded communities.
2. **Purpose of Budget Vote**

The budget is a political and financial instrument that the government uses to ensure that its policy programmes are operationalised through the allocation of financial resources to the different spheres of government, specifically to programmes and projects. It reflects an outcomes centred public spending approach. It is further described as a tool that the ANC Government uses to monitor and evaluate the financing of its key policy objectives. It is also used to evaluate whether the macro-economic perspectives of the Budget and the respective Budget Votes meet the requirements of government policies and give substance to the government’s five year plan. Therefore, the purpose of Vote 31 for the DSBD is to promote the development of Small Business and Cooperatives that contribute to inclusive economic growth, poverty reduction and job creation.

1. **Expenditure analysis as per Estimates of National Expenditure**

The national development plan identifies the important role that small, medium and micro enterprises (SMMEs) and Cooperatives play in inclusive economic growth and employment. The plan articulates the benefits of increased coordination and support, incubation, and reduced costs of regulatory compliance for small enterprises to achieving a transformed and inclusive economy. The DSBD was established in 2014 to develop and support the small enterprises sector more intently. The DSBD’s aims are in line with outcome 4 (decent employment through inclusive growth) of the 2014-2019 Medium Term Strategic Framework (MTSF), as encapsulated in sub-outcomes 3, 5 and 8. The DSBD aims to create a conducive legislative and policy environment for SMMEs and cooperatives, develop and grow SMMEs and cooperatives in township and rural areas, and establish public and private partnerships aimed at maximising support for SMMEs and cooperatives.

Over the 2016 Medium Term Expenditure Framework (MTEF), the DSBD will focus on increasing the number of small enterprises that it supports, reviewing the strategy for SMME development and entrepreneurship, developing and supporting cooperatives, developing the markets for small enterprises, supporting incubators for small enterprises, and strengthening departmental operational capacity. The DSBD is further tasked with eliminating unnecessary regulatory burdens, which it plans to do through its red tape reduction programme for the operations of SMMEs and cooperatives in municipalities. The DSBD plans to develop appropriate sanctions for government departments, state owned enterprises and municipalities’ non-compliance with the 30-day period for paying small enterprises. The Department is also entrusted with the responsibility of addressing spatial imbalances in economic opportunities and increasing access to economic opportunities for historically excluded and vulnerable groups. It will do this by implementing a comprehensive township and rural enterprises development strategy.

**Increasing the number of Small Enterprises and Cooperatives supported by the DSBD**

Increasing the number of SMMEs and cooperatives that the DSBD supports by providing financial and non-financial interventions will be the DSBD’s largest spending focus over the medium term, reflected in transfers and subsidies of R3.7 billion over the period, and comprising 84.7 per cent of the DSBD’s total budget. R2.2 billion or 51 per cent of this funding is earmarked for the Small Enterprise Development Agency for non-financial support services and incubation.

The DSBD will also provide financial incentives totalling R772.7 million, particularly geared for cooperatives and SMMEs in the mining, manufacturing, agro processing and agricultural production, as well as services sectors, as part of the Black Business Supplier Development Programme (BBSDP). The total amount of R237.1 million is geared for cooperatives through the Cooperatives Incentive Scheme (CIS). The Department aims to assist over 2 870 SMMEs and Cooperatives financially over the medium term. This will be geared towards supporting enterprises in townships and rural areas in particular.

In addition, the Department has set aside R298.2 million over the medium term for transfers under the National Informal Business Upliftment Strategy (NIBUS). The strategy proposes various interventions that seeks to develop and grow informal and small businesses and cooperatives by providing financial and non-financial support services, improving competitiveness, facilitating market access, promoting entrepreneurship, advancing localisation and leveraging public and private procurement. Over the 2016 MTEF, DSBD aims to assist 5 206 such enterprises through such interventions.

**Reviewing the strategy for SMME development and Entrepreneurship**

The policy focus over the medium term will be on reviewing the strategy for SMME development and entrepreneurship to maintain the strategy’s relevance and responsiveness to business cycles, recent economic activity, and the present challenging socioeconomic environment with its associated high unemployment, inequality and poverty. The review is budgeted for in the *SMMEs and Cooperatives Policy and Research* programme, at R81.5 million or 1.7 per cent of the DSBD’s total budget over the medium term. Expenditure is mainly on skilled personnel under compensation of employees. The Department has kick-started the process of reviewing the National Small Business Act (1996), as amended with a view to improving and aligning it with the revised strategy for SMME development and entrepreneurship and the DSBD’s mandate. The amendments increase the act’s applicability to small businesses and their needs.

**Developing and supporting Cooperatives**

Over the medium term, DSBD will be finalising cooperatives regulations to ensure the effective implementation of the Cooperatives Amendment Act (2013). The DSBD will also be improving coordination between national, provincial and local government to strengthen support to cooperatives. Likewise, improving the sustainability of cooperatives, thus encouraging collective entrepreneurship and supporting the creation of job opportunities will be DSBD area of focus. This work is the driver of cooperatives policy development in the DSBD, and is budgeted for in the *Cooperatives Development* sub programme in the *SMMEs and* *Cooperative Programme Design and Support* programme. Spending over the 2016 MTEF is projected at about R25.3 million, reflecting average annual growth of 21.4 per cent over the period.

By increasing funding for incentives, the DSBD aims to increase the number of cooperatives accessing the DSBD’s various customised sustainability programmes, particularly cooperatives in the manufacturing, agricultural production, agro-processing, mining and services sector. The number of cooperatives financially assisted through the cooperatives incentive scheme is projected to increase from 350 in 2015/16 to 450 by 2018/19.

**Developing the markets for Small Enterprises and Cooperatives**

Over the medium term, DSBD will pay particular attention to establishing strategic partnerships with other government departments, spheres of government including Non-Governmental Organisations (NGOs) and the private sector to increase small businesses and cooperatives access to markets, expand these markets, and expose small businesses and cooperatives to innovation. The DSBD and its partners will identify market access opportunities for SMMEs and cooperatives in both the public and private sectors, facilitate market opportunities in the international market, develop programmes to improve the quality of products and services, and assist local suppliers to expand production capacity. This work is funded through the *Market Development and Stakeholder Relations* sub programme in the *SMMEs and Cooperatives Programme Design and Support* programme, which has a budget of R200.4 million over the 2016 MTEF.

**Supporting incubators for Small Enterprises and Cooperatives**

Over the 2016 MTEF, the DSBD will implement the enterprise incubator programme to encourage private sector partnerships with government to support incubators for SMMEs and cooperatives. The programme will provide funding for incubators that can be self-sustainable by generating revenue through their business support initiatives and services to small enterprises. Sustainable enterprises will in turn provide employment and contribute to economic growth. R150.7 million in the *Market Development and Stakeholder Relations* sub programme over the medium term will be used to establish 30 such incubators. 70 per cent of the funding will be used for infrastructure, feasibility studies, and product development for small enterprises and cooperatives, and 30 per cent will cover the incubators’ operational costs.

**Strengthening departmental operational capacity**

The DSBD’s budget is set to increase by a total of R87.8 million over the 2016 MTEF. This will be used for strengthening departmental governance and operational capacity by increasing the number of personnel in the *Administration* programme. The increase is also for ICT services. This spending is mostly reflected in average annual growth of 15.9 per cent over the medium term in the *Administration* programme and 35.2 per cent in the *Policy and Research* programme on operational expenditure.

1. **Policy Priorities for 2016/17**
	1. **National Development Plan**

In its 53rd National Conference, the ANC resolved to take the lead in mobilising and uniting all South Africans around a common vision of radical economic transformation that puts South Africa first. Since, the National Development Plan is a living and dynamic document and articulates a vision which is broadly in line with that of the ANC objective to create a national democratic society, the 53rd National Conference resolved to use NDP as a common basis for this mobilisation.

* 1. **The Medium Term Strategic Framework**

Following the adoption of the NDP, Cabinet decided in 2013 that the 2014-2019 Medium Term Strategic Framework (MTSF) should form the first five-year implementation phase of the NDP and mandated work to begin on aligning the plans of state organs with the NDP vision and goals. Thus, for the next five years the MTSF has made some priorities aiming at achieving radical socio economic transformation through descent employment and inclusive growth. These focus areas will be an integral part in achieving set targets that are aimed at a radically socio-economic transformation. The DSBD has been assigned to champion some of the priorities. The following are the focus area and priorities that are relevant to the DSBD:

***Expanded opportunities for historically excluded and vulnerable groups, Small***

***Businesses and Cooperatives***

The government need to ensure that historically excluded and vulnerable groups, in particular youth, women and people with disabilities, have increased access to economic opportunities. Government will continue to broaden the base of black economic empowerment, for example through promoting more employee and community share ownership, with a particular emphasis on empowering youth and women. There will be an emphasis on promoting black industrialists and enterprises in the productive economy.

The DSBD which is responsible for small business and cooperatives development will identify the institutional and regulatory changes required to accelerate growth of the small business sector and cooperatives in order to raise their contribution to job creation. Government will also strengthen support for cooperatives, particularly in marketing and supply activities, to enable small scale producers to enter formal value chains and take advantage of economies of scale. Government will further promote and support cooperatives as effective instruments for community economic development in order to facilitate active participation of households and community in the main stream economy.

Local business incubators, industrial and retail sites, marketing agencies, cooperative support and skills development programmes, business ownership by previously disadvantaged individuals of local communities and access to finance are amongst the key measures required to promote small enterprise growth, reduce market concentration and expand decent work opportunities.

Key targets for the MTSF include:-

* An increase in the Gross Domestic Product (GDP) growth rate from 2.5% in 2012 to 5% in 2019;
* An increase in the rate of investment from 20% in 2012 to 25% of GDP in 2019;
* The share in household income of the poorest 60% of households rising from 5.6% in

2011/12 to 10% in 2019;

* A decrease in the official unemployment rate from 25% in the first quarter of 2013 to

14% in 2020.

* 1. **Outcome 4:** **Decent employment through inclusive economic growth**

The NDP provides a long term vision through 2030 for accelerating GDP growth so that unemployment and inequality can be reduced and for creating a more inclusive society. This will be achieved through diligent execution of implementation plans and programmes, in particular the New Growth Path (NGP) the Industrial Policy Action Plan (IPAP) and the National Infrastructure Plan. In the same vain the development of SMMEs and cooperatives will be the critical instruments to achieve decent employment through inclusive economic growth.

**9.4. State of the Nation Address**

In his 2015 State of National Address, President Jacob Zuma, announced that the Government will set-aside 30% of appropriate categories of State procurement for purchasing from SMMEs, cooperatives as well as township and rural enterprises. Furthermore, in his 2016 State of National Address, the President stated that the government will prioritize the empowerment of SMMEs to accelerate their growth. This calls for the strengthening and consolidation of small business and cooperatives support programmes

**10. Budget Analysis**

The DSBD has received an allocated amount of R1.103 billion for the 2015/16 financial year. This amount has been adjusted to amount R1.128 billion during the adjustment period in October 2015. The adjusted amount of R24.5 million was chiefly for the transfer payments which were still under the Department of Trade and Industry (DTI). Subsequently, included in the adjusted amount, R10 million was allocated for Craft customised sector programme. R12 .7 million was appropriated for Centres for Entrepreneurship Programme, and an amount of R1.8 million was for compensation of employees for the cost of living adjustment following the salary agreement reached by government and its employees in April 2015.

 For the 2016/17 financial year, the DSBD has been allocated an amount of R1.325 billion, which presents a percentage increase of 17.5 percent compared to the previous financial year 2015/16. For the outer years of the 2016 MTEF, the DSBD has been allocated an amount of R1.459 billion and R1.540 billion respectively. This represents an average growth rate of 7.7 percent over the 2016/17 MEF. Further, it is estimated that for the period between 2016/17 and 2017/18 financial years the budget allocation for the DSBD will grow by a small percentage of 10.1 percent and for the period between 2017/18 and 2018/19 financial years , it is projected that the budget allocation for the DSBD will grow by 5.5 percent.

The allocated budget of R1 325 billion for the financial year 2016/17 is budgeted to finance current payments which include compensation of employees and goods and services, payments for capital assets and transfers and subsidies. The significant amount ( R 1.105 billion), that is 83.4 percent will be transferred to departmental entities and public corporations and private enterprises, notably Small Development Agency, Industrial Development Cooperative (IDC) and various institutions through Black Business Supplier Development Programme (BBSDP), Cooperative Incentive Scheme (CIS), National Informal Business Upliftment Strategy (NIBUS) and Enterprise Incubation Programme (EIP). Importantly, in its endeavours to align itself with its mandate, the DSBD is in process to rationalise its programmes, subsequently, it has discontinued transfers to institutions such as South African Women Entrepreneurs Network (SAWEN) and IDC: Isivande Women’s Fund for the 2016 MTEF.

As mentioned above that the DSBD has embarked in a process to rationalise its programmes, as such it has reconfigured its budget structure for the 2016 MTEF. In the previous financial year the DSBD had 3 (three) Programmes, namely, Administration, Cooperative Support and Development and Enterprise Development and Entrepreneurship. For this current financial year and going forward, the DSBD has reconfigured its budget structure to constitute only three (3) Programmes but with different names and purpose. These programmes are Administration, SMME and Cooperatives Policy and Research as well as SMME and Cooperative Programme Design and Support.

It is worth noting that for the three programmes from the DSBD, Programme 3: SMMEs and Cooperatives Programme Design and Support is set to receive a significant allocation of R1.181 billion or 89.1 percent of the total budget of R1.325 billion. Whereas, Programme 1: Administration is budgeted to receive an amount of R118 million or 8.9 percent compared to R26 million or 2 percent which is allocated to Programme 2: SMMEs and Cooperatives Policy and Research.

* 1. **PROGRAMME 1: ADMINISTRATION**

The purpose of Programme 1 is to provide a strategic leadership, management and support services to the DSBD. The amount of R118 million or 8.9 percent allocated to this Programme is set to be appropriated among its sub-programmes which include, Ministry, Departmental Management and Corporate Services. Of which Ministry and Corporate Services is budgeted to receive the majority of budget at the tune of R26 million and R47 million respectively. The majority of the budget allocated to this programme is budgeted to finance Compensation of Employees (54.9 percent) and Goods and services (43.6 percent), of which items such as Travel and Subsidies and Operating leases share a big chunk of budget allocated to Goods and services.

* 1. **PROGRAMME 2: Small, Medium and Micro Enterprises and Cooperatives Policy and Research**

The purpose of Programme 2 is to formulate policies and conduct research for the development and growth of sustainable small businesses and cooperatives that contribute to the creation of employment and economic growth. Its objective is to create a legislative and policy environment for SMMEs and cooperatives over the medium term that will enable small business and cooperatives to be sustainable, competitive and grow; and contribute to national economic growth and job creation by doing amongst others, reviewing the enterprise development strategy framework and conducting relevant and focused research on the legislative and regulatory protocols that impede the development and growth of small businesses and cooperatives.

As mentioned above, for the 2016/17 financial year, this programme is budgeted an amount of R26 million, which is the least amount from the total budget for the DSBD. This programme has two (2) programmes which includes, **Policy, Research and Legislation**- which produces reliable information for policy formulation on SMMEs and cooperatives support, and **Monitoring and Evaluation**- which provides quantifiable analysis and information on SMMEs and cooperatives in South Africa. Initially, Programme 2 used to consist of 5 (five) sub-programmes which were Co-operatives Development; Incubation Support Programmes; Cooperatives Supplier Development; Intergovernmental Relations and Marketing Development and Research; and Planning, Monitoring and Evaluation. Importantly, of the two (2) current existing Sub-programmes majority of funds will be allocated to Policy, Research and Legislation (R18 536 million or 75.3 percent).

Thus, the budget allocated to this programme will be mainly used to fund Compensation of Employees (R14 million or 57.8 percent), and Goods and services constituting a share of R11 million or 41 percent). Budget items such as Consultants: Business and advisory services and Travel and Subsistence will receive a significant share of the allocated budget for Goods and Services.

* 1. **PROGRAMME 3:Survivalist, Small Medium and Micro Enterprises (SSMMEs) and Cooperatives Programme Design and support**

The purpose of this Programme is to create an enabling environment for the development and growth of sustainable small businesses so that they contribute to the creation of employment and economic growth. Its objectives include amongst others, to promote the broader participation of small businesses and cooperatives in the mainstream economy by providing incentives to 2 870 small businesses and 15 informal business structures through the Black Business Supplier Development Programme (BBSDP) and Cooperative Incentive Scheme (CIS) over the medium term, to develop and grow SSMMEs and cooperatives in townships and rural areas that will support 3 640 informal businesses, 435 cooperatives and 360 SSMMEs through incentive schemes over the medium term, and to establish 37 public and private partnerships to maximise support for SSMMEs and cooperatives over the medium term

This programme has received the majority of budget allocated (R1181 billion or 89.1 percent) to the DSBD for the 2016/17. More than half of the allocated budget (R1105 billion or 93.5 percent) for this programme is set to be appropriated to be transferred to Departmental agencies and accounts and Public corporations and private enterprises. The remaining amount of R76 million will be used to fund compensation of employees and to procure some Goods and Services, of which items such as Consultants: Business and advisory services, Travel and Subsistence and Venues and facilities will constitute a largest share of amount allocated to Goods and Services. For this current financial year, this Programme consists of 5 (five) Sub-programmes, namely, Competitive Support, Enterprise Development, Cooperative Development, Market Development and Stakeholder Relations, and Small Medium and Micro Enterprise Development.

Out of the 5 (five) sub-programmes for this Programme, Enterprise Development has been allocated a significant budget amounting to R656 million or 55. 6 percent, followed by Small Medium and Micro Enterprise Development Finance with R344 million or 29.1 percent and 9.1 percent respectively. On the other hand Cooperative Development has received a least budget of R8 million or 0.7 percent for the 2016/17 financial year.

For the 2016/17 financial year the DSBD plans to achieve the following targets in order to achieve its strategic goals and objectives, and they are inter alia:-

**Table: 1: Programme 1**

|  |  |  |
| --- | --- | --- |
| **Strategic Objectives** | **5 Year Strategic Plan Target** | **2016/17 Targets** |
| **Programme 1: ADMINISTRATION** |
| 1. To promote compliance and good governance.
 | Five clean audit reports for the MTSF period | Unqualified audit outcome for 2015/16 |
| 1. To drive sound financial management and controls
 | Maintain <5% over or under-expenditure on annual budget. | Maintain <5% over or under-expenditure on annual budget |
| 100% of payments to eligible creditors processed within 30 days. | 100% of payments to eligible creditors processed within 30 days. |
| 1. To maintain a sound performance planning, reporting and monitoring processes.
 | Five Annual Performance Plans Tabled. | 2017/18 Annual Performance Plan tabled in Parliament. |
| Five Service Delivery Improvement Plans (SDIP) approved. | Service Delivery Improvement Plans produced and approved. |
| Submit four quarterly performance reports to Department of Planning, Monitoring and Evaluation (DPME) 30 days after end of each quarter. | Four Quarterly performance reports submitted to DPME after end of each quarter. |
| Five Annual Reports tabled. | Four Quarterly reports presented to the Portfolio Committee. |
| 1. To build human resource capability and promote culture of high performance.
 | To maintain a <10% vacancy rate. | To maintain a <10% vacancy rate. |
| 50% Women employed at Senior Management Level. | 50% Women employed at Senior Management Level. |
| 2% People with Disabilities. | 2% People with Disabilities. |
| 80 Projects profiles of best practices. | 12 projects profiled. |
| 1. To communicate the work of the DSBD of Small Business Development internally and externally.
 | 60 Stakeholders ‘engagement. | 8 Stakeholders engagement. |
| 225 Media engagements | 35 Media engagements. |
| 110 Proactive Awareness Campaigns | 12 Awareness Campaigns. |
| **Table: 2: Programme 2** |
| **Programme 2: SMMEs & CO-OPERATIVES: POLICY AND RESEARCH** |
| 1. To create a conducive legislative and Policy environment for SMMEs and Cooperatives.

   | Amended National Small Business Act. | Targeted stakeholder consultations on the amendments of the National Small Business Act of 1996 as amended. |
| Review and Implementation of update Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises. | Reviewed Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises. |
| Implement red-tape reduction programmes. | Research report on legislative and regulatory protocols impeding SMMEs concluded. |
| 1. To drive an integrated planning and monitoring for SMMEs and Cooperatives development in townships and rural areas.
 | Develop and implement a monitoring framework to monitor SMMEs and Cooperatives support in terms of 30% public sector procurement. | Develop and implement a monitoring framework to monitor SMMEs and Cooperatives support, in terms of 30% public sector procurement programme. |
| 50% of total enterprises supported are women-owned enterprise. | 50% of total enterprises supported are women-owned enterprise. |
| 30% of total enterprises supported are youth-owned enterprises. | 30% of total enterprises supported are youth-owned enterprises. |
| 50% of total enterprises supported are from township. | 50% of total enterprises supported are from township. |
| 30% of total enterprises supported are from rural areas. | 30% of total enterprises supported are from rural areas. |
| 1. To drive a comprehensive agenda on areas of support for SMMEs and Cooperatives.
 | 23 Research Reports on SMMEs and Cooperatives key areas of support. | Two Research Reports on key areas of support to SMMEs and Cooperatives. |
| 10 Programme Evaluation Reports on the planning, design and implementation of SMMEs and Cooperatives programmes. | One Evaluation Report on the planning, design and implementation of SMMEs and Cooperatives programmes. |
| 1. To develop and implement a relevant international strategy.
 | Implementation of international relations strategy. | Approved international relations strategy. |
| **Programme 3: SMMEs AND COOPERATIVES: PROGRAMME DESIGN AND SUPPORT** |
| 1. To design and implement targeted programmes to support new and existing small and medium enterprises in townships and rural areas.
 | 58 000 informal businesses supported through the Informal and Micro Enterprise Development Programme (IMEDP). | 7000 informal businesses supported through the IMEDP. |
|   | 30 informal business infrastructure through Seif. | Six informal Business Infrastructures through Seif. |
| 1. To increase participation of SMMEs and Cooperatives in the mainstream economy.
 | Implement a Business Rescue Strategy for SMMEs and Cooperatives. | Business Rescue Strategy for Small Enterprises and Cooperatives developed. |
|   | Development and growth of Cooperatives. | Established Cooperatives Development Agency (CDA). |
|   | 1570 Cooperatives supported through the Cooperatives Incentive Scheme (CIS). | 370 Cooperatives supported through CIS. |
|  | 1600 Cooperatives through training. | 250 Cooperatives supported training. |
|  | 5000 Small and Medium Enterprises supported through the Black Business Supplier Development Programme (BBSDP). | 600 Small and Medium Enterprises supported through the BBSDP. |
|  | 65 incubators supported through the Enterprise Incubation Programme (EIP). | Seven incubators supported through the EIP. |
| 1. To coordinate and maximize support for SMMEs and Cooperatives through Public and Private Partnerships (PPP).

   | 73 partnership agreements entered into to support SMMEs and Cooperatives. | Ten partnership agreements entered into to support SMMEs and Cooperatives. |
| 50 Co-location points established through the National Co-location Programme (NCP) | National Co-location Programme’s concept document and implementation plan approved.Ten Co-location Points established through the National Co-location Programme (NCP). |
|  National Inter-Departmental SMMEs and Cooperatives Development Coordinating Committee established. |  National Inter-Departmental SMMEs and Cooperatives Enterprise Development Coordinating Committee established. |
|  19 integrated planning engagements with other national departments | Develop integrated planning framework with other national departments.  |
|  20 Quarterly Inter-Provincial Coordination Reports produced based on alignment and joint-implementation of SMMEs and Cooperatives support interventions. | Develop an integrated planning framework with provincial departments.Four Quarterly Inter-Provincial Coordination and Reports produced. |
|  55 Integrated Plans with Local Government through LED forums and reports produced. | 15 Integrated Plans with Local Government through LED forums and reports produced. |

1. **Small Enterprise Development Agency (SEDA)**
	1. **Mandate of SEDA**

Small Enterprise Development Agency (SEDA) is an entity of the DSBD whose mandate include, inter alia, developing, nurturing, supporting and promoting small business ventures throughout the country, whilst ensuring their growth and sustainability in a harmonised fashion with various stakeholders. The Minister of Small Business Development is the executive authority of the agency and as such exercise oversight role over the agency as prescribed by the Public Finance Management Act. SEDA was conceptualised in 2004, through amendment of the National Small Business Act, amendment Act 29 of 2004, which basically made provision for the incorporation of the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre and any other designated institutions into a single Small Enterprise Development Agency under the Department of Trade and Industry (the DTI). It is a schedule 3A national public entity in terms of the Public Finance Management Act (PFMA), Act 1 of 1999, as amended.

SEDA as an institution has evolved over the years and assumed few modifications. However, its central mandate as encapsulated in the National Development Plan (NDP) has not changed. The NDP sets the small business sector an enormous responsibility of creating 90 percent of South Africa’s 11 million jobs by 2030. The agency’s overall accountability is therefore drawn from the National Development Plan (NDP) particularly chapter 3, economy and unemployment, as well as chapter 6, inclusive rural economy.

Also, it is agency’s liability to implement various policy propositions for growth, decent employment and equity as captured in the New Growth Path (NGP). For instance, under microeconomic package three key policy proposals are underscored namely:-

* **Rural Development Policy**: emphasis on rural development and agricultural value chains;
* **Enterprise development in particular the promotion of entrepreneurship:** creation of one stop shop and single funding agency, strict adherence to a 30 day payment period or fiscal penalties for non-compliance, elimination of red-tape, address exorbitant cost of space in shopping Malls;
* **Developmental Trade Policies:** Including lobbying for a trade policy that seeks to promote exports while addressing unfair competition against domestic producers’ i.e. recent impasse being the developments on African Growth Opportunity Act (AGOA).

The agency further derive its mandate from Outcome(s) four (4) and seven (7) of the Medium Term Strategic Framework (MTSF) 2014-2019, which are ‘decent employment through inclusive growth’ and ‘vibrant, equitable, sustainable rural communities contributing towards food security for all’. Whereas on inclusive growth, the agency aims to give priority to women, black, youth and people with disability in an endeavor to address poor participation levels of businesses owned by people from these demographics. On creating sustainable rural communities, SEDA has a focused programme for Cooperatives and Community Private Public Partnership (PPP) expansion.

Moreover, successive State of the Nation Address (SONA) since 2014-2016 have strongly emphasized the role of small business sector in ameliorating some socioeconomic challenges especially poverty, unemployment and all sort of social vices ravaging our country. Therefore, SEDA is obliged to ensure that small enterprises 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 guidance and intelligence, consultancy, training and mentoring and by assisting SMMEs with technology through the technology programme. It also provides for the incubation of business through technology demonstration centers, technology incubators and hybrid centres as part programme, as well as for the development of rural enterprises and cooperatives through the cooperatives and community private partnerships programme.

**11.2 SEDA Strategic Pillars**

**Vision**

To be the centre of excellence for small enterprise development in South Africa.

**Mission**

To develop, support and promote small enterprises to ensure their growth and sustainability in coordination and partnership with other role players.

**Values**

* Nurture;
* Innovation;
* Customer Orientation;
* Ethical Behaviour and;
* Resilience (NICER).

**Goal**

Ensure that the small enterprise sector grows and increases its contribution to sustainable and equitable social and economic development, employment and wealth creation.

**11.3 Alignment of the DSBD Outcome-oriented Goals and SEDA Strategic Objectives**

**Table: 3**

|  |
| --- |
| **Government Outcome 4: Decent employment through economic growth****Government outcome 7: Vibrant, equitable, sustainable rural communities contributing towards food security for all** |
| **Ultimate Outcome (Impact)** | Increased contribution of small enterprises and cooperatives to the SA economy, and promotion of economic growth, job creation and equity. |
| **Intermediate Outcomes** | * Increase in turnover of assisted small enterprises and cooperatives
* Increased number of people employed in assisted small enterprises and cooperatives
* Reduced mortality rate of assisted small enterprises and cooperatives
 |
| **Strategic Outcome Oriented Goals (Outcomes)** | Improve the sustainability of small enterprises and cooperatives | Increase SEDA delivery network to reach underserviced areas | Maximise support offered to SEDA clients through stakeholder contribution |

**11.3.1 The DSBD/SEDA Outcome-oriented Goals and Strategic Objectives**

**Table: 4**

|  |  |  |
| --- | --- | --- |
| **DSBD strategic outcome oriented goal** | **SEDA strategic outcome oriented goal** | **SEDA Strategic Objectives**  |
| **Goal 1:** Sustainable, competitive and growing small businesses.  | **Goal 1:** Improve the sustainability of small enterprises and cooperatives  | * Increase number of *diagnostic assessment conducted on small enterprises*
* *Increase number of clients participating in the Supplier* **Development** Programme
* Increase number of clients supported through mentorship and coaching
* Increase number of clients with access to local and international markets;
* Increase number of clients trained on national and international standards
* Increase number conformity assessment and product testing support
* Increase the number of clients supported with Systems implementation
* Increase number of clients accessing Technology Transfer support
* Increase number of clients trained on national and international standards
* Increase number conformity assessment and product testing support
* Increase the number of clients supported with Systems implementation
* Increase number of clients accessing Technology Transfer support
 |
| **Goal 2:** Sustainable small business in rural and township communities. | **Goal 2:** Increase SEDA delivery network to reach underserviced areas | * Establish new incubators in prioritised provinces (including virtual incubators)
* Increase colocation points with identified partners
* Develop a framework for SEDA branch location and resourcing
 |
| **Goal 4:** Strategic partnerships for integrated support to small businesses.  | **Goal 3:** Maximise support offered to SEDA clients through stakeholder contribution. | * Increase number of partnerships for small business development and support
* Increase financial support sourced from partners
 |

**11.4 SEDA Performance Indicators by Programme, Objective, Activity and Related Outcome**

**Programme One: Enterprise Development**

**Purpose:** To provide needs based and growth oriented business support to small enterprises and cooperatives through SEDA branches.

* SEDA provides business related information, advice, consultancy, training and mentoring services in all areas of enterprise development;
* Rural enterprise development and cooperatives are supported through the Cooperatives and Community Private Partnerships Programme (CPPP).

**Table: 5**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategic Outcome Oriented Goal** | **Strategic Objective** | **Performance Indicator/Measure** | **Medium-Term Targets** |  |
|  |
| **2016/17** | **2017/18** | **2018/19** |
| Improve the sustainability of small enterprises and cooperatives | Increase number of diagnostic assessment conducted on small enterprises | Number of diagnostic assessment conducted on clients businesses | **10,830** | **10,290** | **9,776** |
| Increase number of clients participating in the Supplier Development Programme | Number of clients supported through Supplier Development Programme | **150** | **225** | **300** |
| Increase number of clients supported through mentorship and coaching  | Number of clients supported through mentorship and coaching | **100** | **125** | **150** |
|  | Increase number of clients supported through trade facilitation | Number of clients supported through trade facilitation  | **100** | **125** | **150** |
| Increase number of clients trained on national and international standards | Number of clients trained on national and international standards | **563** | **591** | **621** |
| Increase number of Cooperatives supported | Number of Secondary marketing cooperatives supported | **45** | **54** | **63** |
| Number of Primary cooperatives established | **90** | **90** | **90** |
|  | Increase number of clients participating in the BESD Programme | Number of clients supported through BESD Programme | **1000** | **Programme cancelled** | **Programme Cancelled** |
| Increase number of clients participating in the National Gazelles Programme | Number of clients supported through National Gazelles Programme | **200** | **200** | **200** |
| Increase SEDA delivery network to reach underserviced areas | Increase colocation points with identified partners | Number ofco-location points | **26** | **29** | **32** |
| Develop a framework for SEDA branch location and resourcing | Developed framework for branch location and resourcing | Framework developed and approved**.** | Implementation of framework | Implementation of framework |

**Programme Two: SEDA Technology Programme (STP)**

**Purpose:** To provide technology oriented interventions and incubation support to small enterprises and cooperatives.

* Through STP, SEDA provides technology transfer, business and technology incubation services, as well as incentives for management systems implementation (such as ISO9001 and OHSAS 18001), product testing and certification, as well as machinery and equipment.
* Establishment of new clients under the incubation programme will be an area of focus going forward, particularly in provinces such as Limpopo, North West, Northern Cape, Free State and Western Cape.

**Table: 6**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategic Outcome Oriented Goal** | **Strategic Objective** | **Performance Indicator/Measure** | **Medium-Term Targets** |  |
|  |
| **2016/17** | **2017/18** | **2018/19** |
| Improve the sustainability of small enterprises and cooperatives | Increase number of clients participating in the Incubation Support Programme | Number of clients incubated | **2069** | **2076** | **2503** |
| Increase number conformity assessment and product testing support | Number of clients supported through conformity assessment and product testing support  | **151** | **158** | **165** |
| Improve the sustainability of small enterprises and cooperatives | Increase the number of clients supported with Systems implementation  | Number of clients supported with Systems implementation | **36** | **38** | **40** |
| Increase number of clients accessing Technology Transfer support | Number of clients supported through Technology Transfer  | **69** | **72** | **75** |
| An accessible delivery network that includes under serviced areas  | Establish new incubators in prioritised provinces (including virtual incubators) | Number of incubators supported  | **56** | **57** | **58** |

**Programme Three: Administration**

**Purpose:** To provide technology oriented interventions and incubation support to small enterprises and cooperatives.

* From a support functions perspective, the organization will focus on budgeting and allocating more funds towards direct service delivery areas, such as the provincial network and incubation.
* The medium to long term goal is to get the vacancy rate to 10% and maintain it at that level, or below.

**Table: 7**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategic Outcome Oriented Goal** | **Strategic Objective** | **Performance Indicator/Measure** | **Medium-Term Targets** |  |
|  |
| **2016/17** | **2017/18** | **2018/19** |
| Improve the sustainability of small enterprises and cooperatives | Effective and efficient budget management  | % of SEDA budget allocated to the delivery network.  | **74%** | **75%** | **76%** |
| Effective and efficient human resource management | Vacancy rate  | **10%** | **10%** | **10%** |
| Maximise support offered to SEDA clients through stakeholder contribution | Increase number of partnerships for small business development and support | Number of partnerships sourced for small business development and support | **20** | **25** | **25** |
| Increase financial support sourced from partners | Value of service cost covered by partners | **10,6** | **10,9** | **11,2** |

* 1. **SEDA Budget Allocation**

**Table: 8**

|  |  |  |
| --- | --- | --- |
| **Income** | **Audited Figures** | **MTEF Allocation** |
| **FY14/15** | **FY15/16** | **FY16/17** | **FY17/18** | **FY18/19** |
| **R’ million** |
| **SEDA- DSBD Budget from MTEF** | **498,3** | **478,2** | **481,5** | **583,2** | **617,0** |
| **STP-DSBD from MTEF Budget** | **126,4** | **132,2** | **139,2** | **146,1** | **154,6** |
| **DSBD Specific Projects** | **-** | **-** | **-** | **-** | **-** |
| **External earnings** | **69,1** | **78,2** | **35,0** | **12,0** | **12,0** |
| **Other income** | **19,6** | **11,0** | **8,0** | **5,0** | **6,0** |
| **Utilisation of accumulated earnings** | **-** | **69,5** | **-** | **-** | **-** |
| **Total income** | **713,4** | **769,1** | **663,7** | **746,3** | **789,6** |
| **Expenditure** |
| **Compensation of employees** | **230,9** | **272,2** | **291,3** | **311,7** | **333,5** |
| **Goods and services** | **398,9** | **483,5** | **359,0** | **420,7** | **441,6** |
| **Depreciation** | **13,5** | **13,4** | **13,4** | **13,9** | **14,5** |
| **Interest** | **1,9** | **-** | **-** | **-** | **-** |
| **Total expenditure** | **645,2** | **769,1** | **663,7** | **746,3** | **789,6** |

**11.6 SEDA Budgeted Focus Areas**

* Development of a framework on the ideal sourcing (number of Business Advisors and skills) per SEDA branch.
* Implementation of a programme to retain and upskill Business Advisors.
* Increased automation of core and support processes to improve efficiency.
* Revival of the South African Business Technology Incubation Association (SABTIA).
* Ccontinued refinement of business and operational model.
* Development of an informal sector programme aligned to the National Informal Business Upliftment Programme.

**11.7 Expenditure Analysis**

Small Enterprise Development Agency gets more than 90 percent of its revenue over the medium term through transfers from the DSBD. As alluded to earlier the agency has a significant role to play in augmenting the public sector attain its national development plan targets. The NDP identifies an integral role for small enterprises to contribute to inclusive economic growth and employment. These organisations require support through improved coordination, the easing of regulatory burdens, and incubation, among other things. The Small Enterprise Development Agency will continue to contribute to government’s small business strategy by developing, supporting and promoting small enterprises throughout South Africa, ensuring their growth and sustainability in coordination and partnership with stakeholders.

The agency remains focused on providing support through its footprint and its business incubation initiatives, participating in interventions directed towards small and medium enterprises, assisting cooperatives, and prioritising growth in sectors such as manufacturing, agro-processing, and ICT. Over the medium term, this will require driving high impact programmes that include incubation, access to markets, mentorship and coaching, technology transfer, and supplier development. The agency supports the incubation of SMMEs through technology demonstration centres, and expects to support 58 incubators in this way by 2018/19. In support of these initiatives, the agency has initiated National Gazelles, a programme that proposes an innovative approach to small business development through identifying and strengthening potential high growth businesses that add value and have a manufacturing focus. The programme expects to support the development of 600 identified small enterprises over the medium term through an integrated approach that includes facilitating access to business support and incentives so that enterprises realise their potential.

To ensure the growth and sustainability of small businesses, and that jobs are created, expenditure over the medium term will continue to be driven by the provision of non-financial services and improved support to SMMEs. The agency will provide business advice, assess, consult, train, mentor and assist an estimated 30 896 small enterprises over the medium term. Providing assistance to SMMEs and maintaining its national delivery network of offices throughout the country is expected to drive expenditure on goods and services over the medium term, reflecting 57.9 per cent of total expenditure, or R1.3 billion. This will enable the agency to provide an estimated 675 clients with support over the medium term through the supplier development programme. The agency also promotes the development of rural enterprises and cooperatives through the cooperatives and community private partnerships programme.

As the agency’s personnel deliver services directly to SMMEs, the nature of its work is labour intensive. Although the number of personnel is expected to remain constant over the medium term, compensation of employees remains a significant driver of expenditure, representing 40.2 per cent of total expenditure, or R936.5 million.

1. **Small Enterprise Finance Agency (SEFA)**

**12.1 Mandate of SEFA**

The Small Enterprise Finance Agency (SEFA) is a fairly new entity established in April 2012 through the amalgamation of South African Micro-Finance Apex Fund (SAMAF), Khula Enterprise Finance and Industrial Development Corporation’s small business activities. It is a registered entity in terms of the Companies Act of 2008 and incorporated in terms of Section 3(d) of the Industrial Development Corporation (IDC) Act, 1940, and thus a wholly owned subsidiary of the IDC. Section 3(d) of the IDC Act seeks “to foster the development of small and medium enterprises and co-operatives”.

SEFAs mandate is to be “the leading catalyst for the development of sustainable Small, Micro and Medium Enterprises (SMME) and Cooperatives through the provision of finance. The loan facilities that SEFA provides to youth-owned small business ventures as well as cooperatives operating in the priority sectors as highlighted in the industrial policy action plan (IPAP) and agricultural policy action plan (APAP) range from a minimum of R50 000 to a maximum of R5 million. The agency’s mission is to provide access to finance to Survivalist, Micro, Small and Medium businesses throughout South Africa by:-

* Delivering wholesale and direct lending;
* Providing credit guarantees to Small, Medium and Micro businesses;
* Supporting the institutional strengthening of Financial Intermediaries so that they can be effective in assisting SMMEs;
* Creating strategic partnerships with a range of institutions for sustainable SMMEs development and support;
* Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities;
* Developing (through partnerships) innovative finance products, tools and channels to catalyze increased market participation in the provision of affordable finance.

Following the creation of the new Ministry in 2014 SEFA has since embarked on a process of migration from Economic Development Department (EDD) to DSBD. Likewise SEDA, the DSBD is the executive authority of the agency and exercise oversight responsibility over the agency as prescribed in the Public Finance Management Act. Furthermore, SEFA is expected to execute its mandate in line with the National Small Business Act, 1996.

**12.2 SEFA Strategic Pillars**

**Vision**

To be the leading catalyst for the development of sustainable Survivalist, Micro, Small and Medium enterprises through the provision of finance.

**Mission**

Our mission is to provide access to finance to Survivalist, Micro, Small and Medium businesses throughout South Africa by:-

* Delivering wholesale and direct lending;
* Providing credit guarantees to Small, Medium and Micro businesses;
* Supporting the institutional strengthening of Financial Intermediaries so that they can be effective in assisting SMMEs;
* Creating strategic partnerships with a range of institutions for sustainable SMMEs development and support;
* Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities;
* Developing (through partnerships) innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance.

**Values**

SEFAs values and guiding principles to deepen institutional culture and organisational cohesion are:-

* Kuyasheshwa: We act with speed and urgency;
* Passion for development: Solution-driven attitude, commitment to serve;
* Integrity: Dealing with clients and stakeholders in an honest and ethical manner;
* Transparency: Ensuring compliance with the best practice on the dissemination and sharing of information with all stakeholders;
* Innovation: Continuously looking for better ways to serve our customers.

**12.3 SEFA Corporate Plan as Aligned with the DSBD Strategic Plan**

**Table: 9**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|

|  |
| --- |
| **DSBD Strategic outcome-oriented goals** |

 |

|  |
| --- |
| **SEFA Strategic Objective** |

 | **SEFA Programmes** |
|

|  |
| --- |
| **An effective and efficient administration**  |

 |

|  |
| --- |
| * Build a financially sustainable and viable sefa;
* Improve Financial Ratios;
* Build efficient and effective process and systems;
* Adopt best practice governance;
* Build a high performance organisation
 |

 |

|  |
| --- |
| * Build an efficient and effective sefa that is performance driven and sustainable;
* Governance, Risk and Compliance
 |

 |
|

|  |
| --- |
| **An enabling environment for competitive small businesses and cooperatives**  |

 |

|  |
| --- |
| * Expand access to credit and finance to informal and micro-enterprise sector;
* To consolidate the Direct Lending investment activities and strive toward improved portfolio quality; and to redirect its investment activities proactively in support of government policy initiatives;
* Facilitate a programme of Wholesale Lending through strategic partnerships;
* Increase the utilisation of guarantee indemnity scheme.
 |

 |

|  |
| --- |
| * Access to finance for SMMEs and Co-operatives:
* Informal Sector and Micro-Enterprises Finance;
* Direct Lending;
* Wholesale SME Lending;
* Co-operative Enterprise Lending;
* Khula Credit Guarantee;
* Marketing, communication and stakeholder relations
 |

 |
|

|  |
| --- |
| **Sustainable small business and co-operatives in rural and township communities** |

 | * Grow our customer base through targeted support (Black-owned enterprises, women-owned enterprises, youth-owned enterprises, enterprises owned by people living with disabilities and enterprises located in priority rural provinces.
 | * Access to finance for SMMEs and Co-operatives;
* Informal Sector and Micro-Enterprises Finance;
* Direct Lending;
* Wholesale SME Lending;
* Co-operative Enterprise Lending;
* Khula Credit Guarantee
* Post Investment Management;
* Property Management
 |

**Corporate Performance of SEFA from 2012 – 2015**

|  |  |  |
| --- | --- | --- |
| **SMMEs and Cooperatives** | **Number** | **Amount** |
| Informal & Micro Enterprises | **113,052** | **R462m** |
| Small & Medium Sized Enterprises | **2,079** | **R1.6b** |
| Black-owned | **96,607** | **R1.5b** |
| Youth-owned | **26,710** | **R449m** |
| Women-owned | **110,970** | **R846m** |

**12.3 Strategic Thrust/objectives**

SEFA’s strategy is premised on four strategic thrust namely: increased access to finance for small businesses and co-operatives, strengthening human resource capacity, marketing of the SEFA products and services and consolidating the post investment and monitoring support. In order to achieve the aforesaid strategic thrust for the 2016/17 financial year, SEFA has planned a number of programmes aiming to achieve its strategic thrusts, which include amongst others, streamlining of the loan management processes through increased use of online and workflow technology with the aim of improving turnaround times spent in processing applications, growing of the micro-enterprise loan book through innovative products such as supplier credit, partnerships with community organisations.

SEFA is building the capacity of staff to increase productivity and improved customer centricity or satisfaction which is the element that has a likelihood of contributing significant towards less time taken to process the application; leadership development to ensure a value driven organisation; implementing a customer relationship management strategy that will encompass different client touch points with the aim of creating awareness about the products and services provided by SEFA and measure their effectiveness; strengthening the collection capability through the introduction of a debit order facility and increase collections capacity, this programme will aim at reducing the high rate of impairments experienced by SEFA.

**12.3.1 SEFA Performance Indicators by Programme, Objective, Activity and Related Outcome**

**Strategic Programmes, Strategic initiatives and Strategic Outputs of SEFA**

|  |  |
| --- | --- |
| **Strategic Programmes** | **Strategic Initiatives** |
| 1. Access to finance for SMMEs and cooperatives
 | * Informal and Micro Enterprise Credit.
* Direct Lending.
* Indirect Lending (partnerships).
* Cooperatives Enterprise Lending.
* Khula Credit Guarantee.
 |
| 1. Build an effective and efficient SEFA
 | * Financial Management.
* Human Resource Management.
* Information and Communication Technology.
* Corporate Planning and Reporting
 |
| 1. Marketing, Communication and Stakeholder Relations
 | * Build a strong and effective SEFA brand emphasizing accessibility to SMMEs and Cooperatives.
 |
| 1. Governance, Risk and Compliance
 | * Risk and Credit Management.
* Compliance Management.
* Internal Audit.
* Corporate Secretariat.
 |
| 1. Post Investment Management
 | * Client Sustainability.
* Loan Repayment.
* Post Investment Support.
* Workout and Restructuring.
 |
| 1. Property Management
 | * Management of SEFA Property Portfolio.
 |

**Programme 1.1: Informal and Micro Enterprises Credit – Strategic Output**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Strategic Indicator** | **Projected 2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **Total as per Strategic Plan** |
| **Approval (R’000)** | **97 000** | **97 000** | **106 700** | **117 370** | **129 107** | **142 018** | **592 195** |
| **Disbursements (R’000)** | **36 000** | **53 242** | **66 634** | **89 088** | **95 485** | **98 094** | **402 543** |
| **Enterprises Financed** | **42 000** | **46 200** | **50 820** | **55 902** | **61 492** | **67 641** | **282 056** |
| **Jobs Facilitated** | **63 000** | **69 300** | **76 230** | **83 853** | **92 238** | **101 462** | **423 083** |

**Programme 1.2: Direct Lending Programme – Strategic Output**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Strategic Indicator** | **Projected 2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **Total as per Strategic Plan** |
| **Approval (R’000)** | **536 387** | **229 295** | **288 781** | **421 348** | **494 976** | **603 517** | **2 037 917** |
| **Disbursements (R’000)** | **496 655** | **212 310** | **267 390** | **390 137** | **458 311** | **558 812** | **1 886 960** |
| **Enterprises Financed** | **382** | **163** | **206** | **300** | **353** | **430** | **1 452** |
| **Jobs Facilitated** | **1910** | **817** | **1 028** | **1 501** | **1 763** | **2 149** | **7 258** |

**Programme 1.3: Wholesale Lending Programme- Strategic Output**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Strategic Indicator** | **Projected 2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **Total as per Strategic Plan** |
| **Approval (R’000)** | **284 000** | **245 816** | **329 087** | **457 050** | **502 889** | **507 968** | **2 042 808** |
| **Disbursements (R’000)** | **182 900** | **163 877** | **219 391** | **304 700** | **335 259** | **368 785** | **1 392 012** |
| **Enterprises Financed** | **196** | **216** | **238** | **260** | **286** | **315** | **1 315** |
| **Jobs Facilitated** | **980** | **1 080** | **1 190** | **1 300** | **1 430** | **1 573** | **6 573** |

**Programme 1.4:** Cooperative Enterprise Lending Programme

Product Offering for Cooperatives:

* Business Loans
	+ Structured Finance Solutions
	+ CFI/ Secondary Cooperatives On Lending Loan
	+ SEFA Cooperative Infrastructure Programme
	+ SEFA 80/20 Cooperatives Upliftment Facility
	+ Inter-Agency 50/50 Cooperatives Facility
* **Funds**
	+ Sector Focused/ Partnership Funds
* **Grants**
	+ Pre - Investment Support Grant – CFI (R500k)
	+ Pre – Investment Support
	+ Post Funding Support
* **Equity Instruments**
	+ Quasi Equity Instruments
* **Cooperatives Value Chain Model: Benefits and targeted sectors**

**Programme 1.4: Cooperative Lending Programme Output – Strategic Output**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Strategic Indicator** | **Projected 2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **Total as per Strategic Plan** |
| **Approval CFIs (R’000)** | **1 000** | **2 500** | **5 000** | **7 000** | **8 000** | **10 000** | **33 500** |
| **Approvals Cooperatives (R’000)** | **96 000** | **50 000** | **61 750** | **82 250** | **87 250** | **94 775** | **375 025** |
| **Disbursements (R’000)** | **47 500** | **33 500** | **41 500** | **54 500** | **56 500** | **61 850** | **247 350** |
| **Enterprises Financed** | **86** | **95** | **105** | **116** | **127** | **140** | **583** |
| **Jobs Facilitated** | **688** | **760** | **840** | **928** | **1 016** | **1 118** | **4 662** |

**Programme 1.5:** Khula Credit Guarantee Programme

**The Strategic Objective:** To expand the utilisation of the Credit Indemnity Scheme by increasing the number of participating institutions, introduction of new products and the streamlining of business processes and systems through strategic initiatives of:

* Extending coverage to include a wider range of financial institutions and commercial suppliers of inputs to SMMEs and Co-operatives;
* Introduction of flexible terms and conditions to increase attractiveness of products and services to the targeted SME financiers;
* Developing, piloting and marketing new products and services; and
* Introduction of risk based pricing.

**Programme 1.5: Khula Guarantee Programme – Strategic Output**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Strategic Indicator** | **Projected 2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **Total as per Strategic Plan** |
| **Approval (R’000)** | **12 500** | **260 000** | **320 000** | **380 000** | **440 000** | **500 000** | **1 900 000** |
| **Disbursements (R’000)** | **12 000** | **80 000** | **180 000** | **250 000** | **350 000** | **500 000** | **1 360 000** |
| **Enterprises Financed** | **94** | **381** | **1 428** | **2 238** | **4 047** | **4 143** | **12 237** |
| **Jobs Facilitated** | **470** | **1 905** | **7 140** | **11 190** | **20 235** | **20 712** | **61 182** |

**Programme 2:** Post Investment Management

**Strategic Objective:** To reduce the level of impairments and the establishment of a developmental approach towards client sustainability through strategic initiatives of:

* Implementation of a pro-active approach in the identification of early warning signals for portfolio investments;
* Enhancing the functionality of the Investment Monitoring Committee (IMC);
* Implementation of a differentiated approach towards the monitoring of different loan types;
* Capacitating the Workout and Restructuring capacity;
* Enhancing the Mentorship Programme to develop client sustainability;
* Establishment of partnerships to provide value added services to SEFA clients; and
* System enhancement and automation–dash board reporting and collateral management systems.

**Programme 3:** Build an efficient and effective SEFA that is performance driven and sustainable.

**Strategic Objective:** To develop and implement an effective and efficient back-office support systems through strategic initiatives of Financial Management, Human Capital Management and Information and Communication Technology.

**Programme 4**: Build a strong and effective SEFA Brand emphasizing accessibility to SMMEs.

**Strategic Objective:** To position SEFA as a funder of choice amongst SMMEs and Cooperatives through strategic initiatives of positioning SEFA as a funder of choice amongst SMME’S and Cooperatives and grow the customer base; improve national accessibility through the roll-out of access points (through co-locations) in each municipal district of South Africa; embarking on specific outreach to township and rural economies; and develop a culture of client excellence.

**Programme 5**: Property Management

**Strategic Objective:** Ensure that the value of the SEFA property portfolio is preserved and maintained and strategically utilised to provide affordable infrastructure to small and medium enterprises that is aligned to the SEFA organisational strategy. Strategic Initiatives to attain strategic objectives are:

* The management of the external property management agency, improve financial sustainability of the property portfolio;
* Implementation of a debt collection strategy;
* Settlement agreement with tenants for long outstanding debt and ownership disputes;
* Finalise sale agreements and negotiations with the-GAPIPA and OWIPA tenant organisations; and
* Forge private and public strategic partnerships with key stakeholders with a common interest in the revitalisation and modernisation of the SEFA property portfolio and thereby mitigate compliance (health and safety) and insurance risk.
1. **SEFA Budget Priorities: 2017 – 2021 Financial Position**

Budget Objectives are to:-

* Work within current funding available and maintain positive cash balance over the MTEF period;
* Reduce losses over 5 years period and break-even by 2020/21;
* Decrease impairments, especially in the direct lending operations to 24% by 2020/21 financial year;
* Downscale Direct Lending operations in the short-term to enable collection strategies to be put in place;
* Head count freezes over 5 year period with an allowance for annual cost of living adjustments; and
* Properties to break-even by 2021.

**Cash Sources**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2015** | **2015ytd Dec** | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Total** | **539,273** | **552,343** | **647,421** | **725,850** | **1,099,013** | **934,170** | **1,295,469** |
| **Sub-total funding: External**  | **283,845** | **304,798** | **213,124** | **253,780** | **607,347** | **250,000** | **440,341** |
| **MTEF** | **76,241** | **151,798** | **213,124** | **223,780** | **257,347** | **295,949** | **340,341** |
| **ECSP** | **207,604** | **153,000** | **-** | **-** | **-** | **-** | **-** |
| **IDC Loan** |  |  | **-** | **30,000** | **350,000** | **250,000** | **100,000** |
| **Capitalisation** |  |  |  | **-** | **-** | **-** | **-** |
| **Sub-total Collections from clients** | **255,428** | **247,545** | **434,297** | **422,994** | **411,642** | **635,084** | **838,344** |

1. **Observations**

Having met with the DSBD to scrutinise the Annual Performance and budget for 2016/17, the Committee made the following observations:

1. The budget allocated to the DSBD falls short of the proposed budget from the Budget Review and Recommendation Report (BRRR) of October 2015. However, the Committee fully understands the Minister of Finance perspective that the government departments must reprioritise and shift funds within. Subsequently, the Committee maintained that in order for the DSBD to fund other programmes that were not funded through fiscus, it must start expedite signing of transversal agreements with other departments so as to tap into their funds to bankroll those programmes;
2. The Committee notes that the DSBD’s preoccupation appears to be on the number of the SMMEs and Cooperatives that the DSBD plans to support. Nevertheless, this approach has an unintended consequence of disregarding the impacts as well as the number of jobs to be created through the DSBD’s intervention. The DSBD aims to assist 5 206 enterprises through National Informal Business Scheme (NIBS) but again there are no plans of assessing the impact those enterprises would have made in terms of jobs creation, inequality and poverty eradication;
3. The Cooperative Incentive Scheme (CIS) grant of R350 000 has been there since the programme was first conceptualised. Price escalations have not been taken into consideration especially during the programme review exercise. Prices continue to increase annually and this creates an impediment particularly for agricultural cooperatives. The main focus of the DSBD seems to be on CIS, judging from the budget allocated to the scheme, however, this is also questionable in terms of the scheme’s impacts and relevancy of the grant, R350 000;
4. The Committee also notes the number of cooperatives to be assisted through CIS, 350 in 2015/16 and 450 in 2018/19. However, targeted groups are not clearly articulated i.e. youth, women and disabled people, also the impacts thereof. It would have been better if the DSBD describe the number of communities that would be developed as well as the number of poor families or beneficiaries that are in the social grant or indigent registers that would be developed in order for them to exit both the social grant and indigent registers. In such an approach, an impact of developing and assistance could be assessed and it would be developmental;
5. In developing and supporting cooperatives through the implementation of Cooperatives Amendment Act of 2013, an observation made by the Committee is that, the DSBD does not appear to have plans of developing a National Cooperatives Development Master Plan that would inform the South African Cooperatives Development Models that relate to poverty eradication, jobs creation and facilitate community economic development resulting with active participation of communities that were previously excluded from the main stream economy. All programmes relating to cooperatives development are taking place in the absence of a cooperatives development master-plan relating to South African socio-economic conditions;

These programmes do not take into consideration that cooperatives are one of the three pillars that drive a mixed economy that South Africa is. Important support structures for cooperatives development are scattered in various departments without any coordinated approach that will make them effective in providing a holistic approach, these include; Cooperative Development Agency (CDA) that exist in name with no funding and human resources; the Cooperatives Academy (CA) that falls under the Department of Higher Education and has neither been established nor prioritized by that department, the Cooperatives Banks Development Agency (CBDA) which falls under Treasury, with a focus on regulating Cooperatives Banks as opposed to developing cooperative banks that are much required to provide financial support to members as well as in funding their enterprises as well as Cooperative Tribunal that only exist in paper;

All these initiatives and proposed institutional structures mentioned have neither been mentioned in the Strategic Plan of the DSBD nor plans in place for implementation in its Annual Performance Plan for current MTEF. This is despite cooperatives failure rate hovering at 88%, an indication that current cooperatives development programmes have not yielded positive results;

1. The Committee also noted that, over MTSF period, there is no mentioning of cooperatives incubators. There is also no plan for building in-house capacity in the DSBD that would result with effective cooperatives development programmes. There is also no comprehensive plan for cooperatives managers, trainers and developers;
2. In developing markets for small enterprises, an observation of allocation of R200.4 million for Market Development and Stakeholder Relations sub-programme in the SMMEs and Cooperatives Programme Design and Support Programme over MTEF period, neither specify sectors targeted nor implementation of set aside products policy, 30% procurement policy, the manner of expanding it as well as the model that will be implemented for National School Nutrition Programme (NSNP) (as a set aside) with the Department of Basic Education;
3. The DSBD’s approach does not appear conscious or mindful of the reality that South Africa’s economic structure is made up of three pillars, one being the State-Owned, Private and cooperatives sectors. Consequently, most programmes are not geared towards addressing inequalities in our economy. For instance, 70 per cent of R150.7 million that has been allocated to fund infrastructure, feasibility studies and product development for small enterprises, does not include feasibility studies for community economic development initiatives with secondary cooperatives positioned as catalysts for private and public sector investment on enterprises that are geared to realize community economic development;
4. Amalgamation of the cooperatives and SMME into one programme was not carefully thought out. Programmes should have remained separated in order to five impetus to cooperatives development. This is partly the cause why cooperatives are not being given adequate attention;
5. With a budget of R87.8 million over the 2016 MTEF for strengthening departmental governance and operational capacity, it has been observed that nothing is planned for building in-house capacity through study tours and exchange programmes on cooperatives with cooperatives agencies like Mondragon, Grameen Bank and model countries in the field of cooperatives development i.e. Germany, Spain and Canada;
6. The Committee commended the manner in which DSBD has apportioned its budget especially on Programme 1: Administration in which the DSBD applied a 20/80 approach, less allocation to administration and more to programmes i.e. Programme 2: SMMEs and Cooperatives Policy and Research which is the core function of the DSBD.
7. The Committee has noted that budget allocation for the DSBD is projected to grow by 5.5 percent in the outer years which then raised a concern of the rationale behind reducing budget allocation whilst the DSBD’s responsibilities (as per Strategic Plan) are anticipated to increase;
8. In Budget Analysis, it noted that R10 million was allocated for Craft Customised Sector Programme (CSP) while the Strategic and Annual Performance Plans does not show plans for the allocation. DSBD programme review created an impression that craft CSP will be discontinued. Hence the Committee raised an alarm that, if the programme was to be discontinued, it ought not to have been budgeted for;
9. Further concern for the Committee was what appeared as a preventable leakage of resources as a result of transfer of funds budgeted for Craft customised sector programme to Industrial Development Corporation (IDC). Sizeable portion of the funds gets depleted in the process due to, among others, handling fees, management fees, interests and so forth that IDC charges for its services;
10. The committee observed that one of the key performance indicators, ‘creation of 50 co-location’ points is ambiguous. It is not clear how many co-location sites will be forged per annum, how many municipalities and/or where this programme will be implemented. The committee feels strongly that, National Spatial Development Perspective (NSDP), Spatial Development Frameworks (SDF), Presidential Poverty Nodes, amongst others, could have been used strategically to direct economic resources and energy in poverty stricken areas and where they are needed the most;
11. In Programme 3, the Committee noted that there is no clear expression of changes that will be seen as opposed to the number of SMMEs and Cooperatives that will be assisted through BBSDP. Also, an allocation of R8 million (0.7) for 2016/17 for Cooperatives Development, a concern of how much will be done with such a budget whilst an understanding of 88% failure rate of cooperatives has been stated;
12. The Committee observed that the DSBD has ceased transferring funds to SAWEN and to IDC for Isivande Women’s Fund. Furthermore the Committee wanted to understand the purpose of which Isivande was formed for, therefore, what is the rationale for discontinuing with this programme and how that need would be addressed;
13. The committee noted with uneasiness the number of legislations that DSBD plans to introduce during this five year period, National Small Business Act, 1996 as amended. This is in spite of the numerous challenges and bottlenecks stifling the growth of the SMMEs and Cooperatives sector;
14. The Committee observed that most of the senior staff in the DSBD are on acting capacity, which is an element that is likely to adversely affect the efficiency and effectiveness of the DSBD;
15. During the 2015 Budget Vote Report, the DSBD indicated that there was a work in progress to appoint a Chief Executive Officer of SEDA before the DSBD got established but since its establishment the process has come to a halt;
16. The issue of SEFA ownership remains a cause for concern as most of its budget allocation is still handled by Economic Development Division (EDD) and therefore sits on vote 25. No indication regarding when this process will be finalised;
17. SEFAs operations are funded, 54% or R672 million, from the revenue it receives from EDD, and 46% of its revenue is derived from interest and fee income, income from property and rentals. Its revenue is expected to decrease at an average annual rate of 7.4 per cent over the medium term, mainly due to a decrease in the allocation from the DSBD as a result of economic competitiveness support package funding. Thereafter, there are plans to supplement this revenue via IDC loan from 2018. This decision has a far reaching implication for the Department. The degree or extent of DSBD involvement in this whole process has not been established and thus not certain.
18. **Recommendations**

Having considered the Strategic Plan, Annual Performance Plans and budget for the DSBD, the Committee recommends as follows:

* 1. The DSBD must use other structure such as President’s Coordinating Council (PCC) in order to expedite the signing of Transversal agreements and relocation of other functions that still exist in other departments to the DSBD. Further, this can assist the DSBD in lobbying more funds since the Minister of Finance is also part of the Council;
	2. The budget allocation of the DSBD has increased as compared to the previous financial year even though it is expected to commence with the implementation of their strategy, therefore the DSBD should present their strategy of long term projects and projections of the DSBD and entities to the Treasury;
	3. The DSBD must furnish the Committee with the status of the report on transversal agreements with other government institution within one month of the approval of this report;
	4. The DSBD should review R350 000 of Cooperative Incentive Scheme (CIS) to cater for inflationary increases;
	5. The DSBD should built in-house capacity to manage funds budgeted for Craft customised sector programme so as to maximise the value of money out of budget allocated to Craft customised sector programme;
	6. The DSBD should develop a Master Plan for cooperatives that will also depict cooperative model that relates to community economic development, aligned to job creation and poverty eradication as well as the establishment of cooperatives incubators;
	7. In developing markets for small enterprises and cooperatives, policies that are aimed at assisting SMMEs and Cooperatives, like 30% procurement of goods and services from SMMEs and Cooperatives, and 70% replacement policy on imported goods should be taken into consideration. Furthermore, an intervention implemented by the DSBD should depict an impact of the intervention instead of stating the number of enterprises assisted;
	8. The DSBD must furnish the Committee with an Action Plan on the appointment of vacant positions which exist in the Executive of the DSBD, which are Deputy Director-Generals and Chief Directors;
	9. In capacity development, the DSBD should develop a plan and programmes that will assist in-house capacity development. Study tours, exchange programmes for cooperatives development, bench-marking with cooperatives agencies like Mondragon, Gremeen Bank and Germany should be considered. Furthermore, an understanding of the objectives of the National Development Plan (NDP) i.e. an understanding of three pillars that drives the economy in South Africa should be emphasised within the DSBD. The DSBD should be able to develop programmes geared to address issues of inequalities, development of the weaker pillar of the economy and that relate to community economic development;
	10. Craft Customised Sector Programme is not reflected in the Strategic and Annual Performance Plans of the DSBD even though funds has been allocated, therefore the DSBD should revisit recommendations of programme review project and furnish the Committee with information of how will the DSBD address needs that were meant for the programme and further state how does it relate to 70% replacement policy of import with locally produced goods;
	11. Isivande Women’s Fund was meant for the development of women in agriculture but as per the DSBD, this fund will be discontinued, therefore the DSBD should report back to the Committee about the status of this fund and further state the intervention that will be done that was addressing what that fund was meant for;
	12. The DSBD should expedite the appointment of Chief Executive Officer for SEDA to ensure that there is accountability in the use of resources allocated to SEDA. Subsequently, the DSBD should update the Committee on the progress made so far in the appointment of CEO of SEDA within 3 weeks after the adoption of this report;
	13. SEFA strategic direction and incorporation must be reviewed in an endeavour to aligning with that of DSBD, its services to complement SEDA and its budget to be moved from Economic Development Division to Small Business Development;
	14. With regards to the programme review exercise carried out by Sizwe Ntsaluba & Gobodo (SNG) on behalf of DSBD, it had earlier been agreed that the Department will go ahead implement all the programmes that all parties, the Committee and the Department, were comfortable with. Likewise, a decision had been taken that DSBD will consult and revert back to the Portfolio Committee with respect to all issues where parties did not agree. This engagement is still outstanding;
	15. The establishment of the National Small Business Council (NSBC) as contained on Chapter two (2) of the National Small Business Act, 1996, has since stalled, and no fundamental reasons have been advanced regarding why the Department has not been able to implement it;
	16. The transfer of Incubation Support Programme (ISP) from the Department of Trade and Industry to Small Business Development has not been completed, and this must be accelerated;
	17. The Portfolio Committee recommends that the Department expedite the process of amending the Department’s name to incorporate ‘Cooperatives’.

**Report to be considered.**