**6. 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 (“the Department”), alternatively, (“DSBD”) and its entities for the financial year 2016/17 (on 04 -05 October 2017), dated 18 October 2017 reports as follows:

1. **INTRODUCTION**

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

The Constitution of the Republic of South Africa, 1996 (“the Constitution”), specifically Section 77 (3), stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. It is this constitutional provision that gave birth to the Money Bills Amendment Procedure and Related Matters Act No. 9 of 2009 (“the Act”). The Act sets out the practice that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department. Section five (5) of the Act, posits that the National Assembly, through its Committees, must annually evaluate 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 reports of such Departments;
* 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.

Accordingly, 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 consider the Department’s budgetary needs and shortfalls vis-à-vis the Department’s operational efficiency and performance. In the case of DSBD, this is done taking into consideration the fact that the Department has oversight responsibilities over the two entities, that is, Small Enterprise Finance Agency (“**sefa**”) and Small Enterprise Development Agency (“Seda”). The Committee is accordingly 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 for execution. This gives effect to Parliament’s constitutional powers to amend the budget in line with the fiscal framework.

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

The Committee interrogated all presented documents as outlined in clause 5 of the Money Bills Amendment Procedure and Related Matters Act. It also assessed the performance of the Department for the 2016/17 financial year as outlined in the Annual Performance Plan (“APP”) of the Department. It nonetheless, did not evaluate performance of the first quarter of 2017/18 financial year, as this has not been presented to the Committee. It furthermore, interacted with different stakeholders and various organs of state that play a role in appraising the financial and non-financial performance of the Department, including the briefing by the Auditor-General of South Africa (“AGSA”), alternatively, (“AG”), regarding the audit outcomes of the Department and its entities.

In carrying out such exercise, the Committee utilised a number of source documents, including the 2015-2019 Strategic Plan of the Department, APP’s, Annual Reports, 2016/17 Financial Statements, Estimates of the National Expenditure (“ENE”), numerous briefings by the Department and its entities during the course of the year, as well as the State of the Nation Address (“SONA”). The Committee also used the Constitution as its basis. The office of the Auditor General, Department of Planning, Monitoring and Evaluation (“DPME”) and Department of Public Service Administration (“DPSA”) gave inputs during the BRRR process. In addition, this report has taken into consideration the best lessons learnt from the Committee interactions with institutions that provide support to survivalist, small, micro, medium and co-operative enterprises since it was constituted in July 2014, lessons learnt from various oversight visits, conferences and engagements with numerous stakeholders. Information gathered from the above-mentioned activities is then utilised to argue for the reduction or addition and/or reconfiguration of resources and Departmental programmes.

**1.3 Mandate of the Committee**

In terms of the Constitution of the Republic of South Africa, Portfolio Committees have authority to legislate, conduct oversight over the Executive and facilitate public participation. Parliament’s mission and vision statements, the rules of Parliament and its Constitutional obligations govern the Portfolio Committee on Small Business Development mandate. The mandate of the Portfolio Committee is to contribute to the realisation of a developmental state and to 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 (“EA”).

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 its programmes, scrutinising its budget and expenditure (‘annually’), and recommending through Parliamentary processes, 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 directs the National Assembly, through its committees, to periodically evaluate the performance of each national department. This process leads to a committee having to submit a report of this assessment known as a Budgetary Review and Recommendation Report, which is then tabled to the National Assembly.

**1.4 Mandate of the Department**

The Department of Small Business Development plays a major role in effecting Chapter three (3) and six (6) of the National Development Plan (“NDP”). Both chapters 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 (“NPP”), 30 percent Procurement Policy, sector transformation charters, to keep tabs on the 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 BBEEE Transformation Charters, Industrial Policy Action Plan (“IPAP”), Companies Act as well as its five year Strategic Plan to name the few.

**1.4.1 Small Enterprise Development Agency**

Small Enterprise Development Agency 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 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 2014-2019, Strategic Plan and Annual Performance Plan (APP) of the Department, its five-year Strategic Plan and APP that are compatibly aligned to its executive authority.

**1.4.2 Small Enterprise Finance Agency**

The Small Enterprise Finance Agency 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 1 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”.

The agency has six (6) subsidiaries that report to it, two (2) associate partners, three (3) joint ventures and one joint operation.Its mandate is to be “the leading catalyst for the development of sustainable survivalist, small, micro, medium and co-operative enterprises 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 2014-2019, Strategic Plan and Annual Performance Plan (APP) of the Department, as well as its five-year Corporate Plan and APP.

**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.

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 and the State of Nation Address that the Department has to contribute in achieving them. Thereafter, an overview of the strategic plans of the Department and its entities are highlighted with the view of assessing whether or not they address 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 were at all implemented.

Section four (4) considers the Department’s financial performance against its allocation for the financial year 2016/17. It briefly examines the 2017/18 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 and key performance indicators.

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’s 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 targets, number of jobs anticipated by 2030, poverty reduction and shifting government expenditure from consumption to production.

Lastly, section eight (8) is 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 much needed stability and confidence in the governance system. In the past, the government had certainly explored a number of micro and macroeconomic policy measures that 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, NGP, SONA and 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 in accordance to the priorities and primacies contained in each State of the Nation Address.

**2.1 Relationship with the National Development Plan**

The Department of Small Business Development was established in 2014 with an inclusive mandate of developing survivalist, small, micro, medium and co-operative enterprises (“Small Business”) as defined in the National Small Business Act, 1996. It plays a vital role towards the implementation of chapters three (3) and six (6) of the National Development Plan that deal with the economy and employment as well as rural inclusive growth. The NDP is the country’s vision, with a target of creating 9.9 million new jobs from small businesses by 2030. The NDP identifies the important role that small business enterprises play in inclusive economic growth and employment. The plan articulates the benefits of increased coordination and support, incubation, and reduced costs of regulatory compliance for small enterprises to achieving a transformed and inclusive economy.

Therefore, chapter three give DSBD marching orders to put in place mechanisms 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.

While chapter six emphasises 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 New Growth Path and National Development Plan**

The Department has a responsibility to implement various policy propositions for growth, decent employment and equity as captured in the New Growth Path. The NGP aims to create five (5) million jobs by 2020, and also forge a new and more inclusive, as well as labour intensive and efficient economy. According to the NDP (2011: 117), “the NGP is the government’s key programme to take the country onto a higher growth trajectory”. Of specific interest to the Department are three microeconomic policy propositions advocated in the programme, namely: -

2.2.1 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
* Lobbying for a trade policy that endeavours to promote exports while addressing unfair competition against domestic producers;

**2.3 Medium Term Strategic Framework and National Development Plan**

The Department is directed to contribute to service delivery outcome 4 (‘decent employment through inclusive growth’) and service delivery outcome 7 (‘rural development’) of the 2014-2019 Medium Term Strategic Framework. It is tasked to create a favourable legislative and policy environment for survivalist, small, micro, medium and co-operative enterprises, develop and grow small business sector in township and rural areas, and establish public and private partnerships aimed at maximising support for small businesses.

Over the medium term and, in line with the NDP, the Department plans to focus on increasing the number of small enterprises that it supports in all nine provinces, review the strategy for SMME Development and Entrepreneurship, reinforce support for co-operative enterprises, develop and intensify market access opportunities for small enterprises, support incubators for small enterprises, and strengthen Departmental operational capacity. The Department is further tasked with an assignment of moderating redundant regulatory bottlenecks, which it plans to do through its red tape reduction programme for the operations of small enterprises in municipalities.

**2.4 State of the Nation Addresses [2014-2017]**

**2.4.1 SONA 2014**

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 assigned 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 (“DFI”) 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.

**2.4.2 SONA 2015**

During this SONA, the Department was given an additional mandate to strengthen efforts designed to solidify the small business sector. It then took a step to strike a decisive and expressive intervention to the development of small business sector through its involvement towards the attainment of the NPP plan specifically to “unlock the economic potential of survivalists, small, micro, medium and co-operatives, particularly 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.

**2.4.3 SONA 2016**

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 that were anticipated to contract further, with ramifications on the small business sector. The third strategic partner, China, was also predicted to achieve below 6 percent economic growth owing to the hostile global economic conditions. Additional areas of importance for the Department were identified as follows: -

* Government started the process of creating One Stop Shop/Invest SA initiatives to signal that South Africa was truly open for business. State departments were directed to fast-track the implementation of this service, in partnership with the private sector. It is hoped that through such initiatives, legislative and regulatory obstacles that frequently impedes offshore investment will ultimately be eliminated;
* It was announced that SA Tourism will 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 survivalists, small, micro, medium and co-operative enterprises to accelerate their growth, access to high-quality, innovative business support that can dramatically improve the success rate of the new ventures and;
* Big business was urged 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 lastly;
* The establishment of the SMME fund, a partnership between government and private sector, was announced.

**2.4.4 SONA 2017**

In the 2017 SONA, President Jacob Zuma impressed on a number of fundamental policy proposals to invigorate the small business sector as follows: -

* Government’s commitment to support black smallholder farmers in particular the implementation of a commercialisation programme for 450 black smallholder farmers;
* The State to utilise the strategic levers that are available such as legislation, regulations, licensing, budget and procurement as well as Broad-based Black Economic Empowerment charters to influence the behaviour of the private sector and drive transformation;
* And through such regulations and programmes, government will be able to use the State buying power to empower small enterprises, rural and township enterprises, designated groups and to promote local industrial development;
* To use the State expenditure of R500 billion a year buying goods and services to achieve economic transformation;
* To implement the new regulations making it compulsory for big contractors to subcontract 30 percent of business to black-owned enterprises by the 1st of April 2017;
* To focus on a few key areas packaged as the Nine-Point Plan to reignite growth so that the economy can create the much-needed jobs and;
* To focus on areas such as industrialisation, mining and beneficiation, agriculture and agro-processing and energy in an endeavour to benefit small business sector;

**2.5 Strategic Plan(s) of the Department**

The Department of Small Business Development was established in May and proclaimed on July 2014. The Broadening Participation, a division within **the dti,** was shifted to the Department,with financial and human resources. During 2014/15, the Department operated as part of **the dti** Budget Vote 36 until the end of that financial year. In 2015/16, Budget Vote 31 on Small Business Development became effective, but was still implementing programmes that were transferred or inherited from **the dti**. Hence, governance and corporate services functions operated under the auspices of, or, 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 that incorporated concerns raised by the Committee during the previous year, October 2014. As such, the final draft Strategic Plan was adopted by the Committee pending Department of Public Service Administration 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 National Treasury and 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 accordance 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 often referred to as SMART, and must set a performance target the institution can achieve by the end of the period (‘five years’) of the Strategic Plan. The Department had originally identified the following five programmes, viz.: -

* **Programme 1: Administration -** This programme, has remained intact throughout DSBD evolution, consist 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 two was on improving the quality of financial and non-financial support services to small enterprises;
* **Programme 3: Co-operatives -** The Department had undertaken to implement a new support model for co-operatives, including implementation of the Co-operatives Act directive to establish, among others, Co-operatives Development Agency (“CDA”), Co-operatives Training Academy (“CTA”) and Co-operatives Tribunal (“CT”), including developing and providing financial and non-financial support services;
* **Programme 4: Research, Policy and Intergovernmental –** Programme four was dedicated to assessing existing policies enshrined in legislation affecting Small Business, Co-operatives, 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, State Owned Entities and private sector to enhance implementation of Departmental strategies were to be achieved 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, 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 would subsequently adopt the strategic plan of the Department with only three (3) programmes as per DPSA directive and these were -

* **Programme 1: Administration –** As above, this programme has remained intact during the course of DSBD progression, its purpose is to provide strategic leadership to the Department and its entities, ensure successful implementation of the Department’s mandate through sustainable and integrated resource solutions and services that are customer-driven. The programme encompasses 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-operatives Support and Development -** The key focus of this programme was 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 constituted sub-programmes, namely, Primary Co-operative Development, Incubation Support Programme, Co-operatives Supplier Development Programme, Intergovernmental relations, market development, Research, planning, monitoring and evaluation;
* **Programme 3: Enterprise Development and Entrepreneurship -** The purpose of Programme 3 was to create an enabling environment and growth of sustainable small businesses so that they contribute to the creation of employment and economic growth. The programme comprised, inter alia, Enterprise Development, Entrepreneurship and Franchising, Incentive, grants and soft loans, regional industrial and special projects, Gender, youth and people with disabilities and National Informal Business Upliftment Strategy Sub-programmes.
	+ 1. **Strategic Plan: 2015 -2019**

Subsequent to Budget Vote 31 becoming effective, the Department began establishing its own policy regime, Audit Committee, Internal Audit function, Risk Committee and risk management function. From this time, it organised itself into functions as an autonomous and effective administration with effect from 1 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. It thereafter commissioned a Programme Review in July 2015, the 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, 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 survivalist, small, micro, medium and co-operative enterprises; strengthen points of interactions between other areas of government and with the private sector; consolidate the mandate for co-operatives to improve focus, and most importantly and 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 had adopted, which to a great extent, informed the Department’s 2016/17 APP. However, National Treasury and DPME did not approve the APP. The Department has three programmes as follows: -

* **Programme 1: Administration** –As indicated earlier, the purpose of Programme one is to provide strategic leadership, management and support services to the Department;
* **Programme 2: Small, Medium and Micro Enterprises and Co-operatives 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 co-operatives that contribute to the creation of employment and economic growth;
* **Programme 3: Small Medium Micro Enterprises and Co-operatives 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”).
	+ 1. **Strategic Plan (Proposed): 2017-2019**

In respect of the functional and organisational structure of the Department, the service delivery model has been finalised. The Department is in the process of redesigning its organisational structure, which is aligned to its strategic plan and service delivery model. The business case outlining the rationale for the proposed changes has been developed albeit not presented nor approved by the Portfolio Committee. The business case is evolving to reflect the nature of operational requirements. Bar Administration branch/programme, which will remain unaffected, the latest review suggests the conception of the following branches:-

**Branch 2: Sector Policy and Research -** To create an enabling environment for the development and growth of sustainable small businesses and co-operatives and to ensure the desired impact is achieved in contributing toward the creation of employment and economic growth by SMMEs and Co-operatives

**Branch 3: Integrated Co-operatives Development -** To promote an ecosystem that enhances the establishment, growth and sustainability of co-operatives through the design, piloting and monitoring of the impact of support services and instruments; championing of functional partnerships agreements; the advocacy and thought leadership in advancing economic growth and job creation by Co-operatives; and the establishment and governance of the institutional arrangements provided for in the Co-operatives Act.

**Branch 4: Enterprise Development and Entrepreneurship -** To promote an ecosystem that enhances entrepreneurship and the establishment of growth and sustainability of small businesses through the designing, piloting and monitoring of the impact of support services and instruments; the promotion of targeted local enterprise development; championing functional partnerships; advocacy and thought leadership in advancing economic growth and job creation by SMMEs and entrepreneurs.

**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 held its first strategic session in February 2016 wherein, a full-fledge Strategic Plan and 30 Strategic Objectives were developed. Each Strategic Objective developed is in line with the Strategic Objective(s) and Outcome(s) of the fifth 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 to, the implementation of the New Growth Path strategy in support of the National Development Plan, promotion of rural, township, women, youth based enterprises and co-operatives.

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 expounded in the 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 2016 BRRR Recommendations and Responses by the Ministers**

**Table 1: 2016 Recommendations**

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| --- | --- |
| **Recommendations** | **Response from the Department** |
| To fund the establishment of the Co-operative Development Agency, Co-operative Training Academy and Co-operative Tribunal as proposed by the enacted Co-operative 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; | * Co-operatives Development Agency
* DSBD is in the process of proclaiming the Co-operatives Amendment Act. Delay has been caused by the Companies and Intellectual Property Commission (“CIPC”) system challenges as they have to be ready to implement the amendments;
* Once done, proclamation of the Act will be finalised in line with the PFMA;
* Secure funding from the National Treasury;
* Pilot through Seda (anticipated for 2018/19);
* A Business Case has been developed in respect of the establishment of the Co-operatives Development Agency and it was approved in 2013 by the Ministers of Finance and Public Service and Administration;
* A revised Business Case for funding was submitted to National Treasury for consideration in the 2018/19 MTEF. Discussions have taken place between the Department and Seda with the view of piloting the establishment of the CDA within the Seda infrastructure until full funding becomes available for the CDA of operate independently.
* Co-operative Training Academy
* DSBD to mobilise and lobby the Department of Higher Education (DHET) to implement the programme as per the Bilateral agreement;
* The DHET to roll-out the programme;
* Co-operative Tribunal (pending activities)
* Draft Business case has been developed for the Minister’s approval;
* Secure funding through the National Treasury;
* Appoint commissioners and staff;
* Consider incubating under the Companies Tribunal
* National Small Business Council
* The Department has decided that the Council for Small business and co-operatives should be combined;
* Members of the Council will constitute small business and co-operatives;
 |
| 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; | * The National Treasury is best positioned to lead this unit of work.
* The Department is analysing the findings of the following reports:
* Government of South Africa (March 2008), Review of Development Finance Institutions Final Draft report;
* Economic Development Department (18 October 2011). Business case: Small Business Finance Entity;
* National Treasury (January 2017), Consolidated Report: Review of South Africa’s Development Finance System, Draft Version 3;
* Office of the Chief State Law Adviser (20 April 2017), “Legal Opinion on the Incorporation of Small Enterprise Financing Agency to the Small Enterprise Development Agency.
* Suggested recommendations that may need to be addressed at a National Level relevant to the Small Business Development mandate:
* Full Centralisation into Single DFI;
* Sector-targeting Development Finance;
* Wholesale Finance System;
 |
| 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; | * The Department supports this view;
* A Memorandum of Agreement between the Ministers of Small Business Development and Economic Development empowers the Minister of Small Business Development to be the Executive Authority of **sefa**. However, this instrument is not adequate to enable **sefa**’s Parliamentary grant to be included in Budget Vote 31 on Small Business Development;
* At a technical level, discussions were initiated with National Treasury and the Department of Public Service and Administration to find a more effective legal instrument. One of is to re-establish **sefa** as an autonomous public entity and disestablish it as a subsidiary of the Industrial Development Corporation;
* The revision of the **sefa** Business Case is a highly technical and prescribed process, for which DSBD does not have the capacity. Hence the Department has requested specialist Project Management support from the Government Technical Advisory Centre (GTAC) in National Treasury;
* This unit of work is expected to take between 12-18 months and has not yet been consulted with the Boards and staff of the entities. The Minister has started discussions with the two entities;
 |
| 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; | * In terms of the Department’s definition of transversal agreements, to date the Department has signed 39 agreements with various stakeholders, i.e. 26 public sector agreements, 8 private sector agreements and 5 with international organisations.
* *Annexure of the table attached*
 |
| 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 and cooperative banks as a part of a broader government strategy to streamline access to finance particularly for small, micro, medium and cooperative enterprises; | * The Department and **sefa** have discussed the matter and it is **sefa**’s considered view that the use of intermediaries gives the organisation a much wider-reach than the organisation would if it was not using intermediaries.
* **sefa** will, during the course of formulating a small business development portfolio, be requested to use co-operative financial institutions and co-operative banks as a part of a broader government strategy to streamline access to finance particularly for small, micro, medium and co-operative enterprises;
* It is expected that the process of formulating the aforesaid portfolio will be completed before the start of the 2018/19 financial year;
 |
| 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 co-operative enterprises functions/directorates/budget currently residing in other Departments; | i) Practice Note or Regulation on the implementation of the proposed cession of contracts;1. A DSBD-NT Task Team is in place to deal with a number of issues that will culminate in a MoA between the two departments. One of the matters on the agenda is the cession of contracts. NT is willing to consider issuing a Practice Note on cessions, noting that it sets a precedent and likely to be applicable to all Development Funding Institutions (DFIs). **sefa** has formally been requested to:-
	1. Provide DSBD with the relevant data (e.g., profile of defaulting clients, number on the CSD, cost benefit analysis of cessions etc.) so as to empower the department to present a strong business case; and,
	2. To meet with Ithala Bank, KZN, where cessions are successfully being implemented. DSBD and NT will facilitate this meeting

ii) Review of the PPPFA;1. The PPPFA Regulations has been reviewed, published in January 2017 and applicable as from 1 April 2017. The development of a new Public Procurement Bill is at an advanced stage:-
	1. It will modernise the legislative procurement environment;
	2. Organs of state will have an opportunity to comment on the Bill once approval to gazette for public comments has been granted;
	3. The Bill, once enacted, will be the single national regulatory framework for public procurement in SA; and,
	4. Will therefore repeal the Preferential Procurement Policy Framework Act in its entirety;

iii) Implementation of 30 percent set aside policy and;1. In terms of the 2017 PPPFA Regulations the 30 percent set-asides is now compulsory.
	1. As all service providers for the public sector must be registered on the Central Supplier Database (CSD), NT monitors and reports on compliance to a quarterly;
	2. The DSBD National Interdepartmental Coordinating Committee on SMMEs and Co-operatives, chaired by the DG has introduced reporting by departments. Compliance is slow and uneven;
	3. However, with effect Q3,
		1. Departments will be required to disaggregate their demand plans and proactively determine and declare which goods will be set-asides for SMMEs; and their investments in growing SMMEs as suppliers of these preferred goods and services;
		2. DSBD will report on compliance to the Economic Cluster and Cabinet Lekgotla. No department will want to be exposed at this level and it is anticipated that by Q1 2018/19 we would be closer to 100 percent compliance;

iv) DSBD and NT are working together on refining the supplier data on the CSD. For example, it cannot at present distinguish between urban, rural or township suppliers. It able to report that in 2016/17 both Western Cape and Gauteng exceeded the 30 percent set aside by achieving 41 percent, the but further disaggregate the data such that DSBD is able to engage with the best practices and for them to share their strategies and systems with others, is still cumbersome;v) The process of relocating small, micro, medium and co-operative enterprises functions/directorates/budget currently residing in other Departments;* 1. The Department has not initiated a process to ‘alienate” SMME functions from other departments as yet. It does not have the capacity to drive and manage such a project;
	2. Instead, the Department has focussed on creating a clear legislative an policy environment through its research and policy functions introduced on 2016/17;
	3. For example, the department is working on consensus in the Definitions on SMMEs, which will be included in the National Small Enterprise Amendment Bill. Given the importance of this consensus, the Department is considering issuing these as regulations, even before the passing of the Bill. Another is the National Incubation Policy;

The responsibility of the department is to provide leadership in terms of SMME and Co-operative development and to provide accurate feedback on initiatives to promote SMMEs and Co-operatives as well as the impact of these initiatives on the sector. Each and every national department as well as provinces and local governments have a responsibility to ensure the “unlocking of SMME opportunities”. The Department has already established National as well as Inter-Provincial coordination platforms and are in the process of finalising reporting templates that will allow for accurate reporting. The Department also took the lead in ensuring the development of technical indicators by August 2017 that will enable integrated planning and reporting in the SMME sector. |
| 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) | * The Department has not presented the proposed bidding proposal to NT. The questions and expectations are not clear or well understood. The DG will seek clarity from the Chairperson;
 |
| 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; | * The DSBD will conduct a feasibility study which will inform the DSBD policy position to be adopted;
 |
| 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 coordination 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; | 1. The Department has reviewed its approach to local economic development. The new approach puts emphasis on the DSBD strengthening the alignment of sector plans, Provincial Growth and Development Strategies, and Municipal LED plans using the IDP process;
2. The Department will now be involved, at District level, during the inception phase of the IDP consultation process. To this end, the DSBD and the Department of Cooperative Governance will engage to plan a way forward, which might include, among others, the DSDB’s strategic plan being tabled during IDP consultations, packaged products and services offerings being tabled during the IDP formulation process;
3. The Department and COGTA are hosting a National LED Summit in November 2017 as step one in a road map to forge greater coherence and to enhance coordination, integrated planning and impact of public sector investments;
 |
| 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 | * The Department has established a Monitoring and Evaluation Unit that will assist with this task, however not adequately resourced as currently operating with two core staff members. In addition, the Department will engage with the agencies to further assist with monitoring;
 |
| 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**; | * The Department will investigate the viability of the proposal and provide feedback to the Portfolio Committee;
* **sefa** will be requested to explore the possibility of utilising these institutions going forward once all financial instruments are consolidated under **sefa**;
* Once Post-bank is granted licensing rights to lend, the Department and **sefa** will engage Post-bank to explore these possibilities;
 |
| 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; | * The Department intends piloting conducting research using pay-point offices;

  |
| 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; | Direct Lending and Wholesale Lending DivisionsTurnaround times: FY 2016/17Key Performance Indicator Target for FY2016/17 Latest Measurement (April to Dec 2016) Days over target**sefa**’s average turnaround time to approve or reject Term Loan applications Direct Lending Portfolio (in working days, start of due diligence to approval) - 30 days 46 days 16 dayssefa’s average turnaround time to approve or reject Bridging Loan applications Direct Lending Portfolio (in working days, start of due diligence to approval) 20 days 23 days 3 daysSmall Medium Enterprises 45 days 68 days 23 daysCo-operatives 45 days 66 days 21 daysKhula Credit Guarantee 5 days 4.5 days 0.5 daysMicro Finance Institutions 45 days 44 days For the financial year to date, **sefa**’s Direct Lending Division recorded 46 days (against a target of 30 days) for term loans and 23 days (against a target of 20 days) for bridging loans. For SMEs and Co-operatives actual turnaround in excess of target too. Reasons can be largely ascribed to delays in respect of clients’ submission of the required documents due to their governance processes that must be followed.***Balancing client service and risk mitigation*****sefa** needs to act with speed and urgency without compromising the mitigation of the risk associated with **sefa** and the entrepreneurs that it funds. It therefore remains a priority to reduce our turnaround times.***Term versus Bridging Loans***Bridging loans provide working capital for a specific contract from a public or private sector entity, whereas term loans are not necessarily linked to a specific contract. Term loans transactions are therefore more complex than bridging loan transactions as the market (and the turnover assumptions) need to be established from a broader understanding of the market. The turnaround times of term loans are therefore expected to be longer than those of bridging loans.***The sefa target market*****sefa** mainly deals with entrepreneurs who cannot obtain funding from the commercial banking sector. In addition, a majority of the SMEs and Co-operatives are in their start-up phase. These entrepreneurs require guidance and assistance in order to de-risk their potential operations. **sefa** cannot only reject an application, but needs to find mitigation measures to address the identified risks. This we do in conjunction with the entrepreneur as it remains his/her business. Often, during due diligence investigation, an important gap is identified that will place the SME and Co-operative at risk. This could include, amongst others, significant under-estimation of costs associated with the venture, non-compliance with certain legal requirements of industry standards, gaps in the legal agreements between the SME and Co-operatives with its suppliers or clients and errors in the financial statements or management accounts. These issues/gaps need to be resolved during the due diligence and increase the turnaround times. Note that the above-mentioned figures include waiting time for clients to resolve these issues. One of the key focus areas of **sefa** is to focus our funding on contracts with cessions in place, based on the high levels of impairments. If a client does not have a cession, **sefa** will (together with its clients) approach the appropriate Government Department and negotiate such cession. These actions unfortunately increase the turnaround times.***Internal aspects***We have identified internal aspects that lead to slow turnaround times and we are addressing them. These are:1. Clarity in terms of information requirements for different types of applications;
2. Internal system improvement (especially between our Regional staff and the Credit and Legal Departments);
3. Skill enhancement of the **sefa** Investment Officers;
4. Clear communication to clients in terms of status of the application as well as the next step; and
5. Differentiated processes for different type of applications (new product for smaller purchase orders);
6. Effective client relationship management.
 |
| 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; | * **sefa** conducted two meetings with the Gauteng Province Industrial Parks Association (“GAPIPA”) Executive Committee to communicate the framework for the sale and transfer of the relevant properties to the beneficiaries;
* However, the beneficiaries still have to obtain the resolution pertaining to the sale price at market value from the members. To this end, **sefa** has requested a follow up meeting in February 2017 to finalise the sale and transfer of these properties;
 |
| A recommendation was made to **sefa** to prioritise Co-operatives applications for funding and also to prioritise training on capacity building on co-operatives, and report back to the Committee regarding the progress achieved; | * **sefa** is implementing Parliament’s recommendation through a dedicated co-operatives unit which specifically deals with co-operatives applications especially in the targeted economic sectors such as waste recycling, agribusiness, and service sectors;
* In order to prioritise the co-operatives applications, **sefa** works in partnerships with municipalities, Provincial Government Departments and other state-owned companies/agencies such as Seda, Co-operative Banks Development Agency (“CBDA”) etc;
* When approving business loans applications for co-operatives, **sefa** also approves grant funding for the provision of business support to co-operatives to ensure that they are fully capacitated and sustainable. The capacity-building grant normally covers for training, accounting services such as preparation and auditing of annual financial statements etc;
* In the past two financial years, **sefa** has supported big community projects in Waste Recycling, Agri-Production, and School Nutrition Programmes as an initiative to prioritise, benefit community-based projects and create employment for the communities. Such projects are Dr. KKDM Co-operatives Waste Recycling Project worth R31.8 million which is based in Klerksdorp, North West Province and is expected to create more than 300 jobs, Ladysmith Co-operatives Waste Recycling Project worth R23.2 million based in Ladysmith, Province of Kwa-Zulu Natal and is expected to create more than 200 jobs. Chris Hani District Cooperative Development Centre Agro Co-operatives Incubation Program worth R9.4 million, based Eastern Cape Province which is expected to create more than 30 jobs;
* All the above projects are community-based projects and **sefa** has partnered either with a municipality or a private sector to ensure growth and sustainability;
 |
| The Department to report on the impact of pilot projects that are supported by the Department, and highlights of how these address value chain; | * National Gazelles
	1. The implementation of the Gazelles project has seen a significant improvement of the first cohort of businesses that are part of this project;
	2. The weekly value builder growth strategy (Webinar) seminars and personalised support on this platform provide feedback of the development of these enterprises. Members of this cohort are provided with an on-line platform to set strategy goals and track their progress;
	3. Already progress in terms of growth and efficiencies in these businesses are already noticed and the report that is being prepared by the implementing agent will provide more details on this;
	4. Within one year of implementation, 71 percent of the businesses increased their business performance by improving scalability and operations;
	5. Business Valuation increased by 31 percent resulting in a total of R51 million increase based on a multiple or earning linked to their scores and net profit margin;
	6. Financial management improved by 31 percent and needs additional focus due to the growth experienced in the business;
* Women in Maize
	1. 8 cooperatives were selected;
	2. 32 women-owned cooperatives were supported in the programme under Crop 17 coming from 4 provinces;
	3. A total of 160 jobs were created from Crop 17;
	4. The recruitment for Crop 18 is underway;
* Abalimi co-operatives project
	1. 4.2 million was disbursed with negative impact so far;
	2. The DSBD is at a stalemate with the service provider (KOHWA);
	3. The remedial action will be implemented once the differences with the service provider have been settled;
 |
| 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, co-operative model and masterplan for co-operatives were not in existence. Seda is yet to deliver an inclusive analysis as a response to this recommendation and lastly; | * Among priorities included in the plans for 2017/18, is rural and township enterprise development. This is a build-up on 2016 initiatives. During this financial year, Seda has done a study on the township SMME environment and is currently piloting a model of how to assist rural & township enterprises. Pilot sites are in Hartwater (Phokwane Municipality), Phillipi, (Cape Town) KwaNobuhle (Uitenhage) and Oakney (Matlosana municipality). Seda will in its future reports to the Portfolio Committee include a section giving an update on this pilot;
* In the passage of time towards the establishment of the Co-operatives Development Agency, co-operative model and masterplan, Seda has dedicated a business unit for Co-operatives and Community-Public Partnership Programmes;
* In 2017/18 Seda targets to support 540 co-operative entities covering start-up to market linkages and facilitation of commercialisation of indigenous products and commercial ventures aligned with economic advantages of certain municipalities and public spending. This will be under the One-Municipality-One Product (OMOP) interventions;
 |
| The PC made a recommendation that Seda should have a strategy for extending its footprints to the township and rural economy; | * Seda will in 2017/18 conduct a study on the economic profile of each district municipality, looking at factors such as dominant sectors, areas of business activity, other stakeholders involved in small business development, etc. The study will also identify areas that are under serviced and Seda will each year from 2018/19 endeavour to increase its footprint in 10 percent of these areas each year;
* In an effort to achieve beyond this target, partnerships are solicited with other development agencies, municipalities and private property owners that can provide office space and funding towards office infrastructure to be used as service points, in particular for areas enabling easy access to rural and township communities;
* Seda’s branches, with the exception of the Western Cape which has satellite offices in rural areas and townships, are situated in district economic hubs and also service rural and township small enterprises and co-operatives;
* The incubation roll out going forward will target underserviced provinces such as Northern Cape, Free State, North West and Limpopo;
* To meet human resource demands in support of the strategy to extend footprint, Seda is also looking for funding for a cadet programme in order to increase human resource capacity trained to service more clients;
* The long-term realistic target aligned with Seda’s strategy and resources, is that of a geographical presence chasing the number of district municipalities than local municipalities or specific township or rural areas. Seda currently has 55 own offices nationally and 35 collocation service points;
 |
| 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; | * The preliminary consultations on the Act currently under review have been completed. Engagement with the Office of the State Law Adviser for the certification of the Act has been done. Further consultation will occur once the bill has been certified at ESEID Cluster and Cabinet;
* Parallel to this, the study on the definition of small Business has been conducted and report submitted. All this forms the basis for the amendment of the Act
	1. Progress research work: Comparative analysis study
* In addition to the stakeholder consultation reports and to further our understanding of the legislative and regulatory measures that the selected countries have adopted to stimulate, support and grow the SMME sector, the Department is conducting a comparative analysis Small Business/Small and Medium Enterprises (SMME) legislation by determining and selecting a total eight (8) countries, preferably with two (2) countries from each region, drawn from Africa, South and East Asia, Europe and the Americas regions in relation to the 1996 South African National Small Business Act no. 102 as amended in 2003 and 2004;
 |
| **sefa** to urgently present a detailed turnaround plan or strategy to the Portfolio Committee regarding its swelling impairment ratio; | * **sefa**’s Impairment Management, Impairment containment is one of the key deliverables in view of the high-risk nature of **sefa**’s client base. This is being managed by:-
1. The implementation of a pro-active approach in the identification of early warning signals for portfolio investments;
2. Internal structures whereby al the loan investments are reviewed on a monthly basis to establish challenges and propose interventions;
3. The different loan types have a focussed approach in terms whether these are short or long term facilities;
4. **sefa** has finalised a panel of mentorship consultants that is designed to assist in the coaching, mentoring of entrepreneurs and management of loan investments in the various sectors of the economy in which it has invested in;
5. The setting up of the workout and restructuring function at **sefa** to manage the delinquent accounts by means of the renegotiating the repayments terms is gaining momentum. This is expected to go a long way in the management and containment of impairments coupled with the other interventions;
6. Strongly worded letters of demand and the litigation process that ensues are sending a message to clients that **sefa** is serious about collecting all its loans that have been outlaid;
 |
| The Department to expedite the amendment of the Department’s name to include “co-operatives”;  | Given the feedback provided by the Department of Public Service and Administration, the matter of a name change is under consideration by the Political Principals; |

**3.2 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 2: 2015 Recommendations**

|  |  |
| --- | --- |
| **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 and the Cooperatives Incentive Scheme. 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;  |

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

* 1. **Summary of Programmes and Budget Allocation**

**4.1.1 Programme 1: Administration**

The purpose of the Administration programme is to provide strategic leadership to the Department and to ensure that the Department fulfils its mandate through sustainable and integrated resource solutions and customised services. During the 2016/17 financial year the programme was allocated R118 million. The spending focus or sub-programmes were Management, Corporate Services, Financial Management, and Communications. The bulk of the budget (61.8%) was allocated for the Corporate Services, Financial Management and Communications. Under economic classification, compensation of employees and goods and services made up the most of the budget with 55 and 44 percent respectively.

* + 1. **Programme 2: SMME and Co-operatives Policy and Research**

The purpose of programme 2 is to formulate policy and conduct research for the development and growth of sustainable small businesses and co-operatives that contributes to the creation of employment and economic growth. During the financial year under evaluation, it was allocated R26.1 million. The Policy, Research and Legislation sub-programme was 71 percent or R18.5 million of the budget, Monitoring and Evaluation allocated the rest of the budget R7.6 million. The spending focus over the medium term for Programme 2 was to Review the Strategy for SMME Development and Entrepreneurship, Research on inhibitive legislative and regulatory protocols, Collaborative and integrated planning with provinces and local governments, Develop and implement a robust research agenda as well as Develop the International Relations Strategy.

**4.1.3 Programme 3: SMME and Co-operatives Programme Design and Support**

The purpose of programme 3 is to support the development and growth of small businesses by designing financial and non-financial business development support programmes and interventions.The programme was allocated R1.181 billion for the 2016/17 financial year. The greater part of the estimated expenditure, 94 percent or R1.105 billion, had been earmarked for transfers and subsidies to the Department’s entities that provide financial and non-financial small business support services. Small Enterprise Development Agency is funded under the Enterprise Development subprogramme. While Black Business Supplier Development Programme (“BBSDP”) and Co-operatives Incentive Scheme (“CIS”) are funded under the SMME Development Finance sub-programme and compensation of employees constituted R57.7 million or 5 percent.

**Table 3: Overview of Vote Allocation and Expenditure per Programme for the period 2016/17**

|  |  |
| --- | --- |
| **Programme** | **2016/17** |
|  | **Main Appropriation****R’000** | **Adjusted****Appropriation R’000** | **Revised Estimation R’000** | **Actual Expenditure R’000** |
| Administration | 118.1 | 114.0 | 108.6 | 98.9 |
| SMME and Co-operative Policy and Research | 26.1 | 25.8 | 21.7 | 13.8 |
| SMME and Co-operatives Programme Design and Support | 1 181.3 | 1 178.6 | 1 077.2 | 1 084.3 |
| **Total**  | **1 325.4** | **1 318.4** | **1 207.4** | **1 197.0**  |

Source: National Treasury

* 1. **Performance on Financial Expenditure**

The audited financial statements for 2016/17 were tabled in Parliament together with the Annual Report of the Department and its entities from 3 - 5 October 2017. The Department had received an allocated amount of R1.325 billion for the 2016/17 financial year. During the adjustment period in October 2016 this amount was adjusted downwards by R7 million to R1.318, with National Treasury forecasting an overall expenditure of R1.207 billion by the financial year end, probable due to persistent underspending during the 2015/16 financial year, and in Quarter one and two of the 2016/17 financial year. Nevertheless, as table 4 and 5 illustrates, underspending went even further than what National Treasury had predicted and stabilised at R1.197 billion. Subsequently, the Department recorded an under-expenditure of R122 million owing to meagre performance in the compensation of employees as well as associated goods and services, slow uptake of Co-operative Incentive Scheme, National Informal Upliftment Business Strategy and Enterprise Incubation Programme.

 **Table 4: Financial Performance Overview 2016/17**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **No. of Annual Targets** | **Achieved** | **Partial Achieved** | **Not Achieved** | **Budget Appropriation (R’000)** | **Budget Spent (R’000)** |
| Administration | 14 | 12(86%) | 1(7%) | 1(7%) | 114.0 | 98.9(89%) |
| Policy and Research | 11 | 6(55%) | 2(18%) | 3(27%) | 26.0 | 13.8(54%) |
| Programme Design and Support | 13 | 9(69%) | 0 | 4(31%) | 1.178 | 1.084(92%) |
| **Total** | **38** | **27****(71%)** | **3****(8%)** | **8****(21%)** | **1.318** | **1.197****(91%)** |

 Source: DBSD 2016/17 Annual Report

During the 2015/16 financial year, the Department successfully expended 97.5 percent of its budget, and only underspent by 2.5 percent. However, its financial performance for 2016/17 financial year regressed with a total R122 million or 9.2 percent of the allocated budget not disbursed compared to R28 million during 2015/16 financial year. The underspending of R15.7 million was due to protracted vacancy rate in the Department totalling 35 posts as of 31 March 2017, while R64 million of the projected budget of R78 million accrued because of goods and services attached to the vacancies that could not be filled because of structure review programme. As indicated earlier, the DPSA informed the Committee that the Department has finalised its service delivery model and is in the process of redesigning its organisational structure that is aligned to its strategic plan and service delivery model. The Job Evaluation process for all posts is underway which will hopefully remedy what appears to be a chronic underspending owing to an unending programme review.

For the current financial year 2017/18, the Department is budgeted an amount of R1.449 billion, which represents an increase of 124 million or 7.8 compared to R1.325 allocated during the previous financial year 2016/17. For the outer years of the 2018 Medium Term Expenditure Framework (“MTEF”), the Department has been allocated an amount of R1.529 billion and R1.618 billion respectively. This represents an average growth rate of 7.7 percent over the 2017/18 MTEF. The Department’s total budget allocation, which includes transfers to the Small Enterprise Development Agency, is expected to increase at an annual rate of 7.1 percent, from R1.2 billion in 2016/17 to R1.6 billion by 2019/20. The allocated budget of R1.4 billion for the current financial year 2017/18 is budgeted to finance current payments which include compensation of employees, goods and services, payments for capital assets, transfers and subsidies. The significant amount of R736 million will be transferred to a Departmental entity, namely , Small Enterprise Development Agency and various private institutions through Black Business Supplier Development Programme, Co-operative Incentive Scheme, National Informal Business Upliftment Scheme and Enterprise Incubation Programme.

* 1. **Funding Proposal for 2018 MTEF**

The budget and MTEF allocations below support and contribute to the three Strategic Goals as captured in the Department Strategic Plan, and it is being carried forward in the Department 2017/18 APP. Table 5 below breaks down the budget allocation per programme for 2017/18 compared to allocations per programme in 2015/16. The Department’s total budget allocation, which includes transfers to the Small Enterprise Development Agency, is expected to increase at an annual rate of 7.1 percent, from R1.2 billion in 2016/17 to R1.6 billion by 2019/20. The Department’s budget is distributed across the following three programmes: -

* Programme 1: Administration;
* Programme 2: Small, Micro, Medium and Co-operatives Policy and Research and;
* Programme 3: Small Medium Micro Enterprises and Co-operatives Programme Design and support

**Table 5: Consolidated Budget Summary 2017/18 & Outer Years**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme****(R’000)** | **Audited Outcome** | **Main Appropriation** | **MTEF** |
| **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| **Programme 1** | 13,452 | 22,376 | 66,447 | 113,956 | 127,614 | 128,799 | 137,242 |
| **Programme 2** | 13,527 | 11,707 | 11,692 | 25,835 | 21,999 | 24,285 | 25,710 |
| **Programme 3** | 1,025,399 | 1,091,453 | 1,020,752 | 1,178,648 | 1,300,183 | 1,376,790 | 1,455,315 |
| **Total** | **1,052,378** | **1,125,536** | **1,098,891** | **1,318,439** | **1,449,796** | **1,529,874** | **1,618,267** |

Source: DSBD Annual Performance Plan

As in previous years, the bulk of the allocation, R4.1 billion over the MTEF and R1.3 billion for the current financial year, goes towards Programme 3, ‘Small Medium Micro Enterprises and Co-operatives Programme Design and support’. The main cost driver for the Programme however is transfers to public entities amounting to R3.9 billion (95%) over the MTEF and R1.2 billion during 2017/18 financial year. Programme 2, ‘Small, Micro, Medium and Co-operatives Policy and Research’, has not only received the lowest allocation but it has also been slashed by R4 million, which when combined only amount to less than 2 percent of the total Departmental budget – 0.8 per cent less than in 2016/17. As in the previous year, Programme 1, ‘Administration’ will increase by 12.3 percent from R113 million in 2016/17 to R127 million in 2017/18. This trend will continue over the medium-term, as is illustrated in Table 5 above.

**4.3.1 Programme 1: Administration**

The purpose of Programme 1 is to provide strategic leadership, management and support services to the Minister, Director-General, the Department and its entities. Programme 1 allocation is up by R13 million from R113 million in 2016/17 to R127 million in 2017/18. During 2016/17 financial year this Programme had originally been apportioned R118 million which was later adjusted downward to R113 million as a result of lower than anticipated expenditure owing to vacancies, and associated goods and services.

**Table 6: Expenditure Estimates – Programme 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme 1: Administration****(R’000)** | **Audited outcome** | **Adjusted appropriation** | **Medium-term expenditure estimate** |
| **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| **Ministry** | 13,452 | 22,376 | 29,898 | 24,993 | 30,802 | 26,802 | 28,622 |
| **Departmental Management** | - | - | 15,232 | 18,660 | 21,018 | 19,333 | 20,680 |
| **Corporate Services** | - | - | 1,317 | 42,807 | 49,956 | 52,948 | 56,204 |
| **Financial Management** | - | - | - | 15,514 | 18,780 | 17,877 | 19,123 |
| **Communications** | - | - | - | 11,982 | 7,058 | 11,839 | 12,613 |
| **Total** | **13,452** | **22,376** | **66,447** | **113,956** | **127,614** | **128,799** | **137,242** |
| **Economic classification** |
| **Current payments** | **12,539** | **21,264** | **63,479** | **109,956** | **125,060** | **126,215** | **134,519** |
| Compensation of employees | 3,837 | 11,407 | 34,591 | 57,765 | 70,115 | 68,617 | 73,834 |
| Goods and services | 8,702 | 9,857 | 28,888 | 52,191 | 54,945 | 57,598 | 60,685 |
| **Payments for capital assets** | **913** | **1,112** | **2,968** | **4,000** | **2,554** | **2,584** | **2,723** |
| Transport equipment | 856 | 1 080 | - | - | - | - | - |
| Other machinery and equipment | 57 | 32 | 2,951 | 4,000 | 2,554 | 2,584 | 2,723 |
| Software and other intangible assets | - | - | 17 | - | - | - | - |
| **Total** | **13,452** | **22,376** | **66,447** | **113,956** | **127,614** | **128,799** | **137,242** |

Source: DSBD Annual Performance Plan

The amount of R127 million allocated to the Programme during the current financial year is set to be appropriated among its sub-programmes which include, Ministry, Departmental Management, Corporate Services, Financial Management and Services. Of this R70 million will be allocated to human capital, R57 million to operational requirements, R13 million for travel and subsistence and R6 million for stabilisation of information and communications technology support in the Department.

**4.3.2 Programme 2: Small, Micro, Medium and Co-operatives 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 co-operatives that contribute to the creation of employment and economic growth. The budget allotted to this programme has been reviewed downward by R4 million to R22 million from R26 million in 2016/17.

**Table 7: Expenditure Estimates – Programme 2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme 2** **(R’000)** | **Audited outcome** | **Adjusted appropriation** | **Medium-term expenditure estimate** |
| **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Policy, Research and Legislation | 13,527 | 11,707 | 11,692 | 21,563 | 11,230 | 12,996 | 13,811 |
| Monitoring and Evaluation | - | - | - | 4,272 | 6,657 | 7,111 | 7,483 |
| International Relations | - | - | - | - | 4,112 | 4,178 | 4,416 |
| **Total** | **13,527** | **11,707** | **11,692** | **25,835** | **21,999** | **24,285** | **25,710** |
| **Economic classification** |
| **Current payments** | **13,437** | **11,640** | **11,675** | **25,775** | **21,999** | **24,285** | **25,710** |
| Compensation of employees | 7,801 | 9,783 | 9,908 | 14,186 | 10,800 | 11,616 | 12,470 |
| Goods and services | 5,636 | 1,857 | 1,767 | 11,589 | 11,199 | 12,669 | 13,240 |
| **Transfers and subsidies** | **55** | **22** | **-** | **-** | **-** | **-** | **-** |
| Households | 55 | 22 | - | - | - | - | - |
| **Payments for capital assets** | **35** | **45** | **17** | **60** | **-** | **-** | **-** |
| Other machinery and equipment | 35 | 45 | 17 | 60 | - | - | - |
| **Total** | **13,527** | **11,707** | **11,692** | **25,835** | **21,999** | **24,285** | **25,710** |

Source: DSBD Annual Performance Plan

This programme has three (3) sub-programmes, namely, Policy, Research and Legislation- which aims to generate reliable information for policy formulation on survivalist, small, micro, medium and co-operative enterprises, Monitoring and Evaluation- aims to provide quantifiable analysis and information on small business sector in South Africa as well as International Relations. Of the, R11 million will go to human capital, R11 million to operational requirements and R3.5 million on travel and subsistence. The programme has been allocated R72 million over the MTEF period.

**4.3.3 Programme 3: SMME and Co-operative Enterprises Programme Design Support**

The programme is responsible for supporting the development and growth of survivalist, small, micro, medium and co-operative enterprises through designing and implementing financial and non-financial business development support programmes and interventions. The largest portion of the Department budget goes to this programme. During the 2017/18 financial year, it received R1.2 billion up from R1.1 billion in 2016/17. More than half of the allocated budget (R730 million) for this programme is set to be transferred to Departmental agencies and accounts for public corporations.

**Table 8: Expenditure Estimates – Programme 3**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme 3****(R’000)** | **Audited outcome** | **Adjusted appropriation** | **Medium-term expenditure estimate** |
| **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Competitiveness Support | 25,201 | 32,669 | 42,555 | 109,174 | 112,623 | 114,603 | 121,207 |
| Enterprise Development | 686,909 | 681,234 | 652,834 | 656,768 | 762,552 | 809,734 | 855,536 |
| Co-operatives Development | - | 3,393 | 3,949 | 6,847 | 7,976 | 8,504 | 9,083 |
| Market Development | - | - | - | 61,346 | 57,943 | 65,799 | 69,756 |
| SMME Development Finance  | 313,289 | 374,157 | 321,414 | 344,513 | 359,089 | 378,150 | 399,733 |
| **Total** | **1,025,399** | **1,091,453** | **1,020,752** | **1,178,648** | **1,300,183** | **1,376,790** | **1,455,315** |
| **Economic classification** |
| **Current payments** | **61,127** | **67,979** | **62,299** | **72,742** | **69,911** | **76,273** | **81,970** |
| Compensation of employees | 43,694 | 52,563 | 48,634 | 57,730 | 56,537 | 61,123 | 65,962 |
| Goods and services | 17,433 | 15,416 | 13,665 | 15,012 | 13,374 | 15,150 | 16,008 |
| **Transfers and subsidies** | **964,187** | **1,023,020** | **958,249** | **1,105,786** | **1,230,272** | **1,300,517** | **1,373,345** |
| Departmental agencies  | 661,497 | 644,398 | 622,835 | 633,814 | 735,701 | 778,371 | 821,959 |
| Public Corporations | 294,101 | 362,302 | 318,625 | 471,972 | 494,571 | 522,146 | 551,386 |
| Non-profit institutions | 8,335 | 16,320 | 16,726 | **-** | **-** | **-** | - |
| Households | 254 | - | 63 | - | - | - | - |
| **Payments for capital assets** | **85** | **454** | **204** | **120** | **-** | **-** | **-** |
| Other machinery and equipment | 85 | 454 | 204 | 120 | - | - | - |
| **Total** | **1,025,399** | **1,091,453** | **1,020,752** | **1,178,648** | **1,300,183** | **1,376,790** | **1,455,315** |

Source: DSBD Annual Performance Plan

The Programme comprise of five sub-programmes, which include Competitiveness Support, Enterprise Development, Co-operatives Development, Market Development and Small, Micro and Medium Enterprises Development Finance. Funds allocated to human capital accounts for R57 million and R13 million to operational requirements. The focus for the current financial year will be on provision of financial and non-financial business support by the Department and its entities.

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

**5.1 Report of the Auditor General**

During 2015/16, the Department obtained unqualified audit opinion with findings. The Auditor General had, in 2015/16 financial year, flagged one non-compliance matter worth R1.8 million, an area that the Department was counselled to pay attention to. The quality of financial statements had also been flagged for consideration as these had initially been found to contain material misstatements, which were later corrected. According to the Department, this was due to critical vacancies (i.e. no Chief Financial Officer for most of previous financial year) and no established processes to ensure complete and accurate financial and performance reports.

During the current financial year, however, the Department remained where it was the previous financial year by obtaining unqualified audit with material findings. The material non-compliance was with respect to transfers, specifically Co-operatives Incentive Scheme and Black Business Supplier Development Programme (“BBSDP”) which were found not be adequately monitored and approval processes were not in compliance with Treasury Regulations 8.4.1. The AG report indicated that the Department must enhance its oversight and monitoring responsibilities to strengthen the control environments. Furthermore, the AG directed the Department to amend incentive scheme guidelines in order to ensure that there is extensive monitoring and evaluation of these transfers to prevent the possibility of fraudulent activities. Based on the findings of the Auditor General during the 2016/17 financial year, the Department has requested an investigation on the incentive scheme. This request for investigation is awaiting approval from the Auditor General.

**5.2 Overview of Programme Performance**

The Department is mandated to lead an integrated approach to the promotion and development of small businesses and co-operatives through a focus on the economic and legislative drivers that stimulate entrepreneurship to contribute to radical economic transformation. It has three programmes, that is, Administration, Policy and Research, Programme Design and Support.

**Table 9: DSBD Strategic Objectives**

|  |  |  |
| --- | --- | --- |
| **Programme** | **Strategic Goals** | **Strategic Objectives** |
| **Programme 1: Administration** | An effective and efficient administration | 1.1: To promote compliance and good governance; 1.2: To drive sound financial management and controls;1.3: to maintain a sound performance planning, reporting and monitoring system;1.4: To build human resource capability and promote a culture of high performance;1.5: To promote external and internal communication on the work of the department; |
| **Programme 2: Policy, Research & M&E** | An enabling environment for competitive small businesses and co-operatives | 2.1: To create a conducive legislative and policy environment for SMMEs and Co-operatives;2.2: To drive integrated planning and monitoring for SMMEs and Co-operatives development in townships and rural areas;2.3: To drive a comprehensive research agenda on key areas of support to SMMEs and Co-operatives;2.4: to develop and implement a relevant international strategy; |
| **Programme 3:** **Programme Design & Support** | Sustainable small businesses and Co-operatives in rural and township areas | 3.1 To design and implement targeted programmes to support new and existing small and medium enterprises in township and rural areas;3.2 To increase participation of SMMEs and Co-operatives in the mainstream economy;3.3 To coordinate and maximise support for SMMEs and Co-operatives through public and private partnerships; |

Source: DSBD 2016/17 APP

**5.2.1 Summary of Programme 1 Performance**

The Department had set itself a target of fourteen (14) Key Performance Indicators (KPIs) for the 2016/17. It successfully achieved twelve of the 14 targets, contained among these were, vacancy rate below 10 percent even though all senior managers are acting , timeous payment of invoices within 30 days, percentage of women and people with disability met, quarterly reports, APP and DSBD annual report tabled. Strategic planning, however, is proving to be DSBD achilles heels. Procedurally, departments are required to submit first and second of the draft APP’s to DPME every year by 31 August and 30 November, respectively. During the Department interaction with National Treasury and DPME in November 2016, DSBD 2017/18 APP was not ratified but instead a change to the DSBDs strategic approach to its mandate, which necessitates a structure focusing on leading the growth and sustainable survivalist, small, micro, medium and co-operative enterprises was proposed. This might certainly have future budgetary implications to the Department. As a result, DSBD does not have an approved APP.

**Table 10: Summary of Programme 1**

|  |  |
| --- | --- |
| **Total Number of KPIs** | **14** |
| KPI’s with targets achieved | 12 (86%) |
| KPI’s with targets partially achieved | 1 (7%) |
| **KPI’s with targets not achieved** | 1 (7%) |
|  | R’000 |
| Budget | **114.0** |
| Expenditure | **98.9** |
| Under spending | **12** |
| **Spent** | **89%** |
| **Underspent** | **11%** |
| **Reasons for material under spending** | **Vacancies, related goods and services, capital requirements and Service Level Agreement between DSBD and State Information Technology Agency (SITA) for Information and Communication Technology (ICT) support.** |

Source: DBSD 2016/17 Annual Report

**5.2.2 Summary of Programme 2 Performance**

The purpose of programme 2 is to formulate policy and conduct research for the development and growth of sustainable small businesses and co-operatives that contributes to the creation of employment and economic growth. The programme consist of three sub-programmes, namely, policy and research, monitoring and evaluation as well as international relations. For Programme 2 there were eleven targets in total, including most importantly, consultations on the proposed amendment of the National Small Business Act. This programme performed very poorly, only six (6) targets were achieved and overall spending of 54 percent or R13.8 million. During the previous financial year, the Department had planned to table the draft bill before the Parliament. However, this was not achieved, and it is not likely to be achieved during 2017/18 financial year.

**Table 11: Summary of Programme 2**

|  |  |
| --- | --- |
| **Total Number of KPIs** | **11** |
| KPI’s with targets achieved | 6 (54%) |
| KPI’s with targets partially achieved | 2 (18%) |
| **KPI’s with targets not achieved** | 3 (27%) |
|  | R’000 |
| Budget | 26.0 |
| Expenditure | 13.9 |
| Under spending | 12 |
| **Spent** | 54% |
| **Underspent** | 46% |
| **Reasons for material under spending** | **Underperformance on consultants due to delays on the commencement of research projects such as the SMME definition, enterprise ecosystem and sector prioritisation studies** |

Source: DBSD 2016/17 Annual Report

**5.2.3 Summary of Programme 3 Performance**

The purpose of programme 3 is to support the development and growth of small businesses by designing financial and non-financial business development support programmes and interventions. The programme consist of five sub-programmes, i.e. co-operatives development support, competitiveness support, enterprise development, development finance, market development and stakeholder relations. Strategic objectives are-

* Design and implement targeted programmes to support new and existing small and medium enterprises in townships and rural areas;
* Increase participation of SMME’s and Co-operatives in the mainstream economy;
* Coordinate and maximise support for SMME’s and Co-operatives through public and private partnerships;
* Drive an integrated planning and monitoring for SMME’s and Co-operatives development in townships and rural areas.

The Department had set itself a target of 13 KPIs but could only attain nine (9), an achievement of 69 percent. The Informal and Micro Enterprise Development Programme (“IMEDP”) exceeded the planned target of 7000 by 848, EIP and SEIF became effective and integrated planning with various local municipalities was pursued. There were areas, however, where the programme performed below par i.e. creation of the Co-operative Development Agency (CDA) remains unattainable, underspending on DSBD flagship projects such as, NIBUS (R54 million), CIS (R11 million) and EIP (R26 million), is a cause for concern considering that all three performed poorly during the previous financial year.

**Table 12: Summary of Programme 3**

|  |  |
| --- | --- |
| **Total Number of KPIs** | **13** |
| KPI’s with targets achieved | 9 (69%) |
| KPI’s with targets partially achieved | 0 |
| **KPI’s with targets not achieved** | 4 (31%) |
|  | R’000 |
| Budget | 1.178 |
| Expenditure | 1.084 |
| Under spending | 97 |
| **Spent** | 92% |
| **Underspent** | 8% |
| **Reasons for material under spending** | **NIBUS (R54 million), CIS (R11 million) and EIP (R26 million)** |

Source: DBSD 2016/17 Annual Report

**5.3 Interaction between the Committee and Small Businesses and Co-operatives**

In an effort to deepening understanding of small business ecosystem the Portfolio Committee embarked on two oversight visits to KwaZulu Natal and Mpumalanga provinces, where it engaged a substantial number of small enterprises, municipalities, traditional leadership and small business representatives. The oversight visits were in accordance with the mandate of the Committee as outlined in the Constitution of the Republic of South Africa, which is to legislate, conduct oversight over the executive and facilitate public participation. The visits were also in furtherance and to accomplish the Committee’s own strategic objectives that are rooted on the strategic objective(s) and outcome(s) of the fifth Parliament. These (strategic objectives of the Committee) further recognises the Department and its agencies’ priorities as captured in their respective five-year Strategic Plans and Annual Performance Plans.

During 14 - 15 September 2016, the Committee visited KwaZulu Natal province. The Committee had targeted to visit the Free State Province. However, in light of the fact that the Department of Small Business Development had already begun disbursing funds in KZN projects under the Co-operatives Incentive Scheme to support 12 primary agricultural co-operatives, commonly referred to as “The 12 Balimi KZN Co-operatives”, the Committee felt it was prudent to instead visit the province in an effort to taking stock of what was being done there. Five municipalities, namely, eThekwini Metro, uGu, iLembe, Harry Gwala and uMgungundlovu District Municipalities were visited.

The Committee also visited Mpumalanga Province during from 27 – 31 March 2017 also to projects sponsored by the Department under the same scheme/grant, Co-operative Incentive Scheme. However, the visit involved a stopover at Mzanzi Agricultural Co-operative Limited project in Mokgwaneng, one of the four co-operatives funded indirectly by the Small Enterprise Finance Agency in a broiler production project overseen by Super Grand Agricultural Feed Primary Co-operative Limited. The Committee visited a total of thirteen (13) projects situated across six (6) local municipalities, namely, Dr JS Moroka, Ephraim Mogale (Limpopo Province), Victor Khanye, Bushbuckridge, Nkomazi and Chief Albert Luthuli. To date, the findings of the Committee on these projects have instigated the Committee to call for a full forensic investigation by the Auditor General. This request has been sanctioned but awaiting funds allocation from the office of the House Chair. For the purpose of the BRRR report, a synthesis of key observations and recommendations of the Committee oversight visits, ordinary meetings and stakeholder engagements will be summarised on section seven and eight respectively.

**6. REVIEW OF THE DEPARTMENTAL ENTITIES**

**6.1 SEDA Budget Allocation**

**Table 13: Seda Revenue and Expenditure**

 Source: SEDA 2016/17 Annual Report

Seda Parliamentary grant declined from R624 million in 2014/15 to R610 million in 2015/2016 before recovering slightly to just over R620 million during the previous financial year. A huge portion of Seda funding (93%) was through Parliamentary grant, Provincial and local governments contributed 1.1 percent of Seda revenue while 1.2 percent was generated through interest earned. The remaining 4.7 percent came from sundry income and other specific projects. Of the total revenue of R754 million, total expenditure increased by R30 million to R772 million from R742 million. However, the deficit went down from R46 million during the 2015/16 financial year to just over R17 million in 2016/17. Costs drivers include administration, depreciation, personnel, programme and project costs. The agency’s total budget for 2017/18 is R735.7 million.

**6.1.1 Financial Performance**

Similar to the previous financial year, Seda received unqualified audit with findings from the Auditor General. Significant audit findings relates to irregular expenditure where a transaction above R500 000 was procured without following due process as required by Treasury regulation. Furthermore, the AG flagged an issue which the Portfolio Committee had raised during the 2016 BRRR, a violation section of 13 (2) of the National Small Business Act which postulates that “members referred to in subsection (1) who are in the service of the State may not receive additional remuneration or allowances for serving on the Board, but may be reimbursed for expenses incurred in the performance of their functions in terms of this Act”. Other audit findings include fixed assets concerns where residual values were under-stated as well as misalignment between Estimate of National Expenditure – four programmes and Annual Performance Plan – three programmes. Fruitless and wasteful expenditure for R92 000 was incurred during the year under review in respect of misconduct by staff not complying with Seda procedures. Nevertheless, this is a significant reduction compared to the reported amount of R680 000 in 2015/16.

* + 1. **Non- Financial Performance**

Seda performance information is structured in line with the entity’s approved Annual Performance Plan 2016/17 – 2018/19, key offerings being, Business information and advice, Business Management, Training and Mentoring and SEDA Technology Programme (“STP”). As table 14 below demonstrates, the agency achieved and exceeded performance targets on 17 out of 20 strategic indicators, which is 85 percent achievement. The organisation performed exceptionally well on the following indicators: On Enterprise Development SEDA supported 167 clients through the supplier development programme, supported 353 clients through trade facilitation, 115 Primary co-operatives established,1747 clients supported through Basic Entrepreneurial Skills Development (BESD) programme, while through STP, 2,582 jobs were created to date. There were areas, nonetheless, where the performance was substandard. Underperformance (with corrective actions) on the following:-

* National Gazalles - Number of clients supported through the National Gazelles programme was way below the target of 200. The process of selecting the second cohort is nearing completion. Going forward, the programme will focus on the top 40 qualifying small enterprises that were successful during the pilot phase;
* Number of clients assisted through technology transfer – Owing to budgetary constraints, this target was not met. Going forward, a window for application will be opened to manage the requests for support and also give the programme a sense of additional funding that might be required.

 **Table 14: Performance against Strategic Outcome Oriented Goals**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **PROGRAMME** | **STRATEGIC GOALS / OUTCOMES** | **NO. OF PERFORMANCE INDICATORS** | **ACHIEVED (VALUE & %)****YTD** | **NOT ACHIEVED (VALUE & %)****YTD** | **BUDGET (YTD)** | **ACTUAL EXPENDITURE (YTD)** |
| **(R’000)** | **(R’000)** |
| PROGRAMME 1: ENTERPRISE DEVELOPMENT | Sustainable, competitive and growing small enterprises and co-operatives | 9 | 8 (89%) | 1 (11%) | 415,28 | 431,37(+3.87%) |
| Increase Seda delivery network to reach underserviced areas | 2 | 2 (100%) | - |
| PROGRAMME 2: SEDA TECHNOLOGY PROGRAMME | Sustainable, competitive and growing small enterprises and co-operatives | 4 | 3 (75%) | 1 (25%) | 189,55 | 184,08(-2.89%) |
| Increase Seda delivery network to reach underserviced areas | 1 | 1 (100%) | - |
| PROGRAMME 3: ADMINISTRATION (Support services & Partnerships) | Sustainable, competitive and growing small enterprises and co-operatives | 2 | 2 (100%) | - | 154,70 | 155,76(-3.47%) |
| Maximise support offered to Seda clients through stakeholder contribution | 2 | 1 (50%) | 1 (50%) |
| TOTAL |   | 20 | 17 (85%) | 3 (15%) | 759,53 | 771,21(+1.54%) |

Source: SEDA 2016/17 Annual Report

**6.2 sefa Budget Allocation**

**sefa** was established on 1 April 2012 because of the merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of Industrial Development Corporation (“IDC”). Its mandate is to foster the establishment and growth of survivalist, small, micro, medium and co-operative enterprises, contribute towards poverty alleviation and job creation in line with the objectives of the NDP, NGP, MTSF and strategic plan of the Department. The agency’s operations are funded from revenue largely derived from the allocation it receives from the Budget Vote 25 of the Economic Development Department, reflecting R671 million, or 54 percent of revenue, over the medium term and 46 percent is revenue derived from interest and fee income, and income from property and rentals. **sefa** received less support from the State in 2016/17 with government allocation being reduced by 48 percent to R213 from R406 million in 2016. Since inception **sefa** has disbursed R4.3 billion into the economy to 241 537 small businesses. The agency’s budget objectives are to: -

* Work within current funding available and maintain positive cash balance over the MTEF period;
* Reduce losses over 5-year period and break-even by 2020/21;
* Decrease impairments, especially in the direct lending operations to 22 percent by 2021/22 financial year;
* Downscale Direct Lending operations in the short-term to enable collection strategies to be put in place;
* Head count freezes over 5-year period with an allowance for annual cost of living adjustments; and
* Properties to break-even by 2021.
	+ 1. **Overview of the Service Delivery Performance: Non- Financial Performance**

The agency offers four main products, namely, Direct Loans (asset finance, Term Loans, Revolving loans and Bridging loans, Purchase Order Product and Amavulandlela Scheme for entrepreneurs with disabilities), Wholesale Loans and Equity (on-lending facilities, Funds and joint ventures, Micro-finance, Structured Finance Solutions), Business Support (Institutional strengthening, technical support and mentorship), Credit Guarantees (Credit Indemnity guarantees and Supplier guarantees) as well as Rental Property. SEFA has taken on the challenge of job creation, facilitation and support in the small enterprises space and make remarkable inroads, albeit few hiccups which threatens its existence emanating from ballooning impairments and losses in the property portfolio. **sefa** performance over the five-year period since inception is shown below on table

**Table 15: sefa Financial Performance over five-yea**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Approvals** | R440 million | R1.1 billion | R1 billion | R1.1 billion | R827 million |
| **Disbursements** | R198 million | R549 million | R1.3 billion | R1.2 billion | R1 billion |
| **Businesses Financed** | 28 362 | 46 407 | 68 724 | 54 833 | 43 211 |
| **Jobs Facilitated** | 19 853 | 46 402 | 60 169 | 75 670 | 55 997 |

Source: SEFA 2016/17 Annual Report

During 2016/17 financial year **sefa** had targeted to approve loans to the tune of R885 million but could only approve R827 million. This target was not met owing to lack of viable applications from Co-operative Financial Institutions (“CFI”) and indemnities issued under Khula Credit Guarantee Scheme (“KCGS”) not meeting approval targets. In addition, number of small businesses that received finance and number of jobs facilitated were fewer than what the agency had set itself to achieve. The agency did well however, on other indicators such as disbursements to small businesses, women and youth-owned businesses, enterprises in priority rural provinces as well as facilities less than R500 000. A total of R1 billion was disbursed to small businesses, of that, R366 million went to rural owned enterprises.

**6.2.2 Financial Performance**

For the 2016/17 financial year, **sefa** received an unqualified audit (clean audit) report. No expenditure was classified as unauthorised, fruitless and wasteful expenditure amounted to nil. The accounting authority condoned irregular expenditure sustained during the year under review. For financial year 2016/17, **sefa** continues to wrestle with obstinate accumulative impairment levels that are above the entity’s target of 29 percent and currently at sitting at 47. In the current year an impairment charge of R67 million from R355 in 2015/16 was recognised. Loan collections is proving to be a major factor contributing to this. As part of the mitigating strategy Post Investment Monitoring (“PMI”), division was established to explore various post investment strategies to improve collections. The main objective of the division is to maintain impairments and manage collections. During the period under review, PMI collected R322 million from loans and advances. This represent 81 percent of the expected collection.

**7. OBSERVATIONS OF THE COMMITTEE**

During the course of the financial year 2016/17, the Committee 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 to Mpumalanga and KwaZulu Natal were undertaken essentially to provide communities, particularly in the far-flung areas, an opportunity to interact with Members of Parliament. Throughout the formation of this BRRR report the Committee, Department and its entities engaged in a very robust and consultative process that enabled both the Department and Committee, to construct a progressive BRRR report. Critical issues raised and deliberated upon are incorporated into this report with the aim of helping the Department to successfully achieve its ultimate objective of creating sustainable small enterprises.

Moreover, some of the observations and recommendations 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. Having reflected on the Department, **sefa** and Seda annual performance plans and budgets for 2017/18 the Portfolio Committee hereby wish to register the following observations and recommendations for consideration by the Department: -

7.1 In the course of the Budget Vote process at the start of 2017, the Portfolio Committee was briefed that, during the DSBD interaction with DPME and National Treasury in November 2016 as regards its APP, the Department was subsequently encouraged to review its 2018/19 APP to strengthen its oversight role over the entities in order to reduce duplication of functions, and to reflect its contribution towards the priorities of the economic sector as reflected in 2014 - 2019 MTSF and the NDP. The Committee notes that the APP has since been reworked although not presented to it yet;

7.2 The Committee wishes to reiterate its support of the DPME and Treasury recommendation for the Department to prioritise strengthening of working relationships with the municipalities and provinces. The Committee is on record having registered its dissatisfaction that the duplication of functions and programmes tailored for small businesses is prevalent across the entire government and there is no strategy from DSBD to coordinate these functions and eliminate wasteful duplication of functions and resources;

7.3 The Committee has, over time, observed that mandate overlaps, territorial protection, duplication of functions and silo mentality within the Departments, from national to local government level, is a huge problem and contradicts fiscal consolidation initiatives currently being pursued by government. A number of state Departments still carryout functions and provide products and services tailored for small business, which every so often, leads to ‘triple dipping’ in the fiscus. The Committee had in the past requested DSBD to involve Treasury and DPME on these and other matters. The Committee notes that little progress has been attained in this regard;

7.4 Equally, the issue of **sefa** ownership and reporting remains a major concern for the Committee as all of its budget allocation is still handled by EDD and therefore sits on vote 25. This is an untenable situation and frequently causes needless confusion and duplication of functions as EDD itself has strategic objectives exactly similar to DSBD i.e. development of township economies;

7.5 **sefa** incorporation obfuscates DSBD mandate of exercising oversight responsibility. In terms of the Public Finance Management Act, unlike SEDA, **sefa** is not a schedule 3 entity but a schedule 2, taking a cue from its parent company IDC. The PFMA states that subsidiaries of all the public entities/SOEs listed therein (‘schedules’) are automatically also categorised under the same schedule as their parent entities, irrespective of the corporate form or type of that subsidiary relative to that of its parent entity, a case in point with **sefa** and IDC. Furthermore, **sefa** has six (6) subsidiaries accountable to it, including non-profit entity [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 resources that get disposed to these entities on a yearly basis;

7.6 There is still a general discordance in what the Department considers to be its mandate and key deliverables vis-à-vis its actual directive as proclaimed by the State President during its proclamation and inception in 2014 which, among others, is to champion the development of small businesses, coordinate various government departments horizontally and vertically, and sign transversal agreements that generates market access opportunities, ease access to finance, amplify skills development and eliminate bureaucratic red tape;

7.7 The Committee further notes DSBD’s general inability to convert policy priorities i.e. NDP, NGP, MTSF and SONA into programmes, strategic objectives and key performance indicators for implementation. For instance, there is no clear strategy on how to leverage 30 percent procurement policy from small businesses as announced by the President during the 2015 SONA, or, strategy to “utilise strategic levers that are available such as legislation, regulations, licensing, budget and procurement as well as Broad-based Black Economic Empowerment charters” to influence the behaviour of the private sector and drive transformation as announced by the State President during 2017 SONA. This is despite the Portfolio Committee having recommended to the Department during 2016 BRRR to conceptualise the Retail and Wholesale Charter which in terms of the Committee timelines, was due for completion during Quarter 1 of 2017/18 financial year;

7.8 For instance, a Committee visit to KwaZulu, the Department was once again reminded a simple fact by an official from KZN Department of Agriculture and Rural Development (“DARD”) that, in terms of roles and responsibilities in relation to coordination, KZN DARD responsibility in agricultural projects is to advise beneficiaries “where to plant, when to plant, how to plant, land preparation, planning, matching crops and types of soil, Bio Resource Unit (BRU) and monitor the crop”, but not the commercialisation aspect which is a responsibility of Small Business Development;

7.9 The visit referred to in 7.8 above, was prior the 2017 SONA, where the State President underscored the “Government’s commitment to support black smallholder farmers in particular the implementation of a commercialisation programme for black smallholder farmers”. The absolute failure of the 12 Abalimi Agricultural Co-operatives Pilot project in KwaZulu Natal substantiates once more that DSBD is simple impotent in translating government commitments into programme of action;

7.10 For three consecutive financial years budget allocation for Programme 2, a core unit in the Department has been miniscule. During the 2017/18 financial year, it did not only receive the lowest allocation but, it has also been slashed by R4 million, from R26 million to R22 million, which when combined only amount to less than 2 percent of the total Departmental budget – 0.8 per cent less than in 2016/17. While Programme 1, a mere support unit, will increase by 12.3 percent from R114 million in 2016/17 to R127 million in 2017/18;

7.11 The Department was founded in line with the National Small Business Act, 1996 as amended, based on the assumption that, once it was up and running, this Act will be speedily brought in line with the NDP, NGP, MTSF and numerous other policy prescripts and instruments that governs small businesses. However, for two consecutive financial years, the Department has failed to finalise the review of the National Small Business Act, 1996 as amended. Instead, it has been deferred for completion during the 2018/19 financial year;

7.12 The Committee observes that most of the senior management staff in the Department have been on acting capacity, albeit on a rotational basis, for more than three years. The Portfolio Committee has, on numerous occasions, identified this as an area that has impaired the proficiency of the Department. The Committee further notes that this is worsened by interminable or perpetual programme review, which at the time of finalising this BRRR for instance, was still being deliberated;

7.13 In its successive BRRR recommendations, the Committee has been consistent in its call for the creation of institutional support structures as provided for in the Co- operatives Act i.e. Co-operatives Development Agency, Co-operatives Training Academy, Co-operatives Tribunal and National Small Business Act i.e. National Small Business Council;

7.14 As introduced to earlier, the Committee visited Mpumalanga province at the beginning of 2017 to beneficiaries of the CIS grant. The majority of the co-operatives funded by the Department and ultimately visited by the Portfolio Committee in the Province of Mpumalanga are broiler production projects. However, the Committee noted that all projects have neither been introduced nor known by the local and provincial governments and therefore incapable of attracting auxiliary infrastructural support largely as a consequent that they do not appear on the integrated development plans (“IDP”) of the local governments. Furthermore, there was no effort from the Department to cluster broiler production co-operatives together in order to realise economies of scale;

7.15 The Committee noted that, not only in Mpumalanga but nationally, the demand for broiler production with almost identical specifications, such as, broiler house, concrete floor, water tank, manifold system, full package curtain system, automatic bell drinkers, chick trays, founts, foot bath, thermometer, tube feeders, day old chicks and bio sprayers to mention just the few is enormous. Regrettably, however, the Department has consistently failed to proactively embark on a process of bulk buying and negotiate favourable terms of trade not just with the Service Providers but also with the chain stores. Consequently, price discrepancy sometimes within the same province and sometimes from the same Service Providers, is alarming;

7.16 Most of the projects the Committee visited in both provinces, Mpumalanga and KwaZulu Natal, were not subjected to feasibility studies. There is also no evidence that when projects are funded, the Department and its beneficiaries bother to go through spatial development plans of the local municipalities to ascertain if the site selections are in accordance to the local governments framework. It is not surprising therefore, that most of these projects visited are juxtaposed alongside residential homesteads;

7.17 Pursuant to 7.7 above, in relation to DSBD’s incapability to cascade policy articulations into tangible deliverables that benefits small enterprises, operating premises or sites availability just for any projects, tend to throw small enterprises into a state of frenzy and despondency. This is one of the areas cautiously identified for reflection by the government in the New Growth Path. The challenge of dealing with unscrupulous property owners can be strenuous for small businesses, the exploitation that some of the small enterprises are subjected to is terrifying and in fact demand that the Department, in collaboration with Corporative Governance and Traditional Affairs (“COGTA”), provincial and local government, develop a carefully crafted strategy to deal with this issue. Premises for small enterprises are proving to be a break or make issue that must be attended to immediately;

7.18 Oversight visits, particularly the Mpumalanga leg, afforded the Committee an opportunity not just to associate with CIS beneficiaries but also to establish how public resources are disbursed. Irregularity on how CIS applications are handled and processed is the basis for concern and now a matter for forensic investigation by the Auditor General. Elimination of co-operative(s) applications, including quotations without concrete motives is worrying. So is the appointment of Service Providers without co-operatives consent, or pressuring co-operatives into accepting Service Providers of the Department’s choice without following due process. This practice subjugates the CIS intents and purpose and flies in the face of what this Department was created to accomplish;

7.19 The Committee notes with frustration that in spite of overwhelming evidence of corruption and collusion by some of the officials within the Department, not one of them has been brought to book. The Committee records and wishes to applaud **sefa** for conducting a swift forensic investigation when the Committee pointed out irregularities it discovered in Mpumalanga, which will expectantly lead to criminal prosecution;

7.20 During the 2016/17 planning cycle the Department, Seda and **sefa** embarked on a joint planning process that culminated in the development of a Portfolio Strategic Framework 2015/16 - 2019/20, which will feed into an overall Strategic Framework for the entire Small Business Development Portfolio. The Committee noted, however, the level of contradiction between the two entities on a number of key issues during the annual reports presentation. For instance, **sefa** is pushing ahead with its policy of curtailing ‘direct lending’ to small enterprises and instead prioritise ‘wholesale lending’, in other words, financial intermediaries. While Seda, in its presentation, was very critical of using intermediaries, as their interest rates are usual very high. The Committee has persistently raised its objection to the use of intermediaries by **sefa,** which reportedly charge an interest of between 40 percent and 110 percent. The Department has consistently failed to provide leadership over these matters.

**8. RECOMMENDATIONS**

8.1 The Committee is in agreement with National Treasury and DPME that the Department must refocus its attention to Programme 3, which include Agency Oversight, Monitoring and Evaluation and intensify initiatives directed at supporting Intergovernmental Relations, Provinces and Municipalities as previously argued by the Committee;

8.2 In line with the Auditor General recommendations, the Department must report quarterly to the Committee on the implementation, progress and action plans to address poor audit outcomes, to provide feedback on status of key controls, especially the monitoring of incentives scheme and to provide to the Committee a list of action taken against transgressors;

8.3 The Department must further explore other strategic partnerships and use other structures such as President’s Coordinating Council (“PCC”) in order to expedite the signing of Transversal agreements and relocation of other functions that still exist in other departments to DSBD. This could unlock more funding for the Department, as the Minister of Finance also sits on the Council;

8.4 Strategic posts have remained vacant for far too long. The Department must furnish the Committee with an Action Plan on the filling of vacant positions that exist in the Executive of the Department, which are Deputy Director-Generals and Chief Directors before the end of Q3 of the 2017/18 financial year;

8.5 With the National Small Business Act so outdated, the Department is in some way operating in a vacuum. The finalisation of the Act must be accelerated. The draft bill must be submitted to Parliament before 31 March 2018;

8.6 Furthermore, the Department must submit to the Committee a list of all other regulatory and legislative measures it plans to formulate or amend (acts, bills, strategies, plans, policies etc.) before the end of the fourth quarter of 2017/18 financial year;

8.7 Pursuant to 8.5 and 8.6, small business sector often complain that they spend much time and devote significant resources to activities such as filling out forms, applying for permits and licences, reporting business information, notifying changes, etc. This is particularly onerous for smaller enterprises and may even discourage people from starting up new business. The Department has a responsibility to develop a red tape reduction strategy before the end of 2018/19 financial year;

8.8 There is a need to revisit Co-operatives act, 2005 as amended, on the subject of the creation of secondary co-operatives. In its current format, there are conditions precedent that impede or depress the creation of secondary co-operatives, when in reality, secondary co-operatives should provide services to primary co-operatives;

8.9 On market access intervention, the Department needs to provide adequate support to projects, both financial and non-financial, lead an integrated process of nurturing co- operatives from inception phase to spearheading market access intervention programmes. The Portfolio Committee would like to recommend that a Market Access Unit within the Department urgently develop a detailed and realistic Market Access Strategy on or before 31 March 2018, contents of which will include plans to scale up support to all projects previously visited by the Portfolio Committee in Eastern Cape, Limpopo, KwaZulu Natal, Mpumalanga, Gauteng and Free State;

8.10 The proposed strategy referred to on 8.9 must include the implementation plan of the Cabinet Resolution of 2007 which sanctioned that 85 percent of expenditure on ten (10) designated products and services be procured from survivalist, small, micro, medium and co-operative enterprises;

8.11 Furthermore, policy priorities outlined by the State President during each SONA, become the program(s) of government to implement. The proposed strategy must incorporate a plan for operationalisation of 30 percent procurement of goods and services from government and state owned entities from small enterprises, as announced by the President during 2015 State of the Nation Address;

8.12 That strategy or policy must be expanded to take account of the private sector in line with the 2017 State of the Nation Address call for the government to utilise “strategic levers that are available such as legislation, regulations, licensing, budget and procurement as well as Broad-based Black Economic Empowerment charters to influence the behaviour of the private sector and drive transformation”. The Department must accordingly, also in fulfilment of the 2016 BRRR recommendation, finalise and present the first draft to the Portfolio Committee of the proposed Retail and Wholesale Charter during the fourth quarter of 2017/18 financial year;

8.13 The Department must urgently engage National Treasury to ascertain how much it would cost to establish support entities, such as, National Small Business Council, Co-operatives Development Agency, Co-operatives Training Academy and Co-operatives Tribunal. Such engagement to include discussions on:-

a) Practice Note or Regulation on the implementation of the proposed cession of contracts as requested by **sefa**. Some of the small enterprises currently being liquidated are owed monies by other government departments and SOE’s;

b) Implementation of 30 percent set aside policy and;

c) The possibility of relocating small, micro, medium and co-operative enterprises functions/directorates/budget currently residing in other Departments;

In the event that the Department encounter challenges in either retrieving small enterprises programmes left in various departments or in creating intervention strategies, the Department must inform the Portfolio Committee so that the Committee can initiate the process of engaging other relevant Committees and National Treasury;

8.14 The Committee is still looking forward to the Department 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). The Committee is reasonably conscious of the reality that National Treasury is a contested terrain, it is not likely to increase DSBD budget to accommodate for the creation of the proposed institutions without a well-articulated and clear business case;

8.15 The Committee notes that **sefa** has struggled to lend money to small enterprises through Co-operative Financial Institutions (“CFI”). It is also not persuaded of **sefa**’s approach where intermediaries are made use of to advance loans to small enterprises. This is tantamount to abdication or renunciation of its responsibility. The Committee has in the past, indicted Department and **sefa** to have a strategic discussion on the matter and report back to the Committee but this has not happened. There is a need to consider a model that will be cost-effective and sympathetic to circumstances of small enterprises, and most importantly, it must accelerate the use CFI’s and Co- operative Banks as part of a broader government strategy to streamline access to finance particularly for survivalist, small, micro, medium and co-operative enterprises. The Committee would be pleased to receive feedback from both DSBD and **sefa** on the matter before 31 March 2018;

8.16 Pursuant to 8.15 above, the Department must explore alternative and affordable financing for small enterprises in an effort to curbing exploitation by financial intermediaries, including to champion the review or amendment of the Usury Act, and/or any other acts or policies that suffocate small enterprises;

8.17 The Department must further speed up the creation of Co-operative Development Agency in order to champion and fast-track the creation of CFI’s and Co-operative Banks, promotion of community stokvels with a view to converting or formalising them into CFI’s and Co-operative Banks. The existing financial instruments have proved futile for small businesses. The Department and **sefa** must explore other means of helping small enterprises in a manner that is self-reliant using the Gramin Bank of Bangladesh model and/or Limpopo based Small Enterprise Foundation;

8.18 There is an existing Co-operative Bank Development Agency (“CBDA”), created in terms of the Co-operative Banks Act 40 of 2007, (“Co-op Banks Act”), but it is currently being reconfigured, where some functions and units are being transferred from National Treasury to Financial Services Board (“FSB”) and South African Reserve Bank (“SARB”). However, there is no consultation or strategic engagement with the Department. The Department must urgently engage the agency, while on one hand, the Committee needs to invite the agency leadership for a briefing;

8.19 The Department has a duty, in conjunction with **sefa**, to rapidly finalise the development of the rescue strategy for struggling small enterprises before 31 March 2018. The concept of business rescue finds its foundation in one of the stated purposes of the Companies Act, which is to "provide for the efficient rescue and recovery of financially distressed companies, in a manner that balances the rights and interests of all relevant stakeholders”. In its correspondence to **sefa** Board of Directors, the Committee strongly advocated for the agency to adhere to these provisions before progressing to section 129 of the National Credit Act;

8.20 **sefa** Board of Directors, in its capacity as the Accounting Authority, must exercise its oversight responsibility by ascertaining if in the case of Super Grand Agricultural Feed Primary Co-operative Limited and four other co-operatives, the Chief Executive Officer, in his capacity as the Accounting Officer, performed his duties diligently and meticulously without contravening Section 38 (a) (i) (b) (c) (ii) and (h) (i) (ii) (iii) of the PFMA, findings of which must be reported to the Committee for record before the end of the third quarter of the 2017/18 financial year;

8.21 The Department must develop growth strategy to position co-operative enterprises as a tool for community socio-economic development in order to shift resources from consumptive to productive budget. This is likely to reduce dependency of poor families’ on government handouts, which costs the state billions annually.

8.22 The 88 percent failure rate of co-operative enterprises is a clear demonstration that interventions such as CIS are failing and therefore necessitate appraisal. The Committee is thus reiterating and stressing the urgency by the Department to finalise the review of the CIS grant before 31 March 2018;

8.23 It must speed up the development of a Master Plan and national strategy for co- operatives and SMME’s development, with a specific focus on township and rural economy, to include informal traders, street vendors and whackers before the end of the 2018/19 financial year;

8.24 The Department has a responsibility to broaden its understanding of all the projects under its support, identify gaps that require intervention in the form of additional funding, infrastructure, technical assistance, skill development, training and those that require signing of transversal agreements in an effort to leveraging soft and hard infrastructure extremely needed by the co-operatives;

8.25 In its existence, the Committee has a received a number of complaints from small enterprises with issues such as non-payment of services and unfair competition from big business. The Department needs to spearhead conceptualisation and creation of the Small Business Ombudsman.

**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 and entities who all participated in the 2017 BRRR process. The Committee also extends its unreserved gratitude to the Committee staff that 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 go to Committee members for their constructive contribution towards the success of the Committee.

Report to be considered.