**1. THE BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON SMALL BUSINESS DEVELOPMENT**

The Portfolio Committee on Small Business Development (the Committee), having considered the performance of the Department of Small Business Development and its entities for the financial year 2015/16 reports as follows:

1. **INTRODUCTION**

The current Budgetary Review Recommendation Report (BRRR) process comes at a time when the global economy faces worst economic challenges on multiple fronts. The World Bank has reviewed its 2016 global economic growth forecast down to 2.4 from 2.9 percent, and the International Monetary Fund (IMF) revised its forecast from 3.4 to 3.1 percent. This paints a picture of a stagnating growth. The slump in the global economic activity is primarily a consequent of the lackluster growth in advanced economies which coincidentally are our major trading partners, low commodity prices and weak global trade due to low demand. Depressed commodity prices have severely slowed growth in mineral dependent and exporting economies like South Africa despite weaker currency. This is worsened by the coincidence of low capital inflows and low quality investments in the real economy.

South Africa in particular is recuperatingfrom its worst drought in over a century. The South African Reserve Bank (SARB) recently revised its growth forecast of 0.6 to 0 percent growth in 2016, with growth rate of 1.1 and 1.5 percent projected for the next two years, down from 1.3 and 1.7 percent earlier forecasted. Between 2004-2007, South Africa experienced an average growth rate of approximately 5 per cent in real terms. Accidentally, this was an epoch commonly dubbed ‘jobless growth’ era because, in spite of a growing economy, the impact on job creation was too superficial.

The period from 2008 to 2012 only recorded an average growth rate of just over 2 percent owing to the global recession, specifically its aftermath. The debilitating effects of the 2008 economic crisis continued to be felt despite booming tourism sector prior and during the 2010 World Cup. Compounding the situation was the consistent failure to tackle structural challenges that even today continue to impede the country’s true potential, the gap between rich and poor has widened, the country’s labour force is characteristically low-skilled, unemployment rate is disproportionately high particularly youth joblessness.

It is against this backdrop and burning need for faster progress that in May 2010, President Jacob Zuma appointed the National Planning Commission, an advisory body made up of 26 experts drawn largely from outside the government, to draft a visionary manuscript which would later be termed the National Development Plan (NDP). The South African government, Parliament and the African National Congress (ANC) adopted the NDP as the cornerstone and blueprint for a future economic and socio-economic development strategy for the country in Mangaung, Free Sate, during December 2012.

The NDP proposes numerous measures to grapple with the country’s rising societal problems, accelerate economic growth and sets several ambitious goals for small, micro, medium and cooperative enterprises in particular that of creating 11 million jobs by 2030. There is a problem, however, the majority of these targets are premised on the assumption of a reasonably vigorous economic growth of 5 percent, an unlikely feat assuming the status quo remains, and considering that since the adoption of the plan, the economic growth has been oscillating around 1.5 percent or less.

The creation of a Small Business Ministry in 2014 heralded a new era and brought hope for the small business sector. The sector has so far struggled in terms of employment creation, economic growth and reduction in inequalities due to countless hurdles, which in many instances have tended to strangle its real potential. Estimates of the sector’s contribution to the overall economy are fairly substantial. According to the Global Entrepreneurship Monitor (GEM) the small business sector contributed in the region of 45 percent to Gross Domestic Product (GDP) in 2014. While Statistics South Africa (STATSSA) estimates that informal sector, key component of the second economy, not only has it steadily contributed five (5) percent to the GDP, of the 15 million employed the informal sector employs about 1.5 million, which is 10 percent of the total estimate. Given the statistics, this gives one an indication that the small business sector has the attributes of playing even a more crucial role in tackling the country's development challenges such as employment and economic growth.

**1.1 Mandate of the Committee**

With respect to the Constitution of the Republic of South Africa, 1996 (“the Constitution”), Portfolio Committees have a mandate to legislate, conduct oversight over the Executive and facilitate public participation. The Portfolio Committee on Small Business Development (“the Committee”) mandate is governed by Parliament’s mission and vision statements, the rules of Parliament and its Constitutional obligations. The mandate of the Portfolio Committee is to contribute to the realisation of a developmental state and ensure effective Service Delivery through discharging its responsibility as a Portfolio Committee of Parliament.

Its vision includes enhancing and developing the capacity of Committee Members in the exercise of effective oversight over the Executive Authority. One of the Committee’s core objectives is to oversee, scrutinise and influence the action of the Executive and its agencies. This implies holding the Executive and related entities accountable through oversight of objectives of its programmes, scrutinising its budget and expenditure (annually), and recommending through Parliament actions it should take in order to attain its strategic goals and contribute to service delivery. As an integral part of Committee oversight role, Section 5 of the Money Bills Amendment Procedure and Related Matters Act requires the National Assembly, through its committees, to annually assess the performance of each national department. A committee must submit a report of this assessment known as a Budgetary Review and Recommendation Report (BRRR).

**1.2 Mandate of the Department**

The Department of Small Business Development (“the Department”), alternatively, (“DSBD”) was established in 2014 with an exclusive mandate of developing the small, micro, medium and cooperative enterprises (“Small Business”) as defined in the National Small Business Act, 1996. It plays a major role in effecting Chapter 3 and 6 of the NDP that deal with the economy and employment as well as rural inclusive growth. The NDP builds on the government’s New Growth Path (NGP) which aims to create five (5) million jobs by 2020 and bring about a new, more inclusive, labour-intensive and efficient economy. Additionally, the Department has a responsibility to contribute to the two outcome(s) of the Medium Term Strategic Framework (MTSF), namely, Outcome 4: Decent employment through inclusive growth, and Outcome 7: Rural development.

In the midst of executing its directive the Department further carries an obligation to observe, adhere and implement policy articulations as contained in the successive State of the Nation Addresses i.e. Nine Point Plan, 30 percent Procurement Policy, policies and acts that fall outside its ambit but that may potentially and adversely affect the small business sector i.e. Preferential Procurement Policy Framework Act (PPPFA), Broad-Based Black Economic Empowerment Act (BBBEE) and BBBEE Sector Charters, Industrial Policy Action Plan (IPAP), Companies Act as well as its five year Strategic Plan.

**1.2.1 Small Enterprise Development Agency**

Small Enterprise Development Agency (SEDA) is an entity of the Department 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 entity 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 mandate stems from the National Development Plan, Medium Term Strategic Framework (MTSF) 2014-2019, Strategic Plan and Annual Performance Plan (APP) of the Department, its five-year Strategic Plan and APP that is aligned to its executive authority.

**1.2.2 Small Enterprise Finance Agency**

The Small Enterprise Finance Agency (SEFA) was 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. On the 1st of April 2015 SEFA was officially handed over to DSBD. 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”. SEFA has nine (9) subsidiaries that reports to it.Its 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. Likewise, its sister entity SEDA, the agency’s directive find expression in the National Development Plan, Medium Term Strategic Framework (MTSF) 2014-2019, Strategic Plan and Annual Performance Plan (APP) of the Department, its five-year Corporate Plan and APP.

**1.3** **Purpose of the Budget Review and Recommendation Report**

Section 77(3) of the Constitution stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. This constitutional provision gave birth to the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), which sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

***Section 5 of the Act, states that the National Assembly, through its Committees, must annually assess the performance of each national department with reference to the following:***

* The medium term estimates of expenditure of each national department, its strategic priorities and measurable objectives, as tabled in the National Assembly with the national budget;
* Prevailing strategic plans;
* The expenditure report relating to such department published by the National Treasury in terms of section 32 reports of the Public Finance Management Act, No 1 of 1999 (PFMA), as amended in 2009;
* The financial statements and annual report of such department;
* The report of the Committee on Public Accounts relating to the department; and
* Any other information requested by or presented to a House or Parliament.

Committees must submit the Budgetary Review and Recommendation Report (BRRR) annually to the National Assembly. The BRRR assesses the effectiveness and efficiency of a department’s use and forward allocation of available resources and may include recommendation on the use of resources in the medium term. Committees are to submit the BRRR after the adoption of the budget and before the adoption of the reports on the Medium Term Budget Policy Statement (MTBPS) by the respective Houses in November of each year. The Act therefore makes it obligatory for Parliament to assess the Department’s budgetary needs and shortfalls vis-à-vis the Department’s operational efficiency and performance. This is done taking into consideration the fact that the Department has oversight responsibilities over the two entities.

Consequently, the Committee is required to make recommendations on the forward use of resources to address the implementation of policy priorities and services as these may require additional, reduction or re-configuration of resources for the Department. Those recommendations have to be submitted to the Minister of Finance and the Minister of the Department of Small Business Development. This gives effect to Parliament’s constitutional powers to amend the budget in line with the fiscal framework.

**1.4 Methodology used in the formulation of this BRRR**

The Committee has scrutinised and interrogated all available documents as outlined in Section 5 of the Act. This report is a product of numerous interactions with different stakeholders that play a role in evaluating the financial and non-financial performance of the Department, including the briefing by Auditor-General regarding the audit outcomes of the Department and its entities. The Committee has assessed the performance of the Department for the 2015/16 financial year, as well as performance of the first and second quarter of 2016/17 financial year as outlined in the Annual Performance Plan of the Department.

The Committee, in undertaking this process utilising a number of source documents, including the 2014-2019 Strategic Plan of the Department, Annual Performance Plans, Annual Reports, Financial Statements, 2014 and 2015 Estimates of the National Expenditure (ENE), briefings by the Department and its entities during the course of the year, as well as the State of the Nation Addresses. The Committee also used the Constitution as its basis. The office of the Auditor General gave input during the budget review and recommendation report process. In addition, this report has taken into consideration the best lessons learnt from the Committee interactions with institutions that provide support to SMMEs and Cooperatives since it was constituted in July 2014, lessons learnt from oversight visits, conferences and engagements with stakeholders. Information gathered from the above-mentioned activities will be utilised to argue for the reduction or addition and/or reconfiguration of resources and departmental programmes.

**1.5 Outline of the Report**

This BRRR consists of seven sections. Section one (1) briefly outlined the mandate of the Committee and the Department, the purpose of this report and the methodology followed in preparing the report, as well as the limitations of the report.

Section two (2) sets out the key policy focus areas for the Department. This includes an overview of the relevant national priorities as outlined in the government policies and plans such as the National Development Plan, New Growth Path, the Medium Term Strategic Framework (MTSF) and the State of Nation Address which the Department has to contribute in achieving them. Thereafter, an overview of the strategic plans of the Department is highlighted with the view of assessing whether or not it addresses the broader government priorities and plans originating from the afore-said policies and plans.

Section three (3) revisits the previous recommendations and responses for the past two financial years to ascertain if any of these have been implemented at all.

Section four (4) considers the Department’s financial performance against its allocation for the financial year 2015/16. It briefly examines first quarter of the current financial 2016/17 and lastly, an evaluation of the 2016/17 MTEF programme allocation in terms of the economic classification and per sub-programme.

Section five (5) deals with overview of the service delivery performance including programme performance.

Section six (6) interrogates the Departmental entities, the financial and non-financial performance, forward-looking budgetary and/or performance requirements are assessed.

Section seven (7) of the report discusses the Committee perspective with regard to the strategic plan of the Department concerning its mandates, strategic objectives and core issues previously and currently identified by the Committee. In addition, this section argues that the mandate of the Department ought to be understood within the context of the NDP, number of jobs anticipated by 2030.

Section eight (8) is essentially a synthesis of recommendations past and present, based on the deliberations informed by the assessment of the Department in each of the sections discussed above. These recommendations are categorised into two: Funding recommendations and Governance related recommendations.

**2. OVERVIEW OF THE STRATEGIC AND OPERATIONAL ENVIRONMENT**

The strategic plans and objectives of the Department and its entities, are determined largely by the ecosystem in which they operate. Prior the adoption of the National Development Plan as a guiding blueprint for the country’s socioeconomic development, there was a level of policy uncertainty, fragmentation and disintegration within and outside the public sphere, which did not auger well and at best contradicted the government’s efforts of accelerating growth, reducing unemployment and inequality as well as complete eradication of poverty. The National Development Plan brought so much needed stability and confidence in the governance system. Indeed, the government had in the past explored a number of micro and macroeconomic policy measures which yielded inconsequential results.

The adoption of the NDP not only placed an onerous obligation on the state to align its machinery in particular its planning processes but also enjoined the civil society, labour and business to fast-track vision 2030. Thus, all strategic plans and annual performance plans of the organs of state must find expression in the plan, and Medium Term Strategic Framework (MTSF), considered a building block to vision 2030. These plans and strategies are annually reviewed during the State of the Nation Address, whereby the Departments and their entities are expected to align their annual performance plans.

**2.1 Relationship with National Development Plan (NDP)**

National Development Plan (NDP) is a blueprint for eliminating poverty and reducing inequality in the country by 2030. The plan underscores the pivotal role to be played by small businesses that of creating 90 percent of the expected 11 million jobs by 2030. This mainly places a serious responsivity on the small businesses to contribute approximately 800 000 jobs per year until 2030. The NDP identifies the important role that small, micro, medium and cooperative enterprises play in inclusive economic growth and employment. It 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 following two chapters are critical and encapsulate areas of focus for the Department: -

***Chapter 3: Economy and Unemployment: -***

* The unemployment rate should fall from 24.9 percent in June 2012 to 14 percent by 2020 and to 6 percent by 2030. This requires an additional 11 million jobs;
* Total employment should rise from 13 million to 24 million, and public employment programmes should reach 1 million by 2015 and 2 million people by 2030;
* The proportion of adults working should increase from 41 percent to 61 percent and in rural areas from 29 percent to 40 percent;
* The labour force participation rate should rise from 54 percent to 65 percent;
* Gross Domestic Product (GDP) should increase by 2.7 times in real terms, requiring average annual GDP growth of 5.4 percent over the period;
* GDP per capita should increase from about from about R50 000 per person in 2010 to R110 000 per person in 2030 in constant prices;
* The proportion of national income earned by the bottom 40 percent should rise from about 6 percent to 10 percent in 2030;
* Broaden ownership of assets to historically disadvantaged groups;
* Exports (as measured in volume terms) should grow by 6 percent a year to 2030 with non-traditional exports growing by 10 percent a year and national savings from 16 percent of GDP to 25 percent;
* The level of gross fixed capital formation should rise from 17 percent to 30 percent with public sector fixed investment rising to 10 percent of GDP by 2030;

The plan mandates the Department to put mechanisms in place that seeks to reduce the cost of doing business through microeconomic reforms, to develop proposals for an acceptable minimum standard of living and proposals on how to achieve this over time to remove the most pressing constraints on growth, investment and job creation, including energy generation and distribution, urban planning etc, as well as to position South Africa to attract offshore business services, and build on the advantage provided by its telecommunications, banking and retail firms operating in other countries.

***Chapter 6: Inclusive Rural Economy: -***

* An additional 643 000 direct jobs and 326 000 indirect jobs in the agriculture, agro-processing and related sectors by 2030;
* Maintain a positive trade balance for primary and processed agricultural products;

This underscores the role of infrastructure in bringing about economic development particularly in rural areas. The plan postulates that rural economies will be activated through improved infrastructure and service delivery. It instructs the state sector to conduct a review of land tenure, to analyse the nature of services and support offered to small and micro farmers, a review of mining industry commitments to social investment, and tourism investments. It further mandates the government to substantially increase investment in irrigation infrastructure, to create tenure security for communal farmers, especially women, investigate different forms of financing and vesting of private property rights to land reform beneficiaries that does not hamper beneficiaries with a high debt burden.

**2.2 NDP and New Growth Path**

The Department has a responsibility to implement various policy propositions for growth, decent employment and equity as captured in the New Growth Path (NGP). The NDP sits alongside the government’s New Growth Path which seeks to create five (5) million jobs by 2020, and also forge a new and more inclusive, labour intensive and efficient economy. For instance, under microeconomic reforms three key policy propositions are accentuated, namely: -

1. Rural Development Policy:
* emphasis on rural development and agricultural value chains;
1. 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 and;
* address exorbitant cost of space in shopping Malls;
1. Developmental Trade Policies:
* Including lobbying for a trade policy that seeks to promote exports while addressing unfair competition against domestic producers’ i.e. recent developments on African Growth Opportunity Act (AGOA).

**2.3 NDP and Medium Term Strategic Framework**

The Department is directed to contribute to outcome 4 (decent employment through inclusive growth) and outcome 7 (rural development) of the 2014-2019 Medium Term Strategic Framework (MTSF). The department must 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.

The Department therefore, over the medium term and in line with the NDP, plan to focus on increasing the number of small enterprises that it supports, review the strategy for SMME development and entrepreneurship, develop and support cooperatives, develop the markets for small enterprises, support incubators for small enterprises, and strengthen departmental operational capacity. The Department 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.

In collaboration with the Department of Monitoring and Evaluation (DPME), the department plans to develop appropriate sanctions for state departments and state owned entities non-compliance with the 30-day period for paying small businesses. The department is also tasked with 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 and these are all aligned.

**2.4 State of the Nation Address [2014-2016]**

During the 2014 State of the Nation Address (SONA), first State of the Nation Address of the fifth democratic administration, the President announced the creation of the Small Business Ministry as a National Department in accordance with the re-organisation of some national departments. The Ministry was entrusted with a mandate to lead an integrated approach to the promotion and development of small businesses and cooperatives through a focus on economic and legislative drivers that stimulate entrepreneurship to contribute to radical socioeconomic transformation as advocated in the Mangaung Resolutions of the ANC Conference in 2012. During the announcement, the President furtherput forward key policy objectives and deliverables for pursuance by this new Department as follows: -

* To increase tourism contribution to the country’s revenue to more than 125 billion rand by 2017;
* Prioritisation of support to small business, as well as township and informal sector businesses in particular using the SMME development programme to boost broad-based black economic empowerment;
* Sharpen the implementation of the amended Broad-based Black Economic Empowerment Act and the Employment Equity Act, in order to transform the ownership, management and control of the economy;
* Promotion of employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialisation of the economy;
* To reposition Development Finance Institutions in the next five years to become real engines of socio-economic development and;
* To support Postbank so that it can play a leading role in the expansion of banking services to the poor and the working class.

The Department aims to strike a decisive and expressive intervention to the development of small business sector through its involvement towards the realisation of the nine-point plan specifically to “unlock the economic potential of SMMEs, cooperatives, township and rural enterprises” as pronounced by the President during the 2015 State of the Nation Address, other key policy objectives and deliverables for the year ahead were proposed as follows: -

* Resolving the energy challenge;
* Revitalising agriculture and the agro-processing value chain;
* Advancing beneficiation or adding value to our mineral wealth;
* More effective implementation of a higher impact Industrial Policy Action Plan;
* Encouraging private sector investment;
* Moderating workplace conflict;
* Unlocking the potential of SMMEs, cooperatives, township and rural enterprises and;
* To reform State sector and boosting the role of state owned companies, ICT infrastructure or broadband roll out, water, sanitation and transport infrastructure and;
* Operation Phakisa, which is aimed at growing the oceans economy.

While the 2016 State of the Nation of Address emphasised the state of world economy in particular the economies of two of our partners in BRICS, Brazil and Russia are expected to contract this year. The third, China, is also predicted to achieve below 6 percent economic growth owing to the hostile global economic conditions. Few areas of importance for the Department were identified as follows: -

* Government is developing a One Stop Shop/Invest SA initiative to signal that South Africa is truly open for business. State departments were directed to fast-track the implementation of this service, in partnership with the private sector. This process is aimed at indicting government to remove the red tape and review any legislative and regulatory blockages which are often a serious impediment for SMMEs and Cooperative;
* SA Tourism to inject R100 million a year in the economy to promote domestic tourism, and to encourage South Africans to tour their country;
* The President further underscored the need to empower small, medium and micro enterprises (SMMEs) to accelerate their growth, access to high-quality, innovative business support that can dramatically improve the success rate of the new ventures and;
* Urge big business to partner with new and small businesses particularly those that are owned by women, youth and people with disabilities, as part of broadening the ownership and control of the economy and;
* Establishment of the SMME fund.

**2.5 Strategic Plan/s of the Department**

The Department of Small Business Development was established in May and proclaimed on 7 July 2014. The Broadening Participation, a division of **the dti,** was shifted to the Department,with financial and human resources, notwithstanding few functions that could effectively be considered as fulfilling the mandate of the Department as per the directive of the NDP. In 2014/15, the department operated as part of **the dti** Budget Vote 36 until the end of that financial year. In 2015/16 the Budget Vote 31 on Small Business Development became effective, but was still implementing programmes that were transferred from **the dti**. Hence governance and corporate services functions operated under the auspices of and through a Cooperation Agreement with **the dti**.

**2.5.1 Strategic Plan: 2014 - 2019**

During the 2014 BRRR process, the Department presented its first draft Strategic Plan for 2014-2019. The draft Strategic Plan highlighted strategic objectives of the Department for the period concerned and targets for each year going forward. The Portfolio Committee was content with the quality of the draft Strategic Plan. The strategic objectives proposed in the draft Strategic Plan were aligned to the mandate, vision and mission statement of the Department. In addition, the targets and outcomes set to achieve the policy focus areas were relevant to the Department. However, while the proposed resources to fund the execution of strategic plans were aligned to the set targets, ***there were still some gaps with regard to understanding the needs of the target market in order to determine the relevant support provision***.

Consequently, in May 2015, during the Budget Vote Report process, the Department submitted a final draft Strategic Plan which incorporated concerns raised by the Committee in October 2014. As such, the final draft Strategic Plan was adopted by the Committee pending Department of Public Service Administration (DPSA) approvals. The adopted Strategic Plan highlighted the strategic objectives of the Department for the 2014-2019 period and targets for each year going forward. The strategic objectives were informed by the government strategic sector or cluster priorities as derived from the MTSF, focus sector policy areas emanating from policy documents such as NDP and situational analysis of the sector.

Procedurally and as required by the National Treasury and Department of Monitoring and Evaluation (DPME), strategic objectives should state clearly what the government institution/department intends doing (or producing) to achieve its strategic outcomes oriented goals,these must be in accord with the vision, mission and mandate of the Department. The objectives should generally be stated in the form of an output statement, although in exceptional circumstances government institutions might specify them in relation to inputs and activities or outcomes. Each objective should be written as a performance statement that is specific, measurable, achievable, relevant and time-oriented (SMART) and must set a performance target the institution can achieve by the end of the period (five years) of the Strategic Plan. The following five programmes had been identified by the Department, viz.: -

* **Programme 1: Administration -** This programme consisted of support services to the department such as a Chief Information Office, Human Resources, Legal Services, Corporate Governance and Ethics, Auxiliary Services and a unit to execute the marketing and communications of the department;
* **Programme 2: Customised Intervention Programmes -** The key focus for Programme 2 was on improving the quality of financial and non-financial support services to SMMEs and cooperatives;
* **Programme 3: Cooperatives -** The Department had undertaken to implement a new support model for cooperatives, including implementation of the Co-operatives Act and the establishment of a Cooperatives Development Agency (CDA), Cooperatives Training Academy and Cooperatives Tribunal, developing and providing financial incentives;
* **Programme 4: Research, Policy and Intergovernmental –** This Programme was dedicated to assessing existing policies enshrined in legislation affecting Small Business, Cooperatives, Youth Enterprise Development, Women Empowerment and National Informal Strategies with a view to enhancing policies in line with the mandate of the Department. The conclusion of transversal agreements with other Government Departments to enhance implementation of Departmental strategies were to be effected under this programme;
* **Programme 5: Enterprise Development and Entrepreneurship –** This Programme was introduced to ensure increased access to employment and entrepreneurship for high-impact businesses as well as marginalised groups, focusing on skills development, franchising, technology transfer and incubation, aimed at advancing support for the emerging and smaller enterprises.

Following DPSA approving a start-up structure comprising of only three (3) divisions/programmes, the Department was therefore obligated to reconfigure the structure. Hence the Portfolio Committee adopted the strategic plan of the Department with only three (3) programmes as per DPSA directive. The three (3) programmes sanctioned were: -

* **Programme 1: Administration -** The purpose of this programme is to provide a strategic leadership to the department and its entities to ensure the successful implementation of the department’s mandate through sustainable and integrated resource solutions and services that are customer-driven. This programme comprises of support services to the Department which include, the Ministry, Office of the Director-General, Cluster Oversight and Strategic Planning, Corporate Services, Financial Management and Communication and Marketing;
* **Programme 2: Co-operative Support and Development -** The key focus of this programme is to create an enabling environment that will facilitate the establishment, growth and development of Co-operatives through the development and review of policy and legislation and provision of enhanced financial and non-financial support services utilising improved institutional arrangements. This programme constitutes sub-programmes which include, Primary Cooperative Development, Incubation support programme, Cooperatives Supplier Development Programme, Intergovernmental relations and market development and Research, planning monitoring and evaluation**;**
* **Programme 3: Enterprise Development and Entrepreneurship -** The purpose of this Programme is to create an enabling environment and growth of sustainable small businesses so that they contribute to the creation of employment and economic growth. This programme is constituted Enterprise Development, Entrepreneurship and Franchising, Incentive, grants and soft loans, regional industrial special projects, Gender, youth and people with disabilities and National Informal Business Upliftment Strategy Sub-programmes.
	+ 1. **Strategic Plan: 2015 -2019**

Subsequent to Budget 31 becoming effective, the Department began establishing its own policy regime, Audit Committee and Internal Audit function, Risk Committee and risk management function. Hereafter it organised itself into functions as an autonomous and effective administration with effect from the 1st of April 2016. The challenge on the other hand has always been that the Department inherited programmes conceptualised at different times by **the dti**. It did not take over a ready-made and full solution to deliver the small business development and co-ordinating mandate of a Department. Hence it commissioned a Programme Review in July 2015, aim being to determine the relevance and impact of the existing programmes as opposed to the mandate of the Department. The key findings and recommendations of the Review, presented to the Portfolio Committee in November 2015, were that the Department must implement the following: -

* Rationalise and refocus programme activity on areas of highest impact;
* Create a clear delineation of responsibility between the Department and its agencies;
* Invest in a comprehensive policy, research, monitoring and evaluation capability;
* Package DSBD, SEFA and SEDA offerings to present a single point of entry for SMMEs and Cooperatives;
* Strengthen points of interactions between other areas of government and with the private sector;
* Consolidate the mandate for cooperatives to improve focus, and most importantly;
* Conduct proper change management.

The Review further suggested an adoption of a value-chain based product and services architecture, to enable the Department to tackle sector deficiencies and to position the Department as the guardian of overall small business sector performance. DSBD adopted most of the findings and recommendations that emanated from the review, which informed the Department’s strategy moving forward, value chain service delivery model and programme structure. As a result, the 2014 – 2019 Strategic Plan was slightly altered to accommodate the new business model that the Department has adopted, which to a great extent, informed the Department’s 2016/17 APP. The DSBD is due to present its implementation plan to the Portfolio Committee on the 11th of November 2016. The Department still has three programmes as follows: -

* **Programme 1: Administration** -The purpose of Programme 1 is to provide a strategic leadership, management and support services to the Department;
* **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 suitable small businesses and cooperatives that contribute to the creation of employment and economic growth;
* **Programme 3: Small Medium Micro Enterprises and Cooperatives Programme Design and support -** The purpose of this Programme is to support the development and growth of small businesses through designing financial and non-financial business development support programmes and interventions i.e. National Informal Business Upliftment Strategy (NIBUS).

**2.6 Strategic Plan of the Committee and Parliament**

In line with the Parliaments Strategic Plan, and in order to be able to perform its constitutional mandate, the Portfolio Committee on Small Business Development developed its Strategic Plan and 30 Strategic Objectives. Each Strategic Objective developed is in line with the Strategic Objective(s) and Outcome(s) of the 5th Parliament. Areas of spill-over from the 4th Parliament, most of them under the stewardship of the Department(s) of Trade and Industry (**the dti**) as well as Economic Development (EDD), are also integrated into the new plans of the 5th Parliamentary plans, specifically the plans of the DSBD, and with extension, the Portfolio Committee on Small Business Development.

Additionally, the Strategic Objectives of the Committee are further informed by the Department’s and its agencies priorities including but not limited the implementation of the National Growth Path (NGP) strategy in support of the National Development Plan (NDP), promotion of rural, township, women, youth based enterprises and Cooperatives.

In conclusion, an analysis of whether the strategic objectives address sector priorities, sector policy focus areas and sector situational analysis; and whether in overall, the strategic plan is aligned to the Departmental vision, mission and mandate will be dealt with on the section which deals with Committee Observations (Section 7). Furthermore, a review of the departmental performance based on the performance reported in the Annual Report and other documents will be given in the very same section. Also, areas that the Committee feel are omitted or unnecessary, duplicated, irrelevant will be highlighted with the aim of drawing recommendations.

**3. SUMMARY OF PREVIOUS KEY COMMITTEE RECOMMENDATIONS**

**3.1 2015 BRRR Recommendations and Responses by the Ministers**

The Committee made the following recommendations to the Department in the 2015 Budgetary Review and Recommendation Report:

 **Table 1**

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| --- | --- |
| **Recommendations** | **Response from the Department** |
| The review of legislations that existed before the establishment of the Department; | The Department has embarked on a consultative process to gather information for the amendment of the National Small Business Act. To date, consultations have taken place in all the 9 provinces. The key issues that are considered for amendment include, but are not limited to, definition, making the act more developmental than administrative, 30-day payment of suppliers, inclusion of SEFA in the Act and relooking the role of SEDA in the small business development space, harmonisation of the National Small Business Act and the Cooperatives Act. It is expected that the consultation process will be finalised during the course of the 2016/17 financial year. The process of taking the Amendment Act through the government and parliamentary processes will then follow;  |
| Marketing to increase awareness about the existence of the Department; | A budget was allocated to the Communication and Marketing Unit to carry out these activities; |
| The Department has all Supplier Development to enable the implementation of 70 per cent local content policy; | The Enterprise Incubation Programme was designed to offer small businesses and cooperatives with potential, but limited technical skills and expertise with openings in accessing supply chains of firms, acquiring of business development services, technical expertise and mentorship to get enterprises to level of sustainable development;  |
| Market Access Support Unit for creation of dependable profile of the market for cooperatives and SMMEs and a reliable database of Cooperatives that can be linked to existing market opportunities; | The Market Access Unit was established at the beginning of the 2015/16 financial year, with the objective to identify opportunities for SMMEs and Cooperatives in both the public and private sector institutions. It is the aim of this unit to link small businesses and cooperatives with the aforesaid institutions in order for them to benefit from the market opportunities offered by these institutions; |
| To fund the establishment of the Co-operative Development Agency (CDA), Co-operative Training Academy and Co-operative Tribunal as proposed by the enacted Cooperative Act, 2005 as amended. This recommendation was made to the Minister of Finance since 2013 BRRR and no response has been received up to so far; | The Department has revised the business case for the establishment of the CDA as it was approved when the small business and cooperatives development mandate was still with **the dti**. Consultations between the Department and its agencies are on-going regarding the staffing of the agency as it was decided that personnel from the department and its agencies will be transferred to the CDA;  |
| To consider reconfiguration of its support institutions with an idea of creating one stop shop for the provision of required support services to SMMEs and Cooperatives; | The framework for the Co-location programme was developed and approved during the first quarter of the 2016/17 financial year. The purpose of the Co-location Programme is to act as an extended and decentralised services model wherein new and existing businesses are able to access a single entry point to obtain business development and support services. The programme will also attempt to coordinate and align government interventions across all spheres of government. In doing so, co-location will assist in breaching the existing gaps where access to business information, development and support are scarce and sometimes non-existent in townships, remote and rural areas; |
| To convene a strategic workshop with all the relevant stakeholders in order to develop a sound mission (which will be more specific on what will be done by the Department for the country to realise a radical economic transformation) and strategic objectives which are SMART. Further, the workshop should act as a springboard to design a Master Plan for the development of SMMEs and Cooperatives that will be known and followed by the government;  | The Department convened a number of strategic planning workshops with its agencies and revised its strategic outcome-oriented goals and strategic objectives. The Department is in the process of reviewing the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, with a view to ensure the provision of comprehensive support for the development of small businesses. This review will assess what has been achieved from 2005 to date and also ensure that a new strategy provides for the support of enterprises operating in township and rural areas;  |
| To fast-track the processes that aimed at signing transversal agreements that will benefit SMMEs and Cooperatives with all spheres of government, private and non-government organisations; | The Market Access Unit, as mentioned above, was established for this purpose and is making good inroads in forging strategic partnerships with the aforesaid institutions; |
| To review the current model of using intermediaries to micro-finance. There is a need to consider a model that will be cheap and considerate to circumstances of micro and survivalist enterprises; | Presently, SEFA does not have the resources to establish regional and mobile offices to reach out to clients in far-flung areas, as a result, the agency is compelled to use intermediaries; |
| To institutionalise the constant communication between the Department and its entities; | The Communication and Marketing Unit has established a structure which coordinates communication between the Department and its agencies; |
| To produce a comprehensive plan to deal with all impediments to SMME development growth and promotion, including finance regulations and legislations; | The review of the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises will address this recommendation; |
| To conduct a comprehensive regulatory review for small businesses to assess whether special conditions are required, this include regulations in relation to business registration, tax, labour and local government; | The review of the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises will address this recommendation; |
| To consider having a support service for SMMEs and Cooperatives that focuses on market research and feed that information back to SMMEs and Cooperatives in order for them to produce goods that are required by the market (customers of the retail sector); | This recommendation is covered by the Market Access Unit, whose responsibilities include engagements with the market to ascertain the types of goods and services required;  |
| To review the funding models to make them relevant to the needs of the SMMEs and Cooperatives and more importantly to address the imbalance of supply and demand of the retail sector so as to effectively implement the 30 percent procurement policy from SMMEs and Cooperatives as well as the 70 percent local procurement; | The Department has begun the process of reviewing the Black Business Supplier Development Programme (BBSDP) and the Cooperatives Incentive Scheme (CIS). The aim of the review is to evaluate the impact of these instruments and to align them to the mandate of the Department;  |
| To engage the National Treasury to issue a Practice Note which will enable the implementation of the proposed cessions; | The Department has written to National Treasury requesting a formal engagement on this matter. To date, no response has been received from National Treasury. |
| To initiate a discussion with the DFIs and the private sector financial players as to how they can establish a venture/start-up capital fund; | The Department is in the process of establishing an Enterprise Development Fund, which will be geared towards supporting start-up businesses. The Fund will be implemented by SEFA, once the agency has received its BEE Facilitator Status;  |

**3.2 2014 BRRR Recommendations and Responses by the Ministers**

The Committee made the following recommendations to the Department in the 2014 Budgetary Review and Recommendation Report:

**Table 2**

|  |  |
| --- | --- |
| **Recommendations** | **Response from the Minister of Finance** |
| The Department of Small Business Development should be allocated all proposed funds; | The DSBD will receive funds amounting to over R3 billion in relations to the functions moving from the Department of Trade and Industry (cooperatives and small business). This is mostly comprised of transfers and other funds (compensation of employees and goods and services) associated with the function shift. The new department also receives an additional R 139 million over the 2015 MTEF to support its establishment; |
| There should be an establishment of the DSBD as a separate vote and the allocation provided to the new department;  | The Department of Public Service and Administration issued a determination that functions related to small business and co-operatives will shift from the Department of Trade and Industry to the DSBD with effect from 1 October 2014. The National Treasury is in the process of engaging with the affected Departments on the shifting of funds and on the proposed budget programme structures, including the creation of a separate vote; |
| **Recommendations** | **Response from the Minister of Small Business Development** |
| The Department should consider reviewing its transfer payments to identify savings going forward; | The Department is currently undertaking a review of all its programmes, including those that are funded through transfer payments. The recommendations from this review exercise will guide the Department on the programmes that can be reconfigured or reprioritised. Subsequently, the outcomes of that process will lead to savings, since the Department will have to fund streamlined and more focused programmes;  |
| There should be more resources to core-functional programmes of the Department | The programme review exercise will guide the department in terms of proper allocation of resources. The programme review exercise will assist to determine the core-functional areas that the Department should focus on in order to address the felt needs of its target market. In so doing, the financial principle of funds follow functions will be used in order for the Department to allocate more funds in functional areas or programmes which will be deemed as core and should thus be prioritised; |
| The Department should negotiate all necessary functions which aligned with the mandate of the Department which are still located in other Departments should be moved to the Department; | The Department has commenced discussions with National Treasury with a view to identifying all the small business development functions that are still located in other departments. The Department brought the National Treasury on board as it is the national department responsible for coordinating intergovernmental financial relations, managing the budget preparation process and exercising control over the implementation of the annual national budget;Additionally, the National Treasury has comprehensive knowledge and understanding of all small business-related functions located in other departments, and will conduct a proper assessment of all these functions so as to ascertain a suitable approach for alignment. The Department has commenced the process of engaging various government departments on this matter. In this regard, the Department is keen to ensure that the process of harmonising all the small business related functions under its umbrella is finalised so as to make certain that there is no duplication of functions between departments. Importantly, this harmonisation will make for better coordination across all three (3) spheres of government; |
| There is a need to conduct research on the needs of the target market (poor communities) in order to tailor-make and streamline the relevant support provisions that will respond positively in tackling the triple challenges of unemployment, poverty and inequality; | The Department holds the same view regarding the need for the provision of relevant support mechanisms that will respond positively to addressing unemployment, poverty and inequality. This is in line with the implementation of the National Small Business Act, 1996, which prescribes the completion of the Annual Review of Small Business in South Africa which covers areas identified by the Minister or Director-General. In spite of that, the Department has targeted to harness existing research capabilities within other governmental departments and entities, review relevant research outputs on small businesses and co-operatives on an ongoing basis towards co-generating, collating and synthesising small business and cooperatives intelligence and whether the Department’s programmes (and the challenges that they are targeted at) are appropriately conceptualised, reviewed, adequately resourced, distributed and meaningfully redesigned towards their equitable and targeted response to the felt needs;The results of the aforesaid programme review will also assist to determine the most appropriate support measures derived from their felt needs perspective that should be implemented to provide small businesses with resources to render them more sustainable and competitive; |
| There is a need for the Department to conduct a scientific study to assess the effectiveness and efficiency of the Departmental entities and programmes that were migrated from **the dti** in order to align them with the mandate of the Department; | The Department is currently conducting a study to assess the effectiveness and efficiency of the current entities and programmes and is expected to be finalised during the month of November 2015. The scope of the review exercise will culminate in reports and recommendations on the upscaling and alignment of DSBD programmes, as well as an implementation plan to guide the execution of the recommendations. The scientific study is undertaken in two stages. The diagnostic stage aims to review the Department’s operating environment, internal structures and the existing support programmes;The major tasks for this stage are the review of the external environment that SMMEs operate in, the department’s strategy, budget and operations, as well as the department’s current programmes and interventions. The design stage is geared towards formulating strategic recommendations on the optimal programme structure to deliver the department’s strategy. The tasks for the design stage entail producing reports on the review and alignment of current programmes; and developing a business case, an implementation plan and a communication plan to manage stakeholders; |
| There is a need to reconfigure Programme 4 in order to accommodate the Market Research Unit. | Currently, the market research activity is being supported by the Market Access Support Unit. The aforesaid programme review exercise will provide the department with valuable information that will inform the refinement of the Department’s 5-year Strategic Plan, which will, in turn inform its structure going forward;It is important to note that the review exercise will, as mentioned in the preceding paragraphs, provide findings and recommendations that will help to determine the most appropriate strategy, structure and systems that will enhance the Department’s support measures to the small business sector; It is worth noting that in its 2013 BRRR, **the dti** had recommended that the National Assembly should request the Minister of Finance to ensure that the Co-operative Development Agency, the Broad-Based Black Economic Empowerment Commission, the Co-operative Tribunal, the National Trust Fund on Indigenous Knowledge, and the National Council on Indigenous Knowledge are adequately funded for the 2014/15 financial years and over the MTEF period to ensure that these bodies are able to fulfil their mandates. Up to date the Cooperative Development Agency and Cooperate Tribunal are not yet established due to unavailability of funds during this financial year. In view of that and the importance of operation of these institutions, the 2015 BRRR has to resuscitate this recommendation.  |

**3.3 2015/16 Budget Vote Recommendations**

The Portfolio Committee made the following recommendations for the 2015/16 financial year, after considering the Annual Performance Plan and the Budget of the Department of Small Business Development: -

* The Department should relook at budgeting more funds under Programme 1: Administration as opposed to the core functions of the Department such as Programme 2: Cooperative Development;
* The Committee still maintains that there should be a way of assessing the rate of return on investment and align that return on investment to targets set by the NDP, particularly the 90 percent of 11 million jobs more created through SMMEs and Cooperatives by 2030. Therefore, a progress and impact assessment tool would need to be developed so as to measure results against investment;
* The Department 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;
* The Department must submit a well costed Organogram to the Committee and prioritise the filling of critical vacant positions such as Director- General and Chief Financial Officer (CFO);
* The Department, in particular the Gender Unit, should collaborate with the board of SAWEN in order to assess the impact of their programmes for women entrepreneurs with an objective of aligning SAWEN services to the mandate of the Department;
* The Department should built in-house capacity to manage funds budgeted for Isivande so as to maximise the value of money out of budget allocated to Isivande;
* Both the Department and EDD should speedily resolve the technical migration of SEFA as per Cabinet Resolution;
* The Department together with the board of SEFA should develop a funding model for SEFA that relates to the felt needs of SMMEs and Cooperatives in order to facilitate development, and not isolated projects that cannot survive without being complimented by value chain development;
* The Department should use its transversal agreement mandate to assist SEFA to gain access to complimentary funding and support services for SMMEs and Cooperatives located in both the private and public sector;
* The Department must work closely with National Treasury to ensure that the budget allocation for SEFA is transferred from the Department of Economic Development to the Department of Small Business Development during the Budget Adjustment period;
* The Department should ensure that SEFA allocates significant funds to tailor made programmes aiming at assisting the survivalist enterprises in graduating to formal economy;
* The Department must investigate any hindrance that could delay SEFA and Isivande to fully account to the department, and deal with any of that hindrance accordingly, if for example its legislation, the Department should push amendment of such legislation;
* The Department must expedite the appointment of Chief Executive Officer for SEDA to ensure that there is accountability in the use of resources allocated to the SEDA;
* SEDA must build its own capacity to eliminate usage of consultants that it used to service its clients-base. Moreover, it must ensure that it employs staff that has a passion of development so as to circumvent the high staff turnover as a result of green pastures;
* Development of an Enterprise Development Fund from 1% of the private sector would enhance existing activities of the Department;
* The Department must expedite the establishment of Cooperative Development Agency as per Cooperatives Development Act 2005 as amended;
* The Department must speedily establish Cooperative Bank that will give financial support to Cooperatives and thereby directly contribute to radical economic transformation;
* The Department should prioritise skills development in cooperatives through the establishment of Cooperatives Training Academy so that they can be capacitated to identify opportunities meant for them. For example, set aside products that meant for them.

**4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE**

The audited financial statements for 2015/16 were tabled in Parliament together with the Annual Report of the Department and its entities on the 12th and 13th of October 2016. The Department had received an allocated amount of R1.103 billion for the 2015/16 financial year. This amount was adjusted to R1.128 billion during the adjustment period in October 2015. The adjusted amount of R24.5 million was mainly a transfer payment from the Department of Trade and Industry. Subsequently, included in the adjusted amount, R10 million was allocated for Craft Customised Sector Programme (CSP), 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. As can be seen from table 3 below, in terms of virements and shifts, a total of R3 477 million was defrayed from Programme 2 to Programmes 1. The virements and shifts were not large enough to have any significant effect on the structure of the budget within programmes except **the dti** transfer.

**Table 3: Overview of Vote Allocation and Spending for the period 2015/16**

|  |  |
| --- | --- |
| **Programme** | **2015/16** |
|  | **Main** | **Adjusted** | **Outcomes** |
| Administration | 64 025 | 81 387 | 17 362 |
| Co-operative Support and Development | 15 188 | 11 711 | -3 477 |
| Enterprise Development and Entrepreneurship | 1 023 975 | 1 034 422 | 24 332 |
| **Total**  | **1 103 188** | **1 127 520** | 1. **100 788**
 |

Source: National Treasury

Of the overall budget including transfers, the Department successfully expended 97.5 percent of its budget, and only underspent by 2.5 percent. However, the total percentage outlay dwindles to 83.2 percent if transfers are excluded which equates to an underspending of slightly over R28 million or 16 percent. The underspending of R18.4 million was due to high vacancy rate in the Department totalling 29, while R9 million accrued as a result of goods and services attached to the vacancies and a delayed capital spending of R1 million owing to lags in the relocation of offices. On vacancy rate, there was a Program Review done which indicated, among others, that the interim structure is not accommodative of the new or start-up structure, there was thus a misalignment. The approval processes are almost complete and the procedure of putting together job descriptions has already begun. The number of vacancy rate as of June 2016 was standing at 26 vacant posts.

 **Table 4: Financial Performance Overview 2015/16**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **No. of Performance Indicators** | **Planned Annual Targets** | **Achieved** | **Partial Achieved** | **Not Achieved** | **Budget Appropriation (R’000)** | **Budget Spent (R’000)** |
| Administration | 7 | 9 | 7(77.8%) | 2(22.2%) | 0 | 80 857 | 66 477(82.2%) |
| Cooperatives Development | 6 | 6 | 2(33.3%) | 3(50%) | 1(16.7%) | 12 241 | 11 692(95.5%) |
| Enterprise Development and Entrepreneurship | 13 | 16 | 4(25%) | 3(18.8%) | 9(56.2%) | 1 034 422 | 1 020 752(98.7%) |
| Total | 26 | 31 | 13(41.9%) | 8(25.8%) | 10(32.3%) | 1 127 520 | 1 098 891(97.5%) |

 Source: DBSD 2015/16 Annual Report

For the current financial year 2016/17, the Department is budgeted 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 Department 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 MTEF. Further, it is estimated that for the period between 2016/17 and 2017/18 financial years the budget allocation for the Department 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 Department 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 Enterprise Development Agency, Industrial Development Corporation (Isivande Fund) and various institutions through Black Business Supplier Development Programme, Cooperative Incentive Scheme, National Informal Business Upliftment Scheme and Enterprise Incubation Programme. Importantly, in its endeavours to align itself with its mandate, the Department is in the process to rationalise its programmes. Subsequently, the Department is 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 Department has embarked on a process to rationalise its programmes, as such it has reconfigured its budget structure for the 2016/17 MTEF. In the previous financial year, the Department had three (3) Programmes as illustrated in table 4 above, namely, Administration, Cooperative Support and Development and Enterprise Development and Entrepreneurship. For this current financial year and going forward, the Department has reconfigured its budget structure to still comprise three (3) Programmes but with different purpose and names. These programmes are i) Administration, ii) SMME, Cooperatives Policy and Research as well as iii) SMME and Cooperative Programme Design and Support. Of the three programmes of the Department, Programme 3: SMMEs and Cooperatives Programme Design and Support is set to receive a significant apportionment of R1.1 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.

**4.1 Funding Proposal for 2017 MTEF**

The Department has proposed an allocation of R4.7 billion over the 2017 MTEF. The significant amount of about 85 percent of the proposed budget of R4.7 billion will be transferred to departmental entities and the remaining portion of the proposed budget (about 10 percent) will be used to pay salaries in the form of compensation of employees. SEDA and BBSDP are expected to receive the majority of budget of the proposed allocated budget for the Department. However, both SEDA and BBSDP budgets were forced to be cut from their baseline. The Department has reported that this cut will affect its set targets because it is estimated that this will lead to the reduction in number of jobs planned to be created over the next financial year and the outer financial years of the MTEF. Notably, for the 2016/17 adjustment, the National Treasury has not accepted bids for mid-term budget review due to unavailability of funds.

**Table 5: Estimated funding for 2016 MTEF**

|  |  |  |  |
| --- | --- | --- | --- |
| **Economic Classification** | **2016/17** | **2017/18** | **2018/19** |
| **R’000** | **R’000** | **R’000** |
| Compensation of Employees | 139 060 | 143 100  | 129 315 |
| Goods and services | 80 111 | 85 894 | 63 227 |
| Machinery and equipment | 2 579 | 1 284  | 1 357 |
| Transfer payments | 1 237 703 | 1 308 379  | 1 381 648 |
|  **SEDA** | **571 591**  | **604 743** | **638 609**  |
|  **SEDA Technology Programme** | **143 238** | **151 545** | **160 032**  |
|  **BBSDP** | **14 595** | **15 400** | **16 262** |

As a result, for this current year and over the outer years of 2017 MTEF, with the current baselines from the 2016/17 proposed budget, it will mean that the Department is currently operating under the risk that threatens the achievement of its set targets. Inability of the Department to attain its set targets will imply that the country will not be able to achieve the 11 million jobs expected from the SMMEs and Co-operatives by 2030. Poverty and inequality will also not be reduced, these challenges will persist to plague the plight of the majority of South Africans. In view of the above, this report will recommend a funding of the Departmental programmes that are linked to job creation so that it can achieve what is expected from it in the MTSF, NGP and NDP. If this cannot be effected justifiably owing to budgetary constraints, the Department may have to consider reduction in the targets set in the MTSF and NDP.

**4.2 Allocation per programme level**

|  |  |  |
| --- | --- | --- |
| **Table 6: Proposed allocation on programme level** |  |  |
| **Programme** | **MTEF ALLOCATION** |
| **2017/18** | **2018/19** | **2019/20** | **TOTAL** |
| Administration | 121 532  | 125 059  | 132 062  | 378 653  |
| SMMEs and Cooperatives Policy and Research  | 31 755 | 34 946 | 36 904  | 103 605 |
| SMMEs and Cooperatives Programme Design and Support  | 1 311 678 | 1 463 422  | 1 457 252 | 4 232 352 |
| **TOTAL** | **1 464 965** | **1 623 427**  | **1 626 218** | **4 714 610**  |

Table 6 above shows that Programme 1: Administration is proposed to receive a budget of R379 million over the MTEF. Over the financial years of MTEF, the programme is budgeted to receive an amount of R122 million (2017/18), R125 million (2018/19) and R132 million (2019/20). Further, this programme is expected to share about 8.0 percent of the proposed total allocation of budget for the Department over the 2017 MTEF. Part of the proposed budget for this programme will be used to support ministerial requirements, creating an enabling environment for core business to achieve its mandate, through the provision of a capable human capital, office accommodation, which is currently inadequate, centralized IT support that is still being implemented and will require additional resources to ensure stable services, ensuring timely procurement of goods and services whilst adhering to the various regulatory requirements within public service.

Programme 2: SMMEs and Cooperatives Policy Research will receive an allocated budget of R104 million over the 2017 MTEF. This will constitute a budgeted amount of R32 million (2017/18), R35 million (2018/19) and R37 million (2019/20) financial years. The overall budget of R104 million set to be allocated to this programme will only represent an insignificant percentage of 2.2 percent. The proposed budget is set to fund the new functions that fall under this programme, which are Research, Policy and Monitoring and Evaluation. These functions will hold the key to the Department’s engagement with the SMME sector and institutional environment to ensure that new and existing public-sector programmes are coordinated around a clear long-term vision for the SMME sector. Without the intellectual leadership that will be cultivated around cutting edge research and rigorous performance monitoring (efficiency, effectiveness and impact) of the SMME institutional environment (SEDA and SEFA, etc.), the Department will be hard pressed to provide leadership to the sector and recommend changes that will address the sector’s potential as alluded to in the NDP.

Programme 3: SMMEs and Cooperatives Programme Design and Support Enterprise Development and Entrepreneurship is proposed to be budgeted an amount of R4.2 billion over the MTEF. Out of the proposed budget amount of R3.5 billion, R1.3 billion, R1.5 billion and R1.5 billion will be spent in 2017/18, 2018/19 and 2019/20 financial years respectively. This Programme shares a significant budget of about 89.8 percent over the 2017 MTEF. Importantly, a significant share of about 85 percent of this proposed budget will be transferred to the Departmental entities. For the 2017 MTEF the Budget of SEDA has been adjusted downwards from R246 million to R200 million. This will indeed have an adverse impact on the sustainability of small enterprises and cooperative enterprises since it was set to focus on a well-researched programme aiming at addressing the plight of SMMEs and Cooperatives. Therefore, if SEDA is subjected to budget cuts, it will likely not be able to achieve the planned targets i.e. job creation and income generation. Lastly, the proposed budget allocation under this programme will also be used to fund expansion of Centres for Entrepreneurship, a programme that has prioritised the establishment of Centres for Entrepreneurship with Technical and Vocational Educational Training (TVET) institutions and Universities in line with the Departmental strategic framework on the promotion of entrepreneurship and small enterprises, including, fostering an entrepreneurship culture through entrepreneurship education, increasing enterprise creation and the network of support services.

**4.3 Expenditure Trends for the first 3 months of the 2016/17 financial year**

The National Treasury (Treasury) publishes quarterly reports on the expenditure of Departments, as required by section 32 of the Public Finance Management Act, No.1 of 1999. The Treasury has cautioned that “the link between performance and quarterly expenditure information is tenuous” particularly when the expenditure is on major initiatives where impact can be expected to be evident only in the longer term. Nevertheless, the quarterly window provided into the expenditure trends of Departments can allow a Portfolio Committee to identify problems at an early stage. The trend analysis may provide a basis for questioning departmental officials on the progress of programmes for which Parliament has voted funds.

**Table 7: 2016/17 First Quarter Performance Overview**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **No. of Performance Indicators** | **Q4 Milestones** | **Achieved** | **Not Achieved** | **Budget Appropriation (R’000)** | **Budget Spent (R’000)** |
| Administration | 14 | 14 | 11(78.6%) | 3(21.4%) | 118 080 | 17 327(14.7%) |
| Cooperatives Development | 10 | 13 | 13(100%) | -- | 26 105 | 2 972(11.7%) |
| ED and Entrepreneurship | 14 | 14 | 12(85.7%) | 2(14.3%) | 1 181 254 | 284 043(24%) |
| Total | 38 | 41 | 36(87.8%) | 5(12.2%) | 1 325 439 | 304 343(23%) |

 Source: DBSD Quarter 1 Report

Out of R1.3 billion allocated to the Department for 2016/17, the year-to-date projection for Q1 was R380 million. The Department successfully disbursed 80 percent of this amount, R304 million, or 23.4 percent of MTEF allocation. While Q2 report has not been officially tabled to the Portfolio Committee but the Department appear to have paced its activities appropriately during the second quarter and this will no doubt guarantee that there is a lower likelihood of underspending or overspending across the full financial year. This signals an improvement from quarter one of the previous year, where the Department had intended to spend R311 million (28 percent) during the first quarter, yet it could only afford to spend 20 percent.

**5. OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFOMANCE**

**5.1 Report of the Auditor General**

The Department obtained an unqualified audit opinion. According to the Auditor General (AG), one non-compliance matter worth R1.8 million. The quality of financial statements needs to be improved as the department submitted financial statements that contained material misstatements which were later corrected. This was due to vacancies (i.e. no CFO for most of the year) and no established processes to ensure complete and accurate financial and performance reports. Compliance with legislation also requires attention as non-compliance was identified in the areas of financial statements, strategic planning and procurement and contract management, which could have been prevented had the department been adequately resourced to perform appropriate reviews.

In addition, the AG report indicated that the quality of annual performance reports require attention as material findings were identified on the usefulness of reported information. This is mainly due to a lack of understanding of the framework prescribed by the National Treasury and vacancies in critical positions, which resulted in a lack of adequate review of the planning processes for performance information. The management report issued by the AG for the 2015/16 financial year consisted of 35 findings which the Department has already begun tackling.

**5.2 Programme Performance**

**5.2.1 Summary of Programme 1 Performance**

The purpose of Programme 1 is to provide strategic leadership, management and support services to the department. The Department had set itself a target of nine (9) Key Performance Indicators (KPIs) for the 2015/16 financial year. Nonetheless, two of the targets were not achieved. The vacancy rate of 10 percent was not achieved. The vacancy rate as end of 2015/16 financial year was standing at 16.5 percent, implying a variation of 6.5 percent. Also, on the people with disability the Department had targeted to attain 3.2 percent as opposed to 2.7 percent it achieved. However, compared to the national target of 2 percent the Department did exceptionally well. In other indicators i.e. staff turnover rate, women employed at SMS level, media awareness campaigns and outreach programmes to mention the few, the Department exceeded its targets. However, largely as a consequent of vacancy rate the Department could only spend 82 percent of its budget.

**Table 8**

|  |  |
| --- | --- |
| Total Number of KPIs | 9 |
| KPI’s with targets achieved | 7 |
| KPI’s with targets partially achieved | 2 |
| **KPI’s with targets not achieved** | 0 |
|  | R’000 |
| Budget | **80 857** |
| Expenditure | **66 447** |
| Under spending | **14 410** |
| **% Spent** | **82.2** |
| **% Underspent** | **17.8** |
| **Reasons for material under spending** | **Vacancies (R9.5 mil.), related goods and services (R4.5 mil.)and capital requirements (R0.453 mil.).** |

**5.2.2 Summary of Programme 2 Performance**

The purpose of programme 2 is to implement support model for cooperatives, including the implementation of the Cooperatives Amendment Act (2013). The objective is fundamentally to increase the number of cooperatives accessing the various customised intervention programmes to ensure their sustainability and economic contribution by implementing sector catalytic projects through: -

* growing and facilitating the entry of cooperative enterprises in the mining, manufacturing, agro-processing
* and services sectors, over the medium term providing supplier development programmes for cooperatives through the Cooperatives Development Agency;

For Programme 2 there were six targets in total, including most importantly, consultations on the proposed amendment of the National Small Business Act, a target that was partially achieved. The Department plans to table the draft bill during 2016/17 financial year. The Department could also not accomplish a target of 9 incubators to support cooperatives due to delivery tools being out of the DSBD control. The Department has instead conceptualised Enterprise Incubation Programme (EIP) for implementation during the current financial year. The Department nonetheless managed to spend 95 percent of its budget under this programme.

**Table 9**

|  |  |
| --- | --- |
| Total Number of KPIs | 6 |
| KPI’s with targets achieved | 2 |
| KPI’s with targets partially achieved | 3 |
| **KPI’s with targets not achieved** | 1 |
|  | R’000 |
| Budget | 12 241 |
| Expenditure | 11 692 |
| Under spending | 549 |
| **% Spent** | 95.5 |
| **% Underspent** | 4.5 |
| **Reasons for material under spending** | **No material Variances** |

**5.2.3 Summary of Programme 3 Performance**

The purpose of this programme is to provide customised interventions to support small, medium and micro enterprises (SMMEs) and cooperatives. The following had been earmarked as objectives of the programme namely: -

* Increase contribution to GDP, sustainable livelihoods and the creation of job opportunities by implementing the youth black business supplier development programme to provide financial support to 900 businesses

over the medium term;

* Increase the participation of SMMEs and cooperatives in the mainstream economy by implementing the global exporter passport programme to ensure an accelerated development of export ready SMMEs by 2017/18;
* Promote broader participation of small businesses and cooperatives in the mainstream economy by providing financial incentives through the black business supplier development programme and cooperatives incentive scheme, over the medium term and;
* To contribute to women’s development by providing training to 1 500 women entrepreneurs through the Bavumile skills development programme, by 2017/18.

The Department had set itself a target of 16 KPIs but could only attain four (4). The reason for non-accomplishment of the other 12 targets ranged from SEFA awaiting BEE facilitation status from South African National Accreditation System (SANAS), failure to package SMMEs and cooperatives as franchisors, poor applications from the local government for Shared Economic Infrastructure Facility (SEIF), low uptake to Youth Black Business Supplier Development Programme to New Venture Creation Programme having been reconfigured.

**Table 10**

|  |  |
| --- | --- |
| Total Number of KPIs | 16 |
| KPI’s with targets achieved | 4 |
| KPI’s with targets partially achieved | 3 |
| **KPI’s with targets not achieved** | 9 |
|  | R’000 |
| Budget | 1 034 422 |
| Expenditure | 1 020 752 |
| Under spending | 13 670 |
| **% Spent** | 98.7 |
| **% Underspent** | 1.3 |
| **Reasons for material under spending** | **Vacancies R8.8 mil and related goods and services R4.2 million and capital requirements R0.496 million** |

**5.3 Interaction between the Committee and Small Businesses and Cooperatives**

In assessing the impact of both financial services and non-financial services to SMMEs and Cooperatives as well as the effectiveness of programmes which were designed by **the dti** and later transferred to DSBD to develop SMMEs and Cooperatives, the Committee engaged with various organisations and individual SMMEs and Cooperatives. The purpose of that exercise was to get an understanding of the state of SMMEs and Cooperatives in South Africa and to allow the affected groups and individual SMMEs and Cooperatives to speak for themselves so that recommendations of the Committee on the BRRR could also take into consideration issues raised by SMMEs and Cooperatives from a felt need perspective.

A. In June 2015, the Committee hosted the King of Midlands which is a secondary cooperative operating in the taxi industry. This Cooperative had a good proposal to buy a garage whereby taxis could fill fuel. They also intended to buy a tyre fitment centre and spare service whereby their taxis could get spares to service and fix them. This project is typical of value chain model currently being proposed in the DSBD new service delivery model. Importantly, they had a good business case because they identified the market and competitive advantage compared with other spare services. They informed the Committee that they presented their proposal to the Department of Trade and Industry and later assigned an official to assist them for funding application. All the attempts to solicit financial support from **the dti** have not been successful;

B. The Committee interacted with Ithala Development Finance Corporation. The purpose of the interaction with Ithala was essentially to learn its finance model since there were good reports on how it managed to strike a good balance between disbursing of funds (increasing loan book) and debt collection. This was viewed as critical because more small business owners and cooperatives in the KZN province were able to access finance from Ithala Bank and later repay such loans;

C. During the process of constructing a Budget Vote Report for 2015, the Committee interacted with the Industrial Development Corporation (IDC) which manages funds for Isivande Women’s Fund. The objective of the fund is to invest in businesses based in South Africa which are owned and managed by women, and build and develop women-owned businesses. In its presentation, it was highlighted that one of the funding criteria is the requirement that a business which applies must be commercially viable. Then, by virtue of this requirement, it excludes most of the small businesses owners and cooperatives that are women since most of them will not be able meet this requirement.

D. Having interacted with a number financial institutions, the Portfolio Committee moved to convene a workshop in an attempt to assess the relevance of financial instruments used by DFIs to provide finance to small businesses and co-operatives in July 2015. The Committee participated in the DFI workshop and the following was observed from the deliberations:

1. There is a mismatch of products provided by DFIs and what is required by their clients. This was evident when some of the presenters referred to them as roadblocks to achieving their objectives in terms of access to funding;
2. Furthermore, some of the presenters expressed shock about the products offered by these DFIs based on their previous failure to support and guide them as per their needs, hence the analogy of a relationship between parent and a child was used;
3. There is lack of clarity of information on the requirements and products that are offered by DFIs. It was observed during the presentations made by SMMEs and Cooperatives that there are no known standardised requirements whereby SMMEs and Cooperatives could preliminary assess themselves whether they meet such requirements before submitting the application;
4. Moreover, it was realised that the requirements would constantly change as applications get processed, more like shifting the goal post. On the other hand, there is lack of availability of information to guide the applicants on which relevant DFIs have to be approached/ contacted for certain products;
5. The official documentation required DFIs automatically exclude entities without track record from accessing finance. In most cases one of the requirements by DFIs from their clients is to submit physical addresses, which understandable made to comply with National Credit Act. However, this requirement excludes most of micro, small and survivalist enterprises often operated by people living in informal settlement;
6. Another onerous requirement identified is that the business must be in operation for a period of between six months and a year and should show financial sustainability. This requirement is worrisome because it excludes people that intended to start their businesses in terms of accessing capital;
7. The budget allocated to these DFIs decreases on a year to year basis. Most of the DFIs presented like the NDA, RHL (Rural Housing Loan) and NEF raised their concerns about the perpetual decreasing of their budget allocation. This is an element which threatens their survival and performance since they will no longer achieve their targets as planned;
8. Importantly, the Committee also invited the Mr Oskar Goitia the Chairperson of Mondragon to the workshop that held to assess the relevance of financial instruments used to provide financial support to SMMEs and Co-operatives. The purpose of inviting Mondragon was to learn best lessons from the model of Mondragon for Co-operative development. Subsequently, the following observations were observed by the Committee: -
* Importance to establish a Co-operative bank in order to mobilise funds for Co-operatives instead of relying on government funding. In South Africa, grounds are conducive for the implementation of Co-operative Bank because there is a similar structure to that of Co-operatives Bank which has been operating without being regulated, that is, Stokvels;
* The establishment of vocational training for Co-operatives in order to gain relevant and necessary skills required to run an effective and successful Co-operatives.

E. The Committee also interacted with numerous government Departments such as the Correctional Services, Basic Education, Defence and Military Veterans, Social Development, Water and Sanitation, Transport, Energy as well as Postal and Telecommunications. The purpose for these interactions were mainly to unlock market access for SMMEs and Cooperatives, to create an adequate support infrastructure such as roads, electricity, communication services, water and sanitation to enhance business operation;

F Over and above this, the Committee interacted with the Fast Moving Consumer Goods (FMCG) as well as the retail sector, companies such as Pick n Pay, Spar Group, Mass Mart, Tiger Brands and Woolworths in its endeavours to assist SMMEs and Cooperatives to have access to markets for their goods and services. Following such interaction, retailors raised some critical issues which are as follows:

* That their gross annual expenditure is almost R77 billion on fresh produce and almost most 70 percent of that is on imported, 30 percent produced locally;
* Between 2 and 2.5 percent is of the fresh produce is sourced from SMMES and Cooperatives owned by previously disadvantaged backgrounds, also from poverty nodes in rural areas and townships;
* The retail sector shows willingness in adhering to the 30 percent policy of procurement of goods from SMMEs and Cooperatives provided such SMMEs and Cooperatives are well coordinated and managed in order to meet the standard of quality in terms of goods supplied as well as the demand of the private sector in terms of volumes and quantity;
* The support given to SMMEs and Cooperatives does not match the needs of the retail sector creating an imbalance between supply and demand;
* The private sector also showed willingness to implement the 70% local procurement policy which is aimed at replacing imported goods with locally produced goods

G. An oversight visit to Limpopo Province took place during January to February 2016, the Committee’s focus was mainly on three District Municipalities, namely, Vhembe District Municipality (to look at market opportunities for cooperatives and SMMEs that are in construction sector), Mopani District Municipality (to look at market opportunities for cooperatives and SMMEs that are in agricultural and manufacturing sector) and Capricorn District Municipality (to look at the developmental model for Cooperatives and SMMEs). The Committee visited and engaged with the following organisations and community structures: -

* Awelani Community Tourism Project (Mutale Local Municipality);
* Tshilimangana Agricultural Cooperative: Zwigidini (Mutale Local Municipality);
* Gombani Women Cooperative-Hydraform Bricks Manufacturers (Mutale Local Municipality);
* Tshakhuma Fresh Produce Market (Makhado Local Municipality);
* Vhembe Fresh Produce Market (Makhado Local Municipality);
* Furniture Manufacturing Incubator (Makhado Local Municipality);
* Makhado Military Base (Department of Defence);
* Ximambani Construction Primary Cooperative;
* Moyexe Shared Economy Institution;
* Hanyani Thomo High School;
* Senwabarwana Market Stalls;
* Senamoriri Stone Crushers and Bricks Manufacturers.

H. Lastly, the Committee adopted its own Strategic Plan during the last quarter of 2015/16. In line with Parliaments Strategic Plan, in order to be able to perform its constitutional mandate, the Portfolio Committee on Small Business Development has developed 30 Strategic Objectives which are informed by the Department’s and its agencies priorities including the implementation of the National Growth Path (NGP) strategy in support of the National Development Plan (NDP), promotion of rural, township, women, people with disabilities and youth based enterprises and Cooperatives.

**6. REVIEW OF THE DEPARTMENTAL ENTITIES**

**6.1 SEDA Budget Allocation**

**Table 11**

|  |  |  |
| --- | --- | --- |
| **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** |

**6.1.1 Financial Performance**

SEDA emerged with an unqualified audit from the Auditor General South Africa for eight consecutive years. No material findings on the Annual Performance Report concerning the usefulness and reliability and there was also no non-compliance to applicable laws and regulations. SEDA Parliamentary grant declined from R624 million in in 2014/15 to R610 million in 2015/2016, while incurring a deficit of R47 million which was covered by accumulated funds from the previous year.

**Table 12: Statement of Financial Performance**

|  |  |  |
| --- | --- | --- |
| **Revenue** | **2015/2016 (R mil)** | **2014/2015 (R mil)** |
| Parliamentary Grant | 610,364 | 624,650 |
| External earnings | 70,460 | 71,836 |
| Interest received | 14,539 | 16,337 |
| Gain on sale of assets | 0,360 | 0,529 |
| **TOTAL REVENUE** | **695,723** | **713,352** |
| **TOTAL EXPENSES** | **742,663** | **645,243** |
| **SURPLUS / (DEFICIT) FOR THE YEAR** | **(46,940)** | **68,109** |

For the current financial year 2016/17 the total budget for SEDA amounts to R750 million. The total expenditure for the first quarter amounted to R170 million resulting in a pro rata underspending of R10 million (6%), against the projected R180 million. Areas of under spending are salary increases not yet effected, some projects that have been initiated but payment to be done once milestones are accomplished.

**6.1.2 Non- Financial Performance**

The period under review has proven to be one of the most challenging for SEDA. However, some really good developments emerged during this period. SEDA and the Department of Small Business Development (DSBD) launched the business acceleration programme, Gazelles i.e. Top 40 businesses which have been in existence for two years, turning over R1million per annum and employing 2 or more people. The Agency supported incubators, created 497 new SMMEs in the year under review and in the process creating 2331 new jobs. SEDA’s footprint through incubation centres grew to 57 with 55 as a target for the year. The centres support largely technology based businesses and were significantly supported through the SEDA Technology Programme (STP), in particular SEDA supported incubators increased to 5 from 3.

In the year under review 10679 small enterprises were supported by SEDA through its branches. More than 74 percent of the SMMEs surveyed during the period reported increased turnover and a 51 percent increase in the number of jobs created. Cooperatives face some challenges which affects their survival in the current economic climate. SEDA managed to increase the number of secondary co-operatives supported to 40 and the number of primary co-operatives supported stood at 166. SEDA, DSBD, USAID, Institute of Business Advisors of South Africa (IBASA) and the Human Resource Development Council launched an online platform for SMMEs and Cooperatives seeking finance. Finfind is an online finance readiness portal in which business owners can meet potential financiers both in the public and private sector. Finfind was launched in October 2015.

**6.2 Small Enterprise Finance Agency (SEFA)**

SEFA was established on 1st April 2012 as a result of the merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of IDC. Its mandate is to foster the establishment, survival and growth of SMMEs and contribute towards poverty alleviation and job creation in line with the objectives of the NDP, NGP, MTSF and strategic plan of the Department.

* + 1. **Overview of the Service Delivery Performance: Non- Financial Performance**

SEFA has taken on the challenge of job creation, facilitation and support in the SMME and cooperative space and make remarkable inroads, albeit few hiccups which threatens its existence emanating from ballooning impairments and losses in property portfolio. While the loan approvals in the current reporting period were marginally below the levels achieved in the prior financial year at R1.1 billion, disbursements increased by 58 percent. Through its lending channels of direct and wholesale, SEFA achieved disbursements of R1.3 billion to the economy, which benefitted 68 724 SMMEs and Cooperatives and in turn, created and sustained 60 169 jobs, allowing SEFA to contribute meaningfully to the government’s job creation endeavours.

Impressively, SEFA expenditure on cooperatives increased from R2 million (2014/15) to R37 million (2015/16) in replicable projects (funding approvals = R58 million), while funding approvals to the informal micro-enterprises increased from R48 million (2014/15) to R106 million (2015/16). A major boost for survivalists, cooperatives and micro enterprises is an introductory programme called Direct Lending to fruit traders where SEFA developed a direct lending channel for traders at the Durban and Mangaung Fresh Produce Markets and approved micro-enterprise partnerships with corporates in the retail sector and an international organisation. An IT-based lending platform has been developed to provide quick and affordable credit to informal business buyers at the markets and has managed to approved R40 million to Co-operatives. SEFA intends expanding this programme nationally.

Furthermore, SEFA has entered into partnerships in its drive of targeting to support the development of co-operatives through funding. One of the most important partnership that SEFA achieved to partner with, is Co-operative Bank Development Agency (CBDA) aiming to focus on the development of Co-operatives banking platform. Importantly, some of the beneficiaries that benefited from the R1.3 billion disbursed by SEFA include amongst others, Mqheleng Waste Management Company which is owned by black woman in Ficksburg in Free State Province. This company has received a soft loan from SEFA through direct lending, amounting to R493 000. This company has developed to an extent it has managed to create 10 jobs, mainly youth. This has indeed contributed to country’s economic agenda of youth employment.

**6.2.2 Financial Performance**

For the 2015/16 financial year, SEFA received an unqualified audit (clean audit) report. Total assets grew marginally by 4.8 percent to R2.393 billion (2014: R2.284 billion). This relatively flat growth in total assets masks a significant shift in the composition of SEFA asset base. The loan and advances portfolio grew by 36 percent which contributed to the decrease in cash and cash equivalents of 31 percent. Before impairments the loans and advances portfolio grew by 52 percent to R975 million (2014: R641 million), an exponential loan portfolio growth, resulting from increase in demand for credit by SMMEs and Cooperatives. The impact of the tough economic environment on SEFA clients resulted in the entity accruing impairments on loans amounting to R322 million (2014: R162 million), a 99 percent increase year-on-year. This pertinent threat to the entity’s sustainability is addressed by continuous improvements to SEFA collection process, for example the implementation of a debit order collection system in April 2015.

For financial year 2016/17, SEFA is facing tenacious accumulative impairment levels which are above the entity’s targets with direct lending already sitting at 71 percent against budget of 48 percent, wholesale lending at 30 percent against 15 percent budget as well as Micro Enterprise Finance at 23 percent as opposed to 17 percent budget. Loan collections is proving to be a major factor contributing to this. As part of the mitigating strategy Post Investment division was established to explore various post investment strategies to improve collections.

**7. OBSERVATIONS OF THE COMMITTEE**

During the course of the financial year 2015/16 and 2016/17 the Portfolio Committee has had frequent interactions with the Department, stakeholders across civil society, labour and business, all three spheres of government, individuals and education sector with a view to perfecting its technical knowhow around the small business sector. Technical oversights have been undertaken to various provinces, namely, Eastern Cape, Gauteng, KwaZulu Natal and Limpopo essentially to provide communities particularly in the far-flung areas an opportunity to enrich and deepen DSBD contribution to the sector. Throughout the formation of this BRRR report the Committee and the Department and its entities engaged in a very robust and consultative process which enabled both the Department and Committee, to craft a progressive BRRR report.

Successively, critical issues were raised and deliberated upon with the aim of helping the Department to successfully achieve its ultimate objective of reducing unemployment, poverty and inequality. Furthermore, some of the discussions raised below stem from the Committee engagements with other relevant stakeholders, thus, as highlighted in the methodology of this report, all relevant reports of the Committee, research, minutes from those engagements are used as the basis for arguing and deliberating some issues for the purpose of advocating for additional/reduction of funds and in some instances changes in policies governing the Department. Issues raised in those engagements were mostly centred around governance, administration and funding. As such those issues are grouped into two headings, namely, Governance and Funding and they are shown below:

**7.1 DSBD Budget**

The opening remarks of this report alluded to the exceptionally difficult economic conditions. Mindful of the uncertain economic climate since 2008, the Ministry of Finance has consistently put an emphasis on savings and reprioritisation. Control measures have been put into place such as austerity measures and guides in order to ensure the importance of savings and reprioritisation by government departments. However, employment creation cannot be achieved without astute public sector investment particularly in an environment where the private sector is either shelving or postponing planned economic investments. Comparatively speaking, questions may arise if as a country enough has been done to live up to the aspirations of creating 800 000 jobs per annum as enunciated in the NDP, whether the country is putting its money where its mouth is or, if the nexus between 800 000 jobs per annum vis-à-visthe budget allocation of R3.7 billion over the Medium Term Expenditure Framework (MTEF) period is realistic.

South Africa does not have a generally accepted definition or criteria of how much it cost per each sector to create one job. Nevertheless, various organisations attach different interpretations or tabulations to this i.e. it costs Industrial Development Corporation (IDC) a quarter of a million to create one job while this number doubles to R500,000 for upper limit, Jobs Fund average cost per job created is R52,000 and there are plenty instances where in the agricultural sector each job cost in the region of R10,000 or so.

Supposing the latter scenario where it costs R10,000 to create one job, this translate or equate to R8 billion required by the Department in order to create 800 000 jobs per calendar year. According to Endeavor jobs calculator, a global tool developed by the International Labour Organisation (ILO) South Africa needs over 49 000 small, micro, medium and cooperative enterprises, growing at a rate of 20 percent per annum to meet the National Development Plan (NDP) target of creating 11 million jobs by 2030.

These are pragmatic and achievable targets in spite of the current economic headwinds that the country is experiencing. In South Africa, small business sector stands a good chance of denting high unemployment as the cost to create one job in a small firm is way less than it is to create a job at a big firm, as large businesses tend to be capital intensive. The growth and expansion of existing businesses as well as creation of the new ventures is paramount to the realization of the NDP targets and this is at the heart of the DSBD directive.

**7.2 Transfer of Functions/Chief Directorates/Directorates**

In its conceptualisation in 2014, the Department was given a mandate of streamlining small, micro, medium and cooperative enterprises as defined in the National Small Business Act, including the functions and budgets that are scattered in various state departments. Too many Departments had, or, still comprise of functions, chief directorates and directorates that are still anticipated, not mandated, to deliver small business products and services albeit along functional lines. The Portfolio Committee has in the past posed this question to the Department if it wants to structure itself along a matrix, bureaucratic, divisional or functional structure, to which a response was such, this is being dialogued at an Economic Cluster level.

For instance, the Department of Rural Development and Land Reform has chief directorate(s), namely, [Rural Infrastructure and Development (RID)](http://www.ruraldevelopment.gov.za/services/rural-infrastructure-development-rid) which its **purpose** is to facilitate rural infrastructure development strategies for socio-economic growth, and [Rural Enterprise and Industrial Development (REID)](http://www.ruraldevelopment.gov.za/services/rural-enterprise-and-industrial-development-reid) which seeks to facilitate poverty reduction, social organisation, youth development as well as the development of cooperatives, rural enterprises and industries. While the Department of Agriculture, Forestry and Fisheries (DAFF) has similar chief directorates i.e. Comprehensive Agricultural Support Programme (CASP), [Small Holder Farmer Evaluation](http://www.daff.gov.za/daffweb3/Programmes/Small-holder-farmer-evaluation), [DAFF Female Entrepreneur Awards](http://www.daff.gov.za/daffweb3/Programmes/Female-Entrepreneur-Awards), Land and Agrarian Reform Project (LARP). This in many instances, duplicates what the Department is trying to accomplish.

**7.3 Signing and Implementation of Transversal Agreements**

The Portfolio Committee notes the slowness with which transversal agreements are being pursued by the Department. The signing of transversal agreements including partnerships with other organisations, be it governmental or non-governmental, serves as an integral part of the Departmental strategy and its entities. It is meant to enable them to execute some of their responsibilities with less effort. Flowing from that, the Committee proposed that agreements signed and partnerships entered into should reflect the understanding of both parties entered into such agreements, to ensure that it is of mutual benefit to both parties, and should create self-sufficient and self-reliant citizens. For example, a transversal agreement between the Department and a municipality should reflect such benefit which will have to accrue to the end-user. The motive behind this is to have a mutual understanding of how to execute the planned activities and to safeguard that no priorities take precedence over the other.

**7.4 Implementation of 30 Percent Procurement Policy and Review of the PPPFA**

These are arguably two policies that falls outside the realm of the Department. However, the Department is directly responsible for their implementation as it directly, and in most instances, undesirably affect its constituency. The Portfolio Committee has noted with concern regarding lack of DSBD appreciation of these policies in addressing market failure associated with access to market and excessive bureaucratic red tape. As above, the Committee was notified these are being negotiated at an Economic Cluster level.

**7.5 Horizontal and Vertical Planning Instruments**

The Portfolio Committee has on an ongoing basis advised the Department to strategically utilise various policy instruments at its disposal i.e. the Intergovernmental Relations Framework Act, National Spatial Development Perspective, Municipal Integrated Development Plans and Spatial Development Frameworks to mention, in an effort to executing its mandate. These instruments are more pertinent to the mandate of the Department as they seek to rationalise planning at a local government level and where the service delivery or coordination takes place.

The Committee is noting the DSBD ‘inward looking’ or ‘silo mentality’ approach that does not take into account the value of engaging broader stakeholders at community level as a vehicle to penetrate local government, in order to develop a felt need based approach. The Committee holds the view that such an approach is not focusing on building relationships with the local government sphere where integrated planning takes place to inform budget allocations and collaboration by various state departments. For instance, the Department recently funded “the 12 Balimi Cooperatives” in KwaZulu Natal. However, these projects were not introduced to the local government where they are being carried out and as a result lack support from these municipalities and other government departments.

**7.6 Institutional Support**

It is worth noting that since the dawn of democracy in 1994 small business sector has really been the vanguard of the government microeconomic strategy. Through successive economic policies from the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR), the Accelerated Shared Growth Initiative for South Africa (ASGISA), New Growth Path (NGP) to the National Development Plan (NDP), promotion and development of the small business sector has remained a key policy feature.

Respectively,various strategies and legislative support instruments have been produced intended to trigger economic contribution of the small, micro, medium and cooperative enterprises namely: the discussion paper of October 1994, the White Paper of 1995 which emphasised, inter alia, “the need for government to facilitate access to information and advice for small business, boost procurement from small enterprises, and went further to call for the creation of a chief directorate within the Department of Trade and Industry, National Small Business Council (NSBC), the Small Business Development Agency (SBDA), Provincial Department(s) of Economic Affairs and Local Service Centres (LSCs)”.

**7.6.1 National Small Business Council**

This was followed by ratification of the Act 102 of 1996, National Small Business Act, effectively establishing the National Small Business Council (NSBC) and Ntsika Enterprise Promotions Agency (NEPA). The National Small Business Amendment Act, 2004, made provision for the incorporation of NEPA, the National Manufacturing Advisory Centre (NAMAC) and any other designated institutions into a single Small Enterprise Development Agency (SEDA), and most importantly, provided a South African definition of what is termed a ‘small business’. The Portfolio Committee notes that during its various interactions with the Department, the issue of establishing the NSBC remains hanging.

**7.6.2 Cooperatives Advisory Council, Cooperatives Development Agency and Cooperatives Tribunal**

In relation to the above, the Co-operatives Act 14 of 2005 recommended the establishment of the Co-operatives Advisory Board (CAB), later replaced by Co-operatives Advisory Council (CAC) through the Co-operatives Amendments, 2013. The Co-operatives Act 14 of 2005 had additionally made provision for the creation of the Co-operatives Development Agency (CDA) and Co-operatives Tribunal (CT). Again, the Portfolio Committee notes that these institutions have not been established leading to serious capacity constraints. The Portfolio Committee is of a further view that an understanding of a cooperative is narrow, while broader perspective at international level is to use cooperative as a tool for economic development at a community level. Citing budgetary constraints, the Portfolio Committee has cautiously welcomed DSBD decision of putting the CDA progression in motion under the supervision of SEDA. The Committee will continue to monitor the developments around this.

**7.6.3 Co-operative Bank Development Agency**

In 2007, the Co-operative Banks Act was passed, which in essence created an Agency for the Co-operative Bank, alternatively known as Co-operative Bank Development Agency (CBDA). The aim of the act was to establish an appropriate regulatory framework and regulatory institutions for co-operative banks that protect members of co-operative banks hence CBDA resides or is administered by National Treasury. The Portfolio Committee, jointly with the Department and its entity Small Enterprise Finance Agency (SEFA), must continue to lobby National Treasury to expand the role and capacity of CBDA to not only play an oversight or regulatory function on Co-operative Banks but to also include developmental aspects.

**7.6.4 Cooperatives Training Academy**

Compared with many other emerging economies i.e. Malaysia, Brazil, Kenya or Singapore, the small, micro, medium and corporative enterprises contribution to employment and economic growth is below average. This relatively low performance can be credited to racial distortions in our education system, income and economic disparities inherited from the old order. The National Skills Development Strategy (NSDS) III underscored the training needs of the Co-operatives, including relevant capacity building for the Secondary, Apex and Co-operative movements as a whole. Hence, the Department of Higher Education and Training undertook to work even more closer with the Trade and Industry (**the dti**), Economic Development (EDD), Rural Development and Land Reform (DRDLR), Agriculture, Forestry and Fisheries (DAFF), as well as other relevant Departments to support the training needs of Co-operatives, including supporting **the dti** [now DSBD following the hand-over of this function] in the establishment of a Cooperative Training Academy (CTA) that delivers customised skills development programmes to Co-operatives.

The Portfolio Committee is once more noting the snail pace at executing this directive when the Co-operatives failure rate is currently hovering at 88 percent. The Portfolio Committee will, jointly with the Department of Small Business Development, engage the Department of Higher Education and Training and various but relevant Sector Education and Training Authorities (SETAs), with a view to implementing these determinations and undertakings as contained in the NSDS III.

**7.6.5 Reconfiguration of SEFA and SEDA**

Owing to the weak budgets which the country has been subjected to, where productive investment expenditure has been prioritised, there is a need to consider the current funds budgeted to be transferred to departmental entities. This is due to the fact that there is quite a substantial amount of money which will be lost in this value chain before it reaches the targeted audience. The costs of running these entities is quite significant although their impact is not clearly felt. It should be noted that in one of the interaction that took place between the Committee and the Department and its entities, it was once suggested that a consideration has to be given to reconfigure SEDA and SEFA with the aim of creating one stop shop services. In various Committee meetings including during the BRRR process this matter was suggested to the Department. As alluded to under 7.5 above, amalgamation and consolidation of existing and proposed institutions, or grouping according to their functions and expand their mandate(s), is likely to result to a lot of savings.

**7.7 Corporate Governance and Operational Issues: SEFA**

**7.7.1 Incorporation**

SEFA incorporation obfuscates DSBD mandate of exercising oversight responsibility. In terms of the Public Finance Management Act (PFMA), unlike SEDA, SEFA is not a schedule 3 entity but a schedule 2, taking a cue from its parent company IDC. The Act states that subsidiaries of all the public entities/ SOEs listed therein (schedules) are automatically also categorised under the same schedule as their parent entity, irrespective of the corporate form or type of that subsidiary relative to that of its parent entity, a case with SEFA and IDC. Furthermore, SEFA has 9 subsidiaries accountable to it, including non-profit entities [a company without a share capital] and in terms of the PFMA, there is also no provision for the Department to exercise oversight responsibility over these subsidiaries yet there are public monies that get disposed to these entities on an annual basis.

Whilst all public entities/ SOEs are listed and categorised into different schedules of that Act, subsidiaries are not listed as well. Legally, SEFA is a wholly subsidiary of Industrial Development Corporation (IDC), which reports to the Department of Economic Development. DSBD has no legal or oversight status over SEFA, it is neither an executive authority nor shareholder. It cannot lawfully appoint an Accounting Authority/Board of Directors or its Chief Executive Officer (CEO). Accordingly, during the budget bids, the proposed budget for SEFA was not done past the Department but instead by EDD which, on the other hand, is not privy to the new priorities of the Department in as far as SEFA is concerned;

**7.7.2 King III Recommendations**

The Board functions in accordance with King III and within the context of the PFMA and the Companies Act. However, King III specifically recommend that the majority of non-executive directors should be independent, as a minimum the CEO and director responsible for finance should be appointed to the board. This is not the case with both entities, SEFA and SEDA, when both entities affirm to adopted the principles of good governance as articulated in King III report;

**7.7.3 SEFA Board Term of Office**

SEFA current Board was appointed for a three-year term of office, ending on the 31st of March 2015. Nonetheless, these terms were extended to 25 August 2015 and again to August 2016. The Portfolio Committee has regrettably not been in a position to establish the extent of the DSBD involvement in the selection process of the new Board members;

**7.7.4 The Secondment of SEFA CEO**

The Committee observed that in its successive annual reports that SEFA CEO is being listed as having been seconded to the company by IDC and subsequently, no remuneration has been paid by SEFA. This is an issue that the Committee must be thoroughly briefed on;

**7.7.5 Memorandum of Incorporation**

The Committee observed that SEFA Memorandum if Incorporation (MOI) has recently been amended in 2016, but not privy to what those amendments entailed or meant. This is concerning for the Portfolio Committee because it points to the reality that little is being done to put in motion the issue of transferring SEFA to DSBD, an utter defiance of a Cabinet resolution which recommended that this be concluded in earnest;

**7.7.6 Impairments**

Impairment is specifically used to describe a reduction in the recoverable amount of a fixed asset below its book value. The Portfolio Committee is concerned that SEFA inability to collect monies owed is gradually leading the entity to bankruptcy. During the 2015/16 financial year the impairment ratio on loans reached a staggering R322 million up from R162 million in 2014/15, a 99 percent increase year-on-year. Consequently, there is a very high number of debts being written off i.e. R380 million 2016 and R220 million 2015. Presenting its first quarter report of the financial year 2016/17 SEFA requested an urgent intermediation of the Portfolio Committee especially on matters requiring an intervention of the ‘executive authority’, DSBD and National Treasury.

The Committee notes that to mitigate high impairments SEFA has created a ‘post investment unit’ to focus exclusively on collections and deal restructuring. It has also consistently lobbied DSBD to negotiate, on its behalf, with National Treasury to issue a Practice Note/Regulation with a view to effecting a cession. While the Committee support the ‘cession of contract’ in principle, this may nevertheless prove a double-edge sword for the Committee because ballooning impairments are primarily as a result of a) bridging loans, b) mainly from the construction sector, which points to a confusion in terms of what constitute SEFA mandate and most importantly, priority sectors. SEFA has not heeded the Committee’s past and present recommendations, such as, learning from the Rural Housing Loan Fund (RHLF), an entity of the Department of Housing Settlement (DHS), Grameen Bank of Bangladesh and Mondragon Corporation of Spain. The Portfolio Committee has not been updated in respect of what SEFA has done i.e. whether Section 22 of the Companies Act relating to ‘reckless trading’ or section 77 ‘director’s liability’ have been invoked in an attempt to recouping monies owed to SEFA.

**7.7.7 Funding Channels**

The Committee intensively deliberated on the current model that SEFA is using to lend money to micro-enterprises through the use of intermediaries in the form of micro finance. The Committee notes that compared to direct lending, wholesale lending collection rate is much better than the latter. However, since the first interaction with SEFA, the Committee has persistently raised its dissatisfaction with the use of intermediaries which reported that they charge an interest between 40 percent and 110 percent. Importantly, the Committee maintained the view that SEFA as government institution that was created to service all small businesses including micro and survivalist should ensure that it reaches through those kind of entities because these are businesses operated largely by the poor of the poorest which SEFA is expected to uplift them from poverty, thus, SEFA has to reach these small businesses without using micro lenders (intermediaries).

Additionally, an issue for further deliberation is the confusion emanating from SEFA mandate over whether it funds companies with or without share capital. Phakamani Foundation is a registered non-profit [presumably in terms of the NPO Act], public benefit organisation [presumably in terms of the SARS Act] that has benefited to the tune of R22 million. While in terms of the Companies Act, assuming it is also registered as a NPC in line with the Companies Act, are eligible to trade, it is unfortunately not clear as with regards to policy regime utilised to extend such loans to NPC/NPO/PBO.

**7.7.8 SEFA Beneficiary Groups**

The Committee applauded SEFA achievements in terms of target groups that have benefited in its funding i.e. black, youth and women owned entities. Nonetheless, expenditure on disabled people in 2013/14, 2014/15 and 2015/16 still hovers below 2 percent, halfway through 2016/17, the trend still looks exactly similar to the three previous years. This is despite the Committee having visited Self Help Association for Paraplegics (SHAP) in Gauteng, an association that organises people living with disabilities. SHAP informed the Committee in the presence of the Department that they got contracted by a company in Cape Town through the assistance from the Department of Social Development to produce reflector clothes.

The Committee also noted that facilities less than R250K have dropped considerably from 45 percent in 2013 to 24 percent in 2013, this points to a confusion over who has the mandate to service the micro, survivalists, small and cooperative enterprises which often require loans less than R250K.

**7.8 SEFA Property Portfolio**

Through the amalgamation of different entities into a single entity, few properties were then ceded to SEFA. Currently SEFA manages 53 investment properties in five provinces. The investment property portfolio consists of 30 industrial properties, 22 retail commercial properties and one vacant plot. It is unclear how these properties benefit SMMEs and Cooperatives. While the Committee was informed during its interaction with SEFA that small businesses pay a reasonably lesser rental fees, the Committee was not convinced, especially considering that SEFA incurred losses in its property portfolio. Also, the question of specialisation has been raised, for SEFA to direct its focus wholly on the provision of finance. The Committee notes that is negotiating with its tenants to sell some of these properties at market value but tenants are contesting this.

**7.9 Corporate Governance and Operational Issues: SEDA**

**7.9.1 SEDA Board Composition**

In relation to 7.6.2 above, re: board composition, the Committee observed that while some board members are in the employee of the IDC and therefore do not earn Director’s fees for services rendered to SEFA, a source of confusion for the Committee is that SEFA Accounting Officer has consistently been remunerated for being a Board member at SEDA. The Portfolio Committee has not seen SEDA Board Charter nor Memorandum of Incorporation to ascertain if this was appropriate and within the legal confines as Industrial Development Corporation, is a full-fledged public entity in terms of the Public Finance Management Act and Companies Act.

**8. RECOMMENDATIONS**

Emanating from the discussions and deliberations made by the Committee, the following recommendations were drawn. They are categorised into Funding and Governance which include all those recommendations that are directed to the Minister of Finance, which include recommendations directed to the Minister of Small Business Development. These recommendations are as follows: -

8.1 To fund the establishment of the Cooperative Development Agency, Cooperative Training Academy and Cooperative Tribunal as proposed by the enacted Cooperative Act, 2005 as amended, as well as National Small Business Council as proposed in the National Small Business Act. This recommendation has been recommended to the Minister of Finance since 2013 BRRR and no response has been forthcoming;

8.2 To review the allocation given to all DFIs since there is a consistent depletion of their budget over the years which is an element that can potentially hamper the development agenda of this country and the performance/economic impact of these DFIs;

8.3 The Department must consider amalgamation of its support institutions, SEFA and SEDA, with an idea of creating one entity for the provision of required services to SMMEs and Co-operatives and seek to achieve a wider geographical footprint;

8.4 To fast-track the processes that are aimed at signing transversal agreements that will benefit SMMEs and Co-operatives with all spheres of government, private and non-government organisations;

8.5 The Department and SEFA must review the current model of using intermediaries to micro-financing. There is a need to consider a model that will be cost-effective and considerate to circumstances of micro and survivalist enterprises, and most importantly, it must accelerate and utilise cooperative financial institutions (CFIs) and cooperative banks as a part of a broader government strategy to streamline access to finance particularly for small, micro, medium and cooperative enterprises;

8.6 The Department must brief the Portfolio Committee on its interactions with the National Treasury on four critical issues: -

i) Practice Note or Regulation on the implementation of the proposed cession of contracts;

ii) Review of the PPPFA;

iii) Implementation of 30 percent set aside policy and;

iv) The process of relocating small, micro, medium and cooperative enterprises functions/directorates/budget currently residing in other Departments;

8.7 The Department must brief or present to the Portfolio Committee its bidding proposal to the National Treasury, encompassing a clear value proposition and social rate of return for the government through utilising, among others, computable general equilibrium (CGE), applied general equilibrium (AGE) or econometrics model(s);

8.8 The Department must urgently facilitate the development of the Retail and Wholesale Charter within the first quarter of 2017/18 financial year, with clearly defined interim targets;

8.9 The Department should work hand in hand with all spheres of government and ensure that it upscale the involvement of Local Economic Development Structures by active participation in Integrated Developmental Plan Sessions, including the introduction of a more robust mechanism in ensuring that there is better co-ordination between activities of the respective Provincial Governments and the DSBD, and various other initiatives that bring to life i.e. Intergovernmental Relations Framework Act (IRFA), National Spatial Development Perspective(NSDP), Presidential Poverty Nodal Points (PPNP), Transversal Agreements and Nine Point Plan to mention the few;

8.10 With regard to accountability and ensuring that funds disbursed for grants are utilised for the purposes they have been intended for, the Department must develop a plan for monitoring.

8. 11 The Department should also consider the use of Stokvels, Mining Chambers (TEBA) and Post-banks as institutions for lending in addition to the current model used by SEFA;

8.12 The Portfolio Committee reiterates its recommendation to the Department to strategically use Pay points offices for grants in the rural areas for conducting research as most of hawkers do their businesses in such areas, the Department to report back on this;

8.13 The PC recommended to SEFA to position its location in areas where the challenges are in terms of meeting the turnaround time for applications, SEFA to provide a detailed progress on this;

8.14 A request was made to SEFA to brief the Committee once it has finalised its disbursement model for property portfolio and included negotiations with the tenants;

8.15 A commendation was made to SEFA to prioritise Cooperatives applications for funding and also to prioritise training on capacity building on cooperatives, and report back to the Committee regarding the progress achieved;

8.16 The Department to report on the impact of pilot projects that are supported by the Department, and highlight of how these address value chain;

8.17 The Committee suggested to SEDA to develop a structured strategy for development of informal business sector and rural communities as well as an interim strategy for cooperatives development since cooperative development agency, cooperative model and master-plan for cooperatives were not in existence. SEDA is yet to deliver an inclusive analysis as a response to this recommendation and lastly;

8.18 The PC made a recommendation that SEDA should have a strategy for extending its footprints to the township and rural economy;

8.19 The Department to present progress on the amendment of the National Small Business Act and a list of all other related regulatory measures (acts, bills, policies and strategies etc.) before the end of the fourth quarter, 2016/17;

8.20 SEFA to urgently present a detailed turnaround plan or strategy to the Portfolio Committee regarding its swelling impairment ratio;

8.21 The Department to expedite the amendment of the Department’s name to include “cooperatives”.

**9. APPRECIATION**

The time lines for the assembly of the BRRR are very tight. The Committee would like to express its appreciation to the Minister, Deputy Minister and the Director General, the Auditor- General of South Africa and the entities who all participated in the 2016 BRRR process. The Committee also extends its unreserved gratitude to the Committee staff which has willingly and voluntarily ensured that work is done even beyond normal working hours, setting a good example for all public servants. Lastly, the words of appreciation goes to Committee members for their constructive contribution towards the success of the Committee.

Report to be considered.