**8. Report of the Portfolio Committee on Small Business Development on Budget Vote 31 of the Department of Small Business Development for Financial Year 2019/20, Dated 10 July 2019**

**1. INTRODUCTION**

The Portfolio Committee on Small Business Development (“the Portfolio Committee”) having considered Annual Performance Plans and Budget allocations of the Department of Small Business Development (“the Department”), alternatively, (“DSBD”) and its entities, Small Enterprise Finance Agency (“**sefa**”) and Small Enterprise Development Agency (“Seda”), reports as follows: -

**1.1 Background**

At the beginning of each year following the State of the Nation Address (SONA) by the President, the Minister of Finance tables before Parliament a detailed plan of the State's Budget: how much money will be or ought to be spent, on what, in that financial year. Thereafter, various government Departments present their budget votes before Parliament stipulating how they intend reconciling their resources with service delivery imperatives as outlined by the President of the Republic of South Africa in the State of the Nation Address. One of the main statutory functions of Parliament in that regard is to discuss, pass and oversee the State's Budget. On that score, the Department of Small Business Development Budget (Vote No. 31) was thus referred to the Portfolio Committee for consideration and reporting.

Budget vote debates provides an opportunity for Parliament to discuss, and then formally adopt, the budgets of government departments and entities that are funded through a parliamentary vote. Budget votes are the formal negotiation between a committee and a department about the desired outcomes that might be expected from the policy priorities and resource allocations indicated in the budget under consideration. Each department and entity is required to table its strategic and annual performance plans and budget in the National Assembly.The debate therefore allows for Parliament, and the public, to be updated about what departments are doing, how they are performing and exactly how public money is being used in a forum larger than a Committee meeting.

It is important for the strategic plans to be tabled within the stipulated period because the plans provide information for the budget appraisal process of the relevant Portfolio Committee. Strategic Plans identify strategically important outcome orientated goals and objectives against which public institutions medium-term results can be measured and evaluated by Parliament. Annual performance plans identify the performance indicators and targets that the institution endeavours to accomplish in the upcoming budget year. It furthermore shows funded service-delivery targets or projections. The annual budget sets out what funds an institution is allocated to deliver services and most importantly, indicates the resource envelope for the year ahead, and sets indicative future budgets over the Medium Term Expenditure Framework (MTEF). The budget covers the current financial year and the following two years.

**1.2 Purpose of the Budget Vote**

The Constitution of South Africa (Act No. 108 of 1996) recognises that the legislative authority has an important role to play in overseeing both the financial and non-financial performance of government departments and public entities. Section 27 of the Public Finance Management Act (No. 1 of 1999) makes provision for Ministers to table the annual budget for a particular financial year in the National Assembly before the start of that financial year. Whereas section 10(1)(c) of the Money Bills Amendment Procedures and Related Matters Act (No. 9 of 2009) makes provision for Ministers to table Strategic Plans and Annual Performance Plans for their respective Departments, public entities or institutions, which must be referred to the relevant Portfolio Committees for consideration and adoption.

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

**1.3 Objectives of the Report**

The objectives of the report are as follows: -

* + 1. To describe and analyse the budget of the Department of Small Business Development and its entity Seda, vote 31, over the 2019/20 financial year;
    2. To consider, soon to be phased out due to the recent reconfiguration of state departments, vote 25 as **sefa**, is still an agency of the Economic Development Department (EDD) through Industrial Development Corporation (IDC);
    3. To report on the deliberations and consideration, which are essentially the unpacking and examining of the Department annual performance plan and its associated budget vote in relation to the strategic plan;
    4. To make recommendations concerning the endorsement, adjustment or rejection of budget vote 31 and any other recommendations regarding the implementation of the Department strategic plan;
    5. To record general and specific observations and make appropriate recommendations.

**1.4 The Portfolio Committee Process**

The Portfolio Committees have met with departments and their entities to pore over their strategic and annual performance plans, budgets and performance targets in preparation for reports to be considered by the House. In compliance with the referral by the National Assembly, the Portfolio Committee on Small Business Development held its briefing on July 03, 2019 with the Department of Small Business Development, Small Enterprise Development Agency and Small Enterprise Finance Agency to consider their annual performance plans and the Department budget vote. The above exercise explains the significance of the budget and strategic plan process in the calendar of Parliament and the requirement for departments to table these on time to ensure that Parliament is provided with information required for its oversight work.

The APPs are forward looking plans, however, their consideration do consider the past performance of the Department and its entities. Honourable Minister Khumbudzo Ntshavheni, Honourable Deputy Minister Rosemary Capa, led the DSBD delegationwhile the Accounting Authorities and Chief Executive Officers from the agencies led their respective delegations. The APPs and budget was deliberated against the Department and entities strategic plans, soon to be reviewed, and government priorities as captured in the National Development Plan (NDP), Medium Term Strategic Framework (MTSF) of 2014 - 2019, New Growth Path (NGP) as well as February and July 2019 State of the Nation Address (SONA).

**2. OVERVIEW OF THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT**

**2.1 Aim and Purpose of the Department**

To support the radical transformation of the economy through the promotion and development of sustainable and competitive entrepreneurs, small businesses and co-operatives, that contribute to job creation and economic growth.

**2.2 The mandate of the Department**

The mandate of the Department is “to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, small businesses and co-operatives, and ensure an enabling legislative and policy environment to support their growth and sustainability”.

**2.3 Legislative and Policy Mandates**

The directive of the Department is primarily premised on diverse sections of legislations and policies such as the Constitution (1996), Public Finance Management Act (1999), Public Service Act (2007); White Paper on National Strategy for the Development and Promotion of Small Business (1995), Small Business Development Act (1980), National Small Enterprise Act (1996), as amended in 2003 and 2004, Companies Act (2008), Close Corporation Act (1984), Co-operatives Act (2005), Co-operatives Amendment Act (2013), Co-operative Banks Act (2007), Industrial Development Corporation Act (1940), Business Act (1991), Broad Black Business Economic Empowerment Act (2003), National Empowerment Fund Act (1998), Preferential Procurement Policy Framework Act (2011), Intergovernmental Relations Framework Act (2005), Local Government Bylaws, Youth Enterprise Development Strategy, Strategic Framework on Gender and Women Empowerment Strategy, Innovation and Technology Strategy, National Development Plan (NDP), New Growth Path (NGP), the Industrial Policy Action Plan (IPAP), Agricultural Policy Action Plan (APAP) and 2014-2019 Medium Term Strategic Framework (MTSF).

**2.4 Vision of the Department**

A radically transformed economy through integrated and effective enterprise development and entrepreneurship promotion.

**2.5 Mission of the Department**

The coordination, integration and mobilisation of efforts and resources towards the creation of an enabling environment for the growth and sustainability of small businesses and co-operatives.

**2.6 Values**

The values and principles that underpin the DSBDs pursuit of its vision and mission are shared across the three entities, and are predicated on the principles of Batho-Pele as follows: -

* Innovation;
* Integrity;
* Professionalism;
* Customer-centric and;
* Commitment.

**2.7 Strategic Outcome-Oriented Goals**

2.7.1 Planning and policy coherence in the sector that promotes an enabling ecosystem for SMMEs and co-operatives;

2.7.2 Equitable access to responsive and targeted products and services that enable the growth and development of SMMEs and co-operatives;

2.7.3 An enhanced contribution to socio-economic development outcomes by the sector;

2.7.4 Sound governance and the optimal utilization of available resources;

2.7.5 A professional and capacitated small business development sector.

**2.8 Programme Structure (2019/20)**

**Table 1: Programme Structure**

|  |  |  |
| --- | --- | --- |
| **Programme NO.** | **Programme Name** | **Sub-Programmes** |
| **Programme 1** | **Administration** | 1. Ministry 2. Departmental Management (Office of the DG) 3. Corporate Management 4. Financial Management 5. Communications and Marketing |
| **Programme 2** | **Sector Policy and Research** | 1. Research 2. Policy and Legislation (including IGR and Coordination) 3. International Relations and Trade Promotion 4. Monitoring and Evaluation |
| **Programme 3** | **Integrated Co-operatives Development** | 1. Co-operatives Development 2. Co-operatives Programme Design and Support 3. Supplier Development and Market Access Support |
| **Programme 4** | **Enterprise Development and Entrepreneurship** | 1. Enterprise and Supplier Development 2. SMME Programme Design and Support 3. SMME Competitiveness 4. Entrepreneurship |

**Source: DSBD 2019/20 Annual Performance Plan**

**3. EXPENDITURE ANALYSIS BASED ON ESTIMATES OF NATIONAL EXPENDITURE**

The department has a total budget of R8.1 billion over the medium term, 72.8 percent (R5.9 billion) of which are transfers to the Small Enterprise Development Agency for its operations, and the Small Enterprise Finance Agency for administering the Small Business and Innovation Fund (SBIF). The department’s expenditure is expected to increase at an average annual rate of 24 percent, from R1.5 billion in 2018/19 to R2.9 billion in 2021/22. This is mainly due to allocations amounting to R3.2 billion over the MTEF period to operationalise the SBIF. Over the medium term, the department will focus on a myriad of activities to strengthen the sector: developing, evaluating and reviewing strategies and legislation for small enterprises and co-operatives, increasing support for small enterprises; and developing and supporting co-operatives.

3.1 One of the key delivery areas for the Department will be the development, evaluation and review of strategies and legislation for small enterprises and co- operatives. These activities will be carried out in the Sector Policy and Research programme that has an estimated budget of R117 million over the MTEF period. Expenditure in the programme is expected to increase at an average annual rate of 12.3 percent, from R29.9 million in 2018/19 to R42.3 million in 2021/22;

3.2 The second most important area of priority is the scaling up financial and non-financial support for small enterprises. For instance, Black Business Supplier Development Programme (BBSDP) is a cost sharing grant for small enterprises to acquire tools, machinery, and equipment as well as training to a maximum of R1 million per applicant, it is allocated R906.5 million over the medium term period. Spending on the scheme is situated under the SMMEs Programme Design and Support, asubprogram under the Enterprise Development and Entrepreneurshipprogramme, which has a total allocation of R248.4 million over the MTEF period;

3.3 The third area of focus for the Department is the provision of support to co-operatives through Co-operatives Incentive Scheme (CIS). The scheme provides a 100 percent grant to the maximum of R350 000 per registered primary co-operative and R11 million per registered clustered co-operatives. In doing so, the scheme intends to improve the viability and competitiveness of co-operatives by lowering the cost of doing business. Over the MTEF period, the Co-operatives Programme Design and Support, a subprogram in the Integrated Co-operative Development programme aims to support 890 co-operatives with a total allocation of R278.7 million.

**4. POLICY PRIORITIES FOR 2019/20**

**4.1 National Development Plan**

The implementation of the National Development Plan (NDP) is one of the key government imperatives under the current administration and is aligned with the Africa Agenda and the global Sustainable Development Goals (SDGs). The NDP focuses us on the overall objectives, supported by South Africans, to eradicate poverty and substantially reduce inequality by 2030 through the creation of jobs and accelerating inclusive economic growth. The Department is directed to implement chapters three (3) and six (6) of the NDP 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.

**4.2 New Growth Path**

In terms of the New Growth Path (NGP), the Department is mandated to implement various policy propositions for growth, decent employment and equity. Its foremost objective is to push for the creation of 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”.

**4.3 The Medium Term Strategic Framework**

The current period marks the end of the first Medium Term Strategic Framework (MTSF) following the adoption of the NDP. The Cabinet had decided back in 2013 that the 2014 - 2019 MTSF would form the first five-year implementation phase of the NDP and mandated work to begin on aligning the plans of the state organs with the NDP vision and goals. Thus, for the past five years the MTSF has made some priorities aimed at achieving radical socio-economic transformation through decent employment and inclusive growth. The Department of Small Business Development had been assigned to champion some of the priorities, namely, outcome four (4): Decent employment through inclusive growth, outcome five (5): A skilled and capable workforce to support an inclusive growth path and outcome seven (7): Rural development. The 2019 - 2024 MTSF, to inform the new strategic plan of the Department and entities, is still being finalised.

**4.4 State of the Nation Address**

Owing to the national general elections held on 8 May 2019, South Africa has had two State of the Nation Address (es), February and June 2019. In both SONAs, the President emphasised government commitment towards increasing local demand through, among other things, increasing the proportion of local goods and services procured by both government and the private sector, import replacement measures and stressed the importance of small business incubation programmes. Also in terms of market access opportunities for small enterprises infrastructure has been given a special priority with R100 billion set aside to seed the Infrastructure Fund. Labour intensive sectors particularly agriculture and agro-processing have consistently received special attention with R3.9 billion allocated to the Land Bank to support black commercial and emerging farmers. Business premises and access to affordable infrastructure for small enterprises remains one of the notable bottlenecks, the President stressed the significance of revamping industrial parks in townships and rural areas that have been lying idle for years.

**4.5 Planned Policy Initiatives**

All planned policy initiatives as contained in table two (2) below had been earmarked for implementation during 2015/16, 2016/17, 2017/18 and 2018/19. However, they have all been deferred for implementation during 2019/20 financial year. It is important to note that, over and above these, the Portfolio Committee has implored the Department to look into Franchising regulations, Business Act, and other key policy measures falling outside DSBD purview such as PPPFA, BBBEE and charters, Co-operative Banks Act, IPAP and APAP to name the few.

**Table 2: Planned Policy Initiatives**

|  |  |
| --- | --- |
| **Policy** | **Intent** |
| **National Small Enterprise Act (No. 102 of 1996) as amended in 2003 and 2004** | * The Department is in the process of amending of the National Small Business Act (No. 102 of 1996) and anticipate submitting a bill to the Executive Authority during the course of 2019 / 20 financial year. To date amendments to Schedule 1 of the National Small Enterprises Act has been gazetted; |
| **Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises** | * The DSBD is reviewing the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, in order for the strategy to remain relevant and to accommodate recent economic activities and business cycles; |
| **Midterm Review of the Co-operatives Strategy (2012-20220:** | * The DSBD will evaluate the Co-operatives Strategy (2012-2022) and improve on the implementation plan and will inform the development of an integrated approach to co-operatives development. |

**Source: DSBD 2019/2020 Annual Performance Plan**

**5. BUDGET ANALYSIS**

The Department’s total budget allocation for Medium Term Expenditure Framework allocation as shown on table 3 below is R8 billion. The total allocation, which includes transfers to Small Enterprise Development Agency, and a R1 billion portion of the Small Business and Innovation Fund announced by the President and the Minister of Finance in February 2018. The objective of the fund is to build on best practices and will largely be directed at innovative start-ups with a reasonable prospect of success. It will receive R3.2 billion over the medium-term, which it will lend to small business intermediaries, such as fund managers and incubators.  The intermediaries will fund and support ideation and start-up companies and small businesses focusing on innovation. The total DSBD allocation therefore will increase from R1.5 billion in 2018/19 to R2.5 billion during the current financial year. The Department’s budget is dispersed across the following four programmes: -

* Programme 1: Administration;
* Programme 2: Sector Policy and Research;
* Programme 3: Integrated Co-operatives Development and;
* Programme 4: Enterprise Development and Entrepreneurship.

**Table 3: Overview of 2019/2020 Budget and MTEF Estimates**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **PROGRAMME** | **AUDITED OUTCOME** | **MAIN APPROPRIATION** | **MTEF** | | |  |
| **2017/18**  **R’000** | **2018/19**  **R’000** | **2019/20**  **R’000** | **2020/21**  **R’000** | **2021/22**  **R’000** | **TOTAL OVER MTEF**  **R’000** |
| Administration | 116,999 | 127,121 | 124,388 | 131,496 | 139,630 | 395,514 |
| Sector Policy and Research | 16,748 | 22,447 | 35,615 | 39,416 | 42,310 | 117,341 |
| Integrated Co-operatives Development | 99,204 | 115,017 | 127,628 | 135,080 | 142,269 | 404,977 |
| Enterprise Development  and Entrepreneurship | 1,226,533 | 1,223,868 | 2,280 921 | 2,407 271 | 2,539 124 | 7,227,316 |
| **TOTAL** | **1,459,484** | **1,488,453** | **2,568,552** | **2,713,263** | **2,863,333** | **8,145,148** |

**Source: DSBD Annual Performance Plan 2019/20**

Austerity belt-tightening measures currently being carried out across all spheres of the state have really affected DSBD total budget allocation. Juxtaposed to the two previous financial years (R1.45 in 2017/18 and R1.48 in 2018/19), DSBD budget has recorded insignificant increase. For such an important sector of the economy, questions may be asked, if the sector is strategically positioned to provide much needed impetus to our ailing economy and create jobs as directed in the National Development Plan. With regard to the programmes allocations, for the past five (5) consecutive years the Portfolio Committee has struggled to reconcile Programme one (administration) allocation of R124 million, a mere support function, vis-à-vis, other core programmes such as two (2) and four (4). It has only been during the current financial year, and for the first time, that Programme 3 (Integrated Co-operatives Development) got allocated a modest ration marginally larger than Programme one.

As with the previous financial years, the largest component of DSBD budget is constituted of transfers and subsidies, which account for R2.3 billion or 90% of the allocated budget. As specified hereinabove **sefa** will be apportioned R1 billion or roughly over 43% through vote 31, while Seda receives R868 million or 37% of the total budget. The Department will thus remain with R458 million of the allocated transfers and subsidies as illustrated in table 4 below.

**Table 4: Total Transfers**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Area of allocation** | **2019/20** | **2020/21** | **2021/22** | **TOTAL MTEF** | **Proportion to total Transfers** |
| **sefa** | 1 000 000 | 1 055 000 | 1 113 025 | 3 168 025 | 43% |
| Seda | 867 763 | 908 960 | 958 160 | 2 734 883 | 37% |
| DSBD | 458 584 | 490 731 | 517 721 | 1 467 036 | 20% |
| **Total Transfers** | **2 326 347** | **2 454 691** | **2 588 906** | **7 369 944** | **100%** |

**Source: DSBD Annual Performance Plan 2019/20**

While table 5 below provides summary of specific transfers to **sefa**, Seda and DSBD. There are few areas for further contemplation by the Portfolio Committee. For instance, contrasting Seda Technology Programme (STP) and Enterprise Incubation Programme (EIP) allocations of R152 million and R57 million respectively, it is not consistency with the marching orders given by the President during the successive 2019 SONAs with regards to small enterprise incubation programme. The incubation programme has now been elevated as one of the government’s flagship policy and its budget allocation must find expression in the DSBD and Seda strategic planning and annual performance process.

In addition, during the fifth Parliament, the Portfolio Committee expressed an opinion with respect to national gazelles which was precipitated by National Treasury instruction to Seda “to classify amounts paid for the implementation of the national gazelles programme as irregular expenditure as they were approved by management without complying with procurement processes in inviting competitive bids”. The Portfolio Committee went further to make a recommendation to the Department and Seda to furnish it with a detailed plan of action in addressing National Treasury and Auditor General recommendations regarding irregular expenditure incurred in the implementation of national gazelles by 31 October 2018. It is clear that this problem is being carried forward and perpetuated to the sixth Parliament without it having been adequately resolved. During the budget vote presentations, there were legacy issues raised including this particular matter, but there was an arrangement that all outstanding issues will be deliberated upon shortly after the budget vote process.

**Table 5: Detailed Transfers**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Details** |  | **2019/20** | **2020/21** | **2021/22** | **TOTAL 2019 MTEF** |
| Small Business and Innovation Fund | **sefa** | 1 000 000 | 1 055 000 | 1 113 025 | 3 168 025 |
| **Total to sefa** |  | **1 000 000** | **1 055 000** | **1 113 025** | **3 168 025** |
| Small Enterprise Development Agency | Seda | 607 274 | 641 465 | 675 953 | 1 924 692 |
| Small Enterprise Development Agency: Technology programme | Seda | 152 281 | 160 261 | 169 075 | 481 617 |
| Small Enterprise Development Agency: Capacity Building Programme | Seda | 15 406 | 16 253 | 17 147 | 48 806 |
| SEDA Gazelles Programmes | Seda | 35 000 | 30 000 | 31 650 | 96 650 |
| SEDA Enterprise Incubation Programme (EIP) | Seda | 57 802 | 60 981 | 64 335 | 183 118 |
| **Total to Seda** |  | **867 763** | **908 960** | **958 160** | **2 715 474** |
| BBSDP | DSBD | 286 126 | 301 863 | 318 465 | 906 454 |
| Co-operatives Incentive Scheme | DSBD | 87 984 | 92 823 | 97 928 | 278 735 |
| National Informal Business Upliftment Scheme (NIBUS) | DSBD | 73 914 | 84 904 | 89 574 | 248 392 |
| Craft Customised sector Programme | DSBD | 10 560 | 11 141 | 11 754 | 33 455 |
| **TOTAL DSBD** |  | **458 584** | **490 731** | **517 721** | **1 467 036** |
| **TOTAL** |  | **2 326 347** | **2 454 691** | **2 588 906** | **7 369 944** |

**Source: DSBD Annual Performance Plan 2019/20**

**5.1 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. The programme is responsible, among others, for making certain that sound governance is in place, enhanced contribution to socioeconomic development outcomes, professional and capacitated small business development sector as well as guaranteeing that limited resources are utilised optimally. Programme 1 has been allocated R395 million over the MTEF period disaggregated amongst the following subprogrammes: Ministry (R85 million), Departmental Management (R57 million), Corporate Services (R172 million), Financial Management (R63 million) and Communications (R16 million).

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme 1: Administration** | **2019/20** | **2020/21** | **2021/22** |  |
| **Sub-programmes** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Total**  **R'000** |
| Ministry | 26,472 | 29,012 | 30,068 | 85,552 |
| Departmental Management | 18,500 | 18,615 | 20,733 | 57,848 |
| Corporate Services | 54,128 | 57,490 | 60,492 | 172,110 |
| Financial Management | 20,324 | 21,038 | 22,625 | 63,987 |
| Communications | 4,964 | 5,341 | 5,712 | 16,017 |
| **Total** | **124,388** | **131,496** | **139,630** | **395,514** |

**Source: DSBD Annual Performance Plan 2019/20**

**5.2 Programme 2: Sector Policy and Research**

The purpose of Programme 2 is to create an enabling environment for the development and growth of sustainable small businesses and co-operatives through, among others, commissioning of research, development and review of policies and legislation(s), coordination and promotion of sound intergovernmental relationships, promoting the sector interests in the regional and global arena, as well as effective monitoring and evaluation of programmes to ensure the desired impact is achieved in contributing toward the creation of employment and economic growth.

The budget allotted to this programme over the MTEF period is R117 million, revised upward from R70.9 million during 2018/19 budget consideration process. It has four (4) sub-programmes, namely, Research (R54 million), Policy and Legislation (R21 million), International Relations and Trade (R19 million), as well as Monitoring and Evaluation (R21 million). For the current financial year, the programme allocation increased from R22 to R35 million. Table 7 below is a brief indicative what each subprogram will receive.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme 2:** | **2019/20** | **2020/21** | **2021/22** |  |
| **Sub-programmes** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Total**  **R'000** |
| Research | 17,330 | 18,169 | 19,091 | 54,590 |
| Policy and Legislation | 5,706 | 7,848 | 8,277 | 21,831 |
| International Relations | 6,026 | 6,380 | 6,745 | 19,151 |
| Monitoring and Evaluation | 6,553 | 7,019 | 8,197 | 21,769 |
| **Total** | **35,615** | **39,416** | **42,310** | **117,341** |

**Source: DSBD Annual Performance Plan 2019/20**

**5.3 Programme 3: Integrated Co-operatives Development**

The Programme is accountable for creation of a conducive environment that facilitates the establishment, growth and development of co-operative enterprises through the development and review of legislation and policy, design, piloting and monitoring the impacts of support services and instruments, championing of functional partnerships and co-operation agreements, and the advocacy and thought leadership in advancing economic growth, job creation and social cohesion. The Programme has three subprograms, namely, Co-operatives Development (R28 million), Co-operatives Programme Design and Support (R334 million), as well as Supplier Development and Market Access Support (R41 million). During the MTEF period the Programme is allocated R405 million, of which R127 million has been earmarked for the current financial year.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme 3:** | **2019/20** | **2020/21** | **2021/22** |  |
| **Sub-programmes** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Revised  Baseline**  **R'000** | **Total**  **R'000** |
| Co-operatives Development | 9,038 | 9,672 | 10,268 | 28,978 |
| Co-operatives Programme Design and Support | 105,511 | 111,722 | 117,515 | 334,748 |
| Supplier Development and Market Access Support | 13,079 | 13,686 | 14,486 | 41,251 |
| **Total** | **127,628** | **135,080** | **142,269** | **404,977** |

**Source: DSBD Annual Performance Plan 2019/20**

**5.4 Programme 4: Enterprise Development and Entrepreneurship**

Programme 4 has been allocated R7.2 billion over the MTEF with a sizeable portion of this amount going to Seda. The spending focus for the Enterprise Development and Entrepreneurship Programme over the medium term will be on the four (4) subprogrammes constituting the Programme, namely, Enterprises and Supplier Development Programme, SMME Programme Design and Support, SMME Competitiveness and Entrepreneurship. For the current financial year 2018/19 the Programme has been allocated R2.6 billion which as indicated consist of Seda allocation of R868 million and **sefa** provision of R1 billion.

**SMALL ENTERPRISE DEVELOPMENT AGENCY**

**6. MANDATE**

Small Enterprise Development Agency (Seda) is an entity of the Department of Small Business Development whose mandate include, inter alia, developing, nurturing, supporting and promoting small business ventures throughout the country, whilst ensuring their growth and sustainability in a harmonised fashion with various stakeholders. The Minister of Small Business Development is the executive authority of the agency and as such exercise oversight role over the agency as prescribed by the Public Finance Management Act. Seda was conceptualised in 2004, through amendment of the National Small Enterprise Act, amendment Act 29 of 2004, which essentially 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, and incorporated as a company in terms of the Companies Act, 2008.

**6.1 Seda Vision**

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

**6.2 Mission**

To promote entrepreneurship and develop small enterprises by providing customised non-financial business support services that results in business growth and sustainability, in collaboration with other role players, including global partners who make international best practices available to local entrepreneurs.

**6.3 Values**

* Nature;
* Innovation;
* Customer- centric;
* Responsible conduct.

**6.4 Goal**

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

**7. SEDA PROGRAMME SUMMARY**

**7.1 Administration**

The purpose of administration programme is to provide strategic leadership and support to core delivery to ensure successful implementation of the organisations strategy. This includes monitoring organisations performance, strategic alignment with the shareholder’s expectations and capacitating the organisation to achieve its set objectives. This programme is intended to support the achievement of all the perspectives of the balanced scorecard i.e. organisational capacity, internal processes, finance and customer and stakeholder perspectives.

By improving strategic alignment, stakeholder engagement, organisational performance increasing funding improving cost efficiencies including improving customer and stakeholder satisfaction the organisation seek to ensure that all non-core divisions are able to support, improve and optimise their functions to contribute effectively in the organisation performance. An estimated R177 million has been budgeted for this programme, while this is expected to increase steadily over the MTEF period to R198 million.

**7.1 Enterprise Development**

The purpose of the programme is to support small businesses and co-operatives by providing them with needs based and growth oriented non-financial business development support, to ensure that their businesses are sustainable and contribute to the countries developmental goals of decreasing unemployment and increasing economic contribution to GDP. This programme is intended to support the achievement of the organisational capacity perspective of the balanced scorecard. By improving service access the organisation seek to ensure that supported enterprises and cooperatives are provided with business related information, advice, consultancy, training, coaching, mentoring and business development intervention to improve their business performance.

These services aimed at providing solutions related to various business functions from production to human resources, finance, marketing, quality improvement and export development. Rural and township enterprises including cooperatives are prioritised by ensuring that must of the support offered is directed towards them. For the current financial year, the programme is allocated R534 million.

**7.2 Seda Technology Programme**

To provide technology and innovation oriented interventions, including quality and product improvement support to small enterprises and cooperatives. To enable incubated clients to improve their survival rate beyond first challenging two years of business start-up by providing support to improve their product offering and other business development support. Moreover, the programme is intended to support the achievement of the organisational capacity perspective of the balanced scorecard. By improving service access the organisation seek to ensure that supported enterprises and clients are provided with incubation support, technological equipment and innovation support to improve their capacity and productivity.

Another focus of the programme is to ensure that incubated clients are given tools to be self-sustainable post incubation period and are able to contribute meaningfully to the economy. The Quality and Standards interventions ensure that the products and services of the supported enterprises complies with the statutory and regulatory requirements and create market access. For the current financial the programme is budgeted R225 million.

**Table 9: Expenditure Estimates**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Programmes** | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** |
|  | **Audited outcome R'000** | **Approved budget  R'000** | **Estimated budgets R'000** | | | | |
| **Administration** | 155,650 | 181,556 | 177,362 | 188,832 | 198,117 | 210,004 | 222,604 |
| **Enterprise Development** | 426,229 | 471,656 | 535,949 | 534,094 | 566,230 | 564,646 | 597,265 |
| **Seda Technology Programme** | 187,980 | 229,928 | 225,489 | 237,495 | 247,169 | 261,999 | 277,719 |
| **Total expenditure** | **769,859** | **883,140** | **938,800** | **960,421** | **1,011,516** | **1,036,650** | **1,097,589** |

**Source: Seda Annual Performance Plan 2019/20**

**8. SEDA BUDGET ALLOCATION AND ANALYSIS**

During the budget vote process, Seda Accounting Officer informed the Portfolio Committee that the agency is anticipating a major reduction in its budget over the MTEF by approximately R123 million which is 5% from 2018/19 to 2020/21. Other areas of discontent flagged were -

* Budget pressures arising from Value Added Tax (VAT) increase and inflation increases on office infrastructure contracts at an escalation rate higher than annual budget increase percentage;
* Increasing costs of leased equipment and other outsourced services and;
* Some Partners who are no longer continuing to fund part of the running costs of branches that were jointly established –continuity risk for colocation service points.

This results in the budget available for programmes and projects being reduced accordingly as the total budget amount is limited. As a consequence, Seda is expecting a number of strategic initiatives had to be scaled down or postponed in previous financial years such as incubation expansion, the one municipality one product programme (OMOP), and promotion of Seda’s interventions in the key growth sectors where technical interventions are needed. As alluded to earlier, other programmes for implementation during the current financial year and MTEF period include those that had been flagged by the Portfolio Committee during the fifth Parliament e.g. enterprise incubation programme and national gazelles, these are subject to further examining by the Portfolio Committee.

**Table 10: Disaggregated Expenditure Estimates**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **INCOME** | | | | | | | |
|  | **FY 17/18** | **FY 18/19** | **FY 19/20** | **FY 20/21** | **FY 21/22** | **FY 22/23** | **FY 23/24** |
|  | **Audited figures** | **Budget** | **Draft** | | | | |
|  | **R'million** | | | | | | |
| **Seda - DSBD from ENE budget** | 575.8 | 580.2 | 607.3 | 641.5 | 676.0 | 716.5 | 759.5 |
| **STP - DSBD from ENE budget** | 146.1 | 144.6 | 152.3 | 160.3 | 169.1 | 179.2 | 190.0 |
| **Seda - National Gazelle programme** | - | 15.0 | 35.0 | 30.0 | 31.7 | 33.5 | 35.6 |
| **Seda - IMEDP programme** | - | 31.9 | 30.0 | 34.5 | 36.4 | - | - |
| **STP - Capacity Building programme** | 30.4 | 30.5 | 15.4 | 16.3 | 17.1 | 18.2 | 19.3 |
| **STP - Enterprise Incubation programme** | - | 54.7 | 57.8 | 61.0 | 64.3 | 68.2 | 72.3 |
| **External earnings** | 39.0 | 20.8 | 29.7 | 12.0 | 12.0 | 15.0 | 15.0 |
| **Other income** | 9.2 | 5.3 | 11.3 | 5.0 | 5.0 | 6.0 | 6.0 |
| **TOTAL INCOME** | **800.5** | **883.1** | **938.8** | **960.4** | **1,011.5** | **1,036.6** | **1,097.6** |

**Source: Seda Annual Performance Plan 2019/20**

**SMALL ENTERPRISE FINANCE AGENCY**

**9. MANDATE**

The Small Enterprise Finance Agency (**sefa**) was established in April 2012 through the amalgamation of South African Micro-Finance Apex Fund (SAMAF), Khula Enterprise Finance and Industrial Development Corporation’s small business activities. It is corporatised as an entity in terms of the Companies Act of 2008 and 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 entity is ironically a schedule 2 (in line with the parent entity IDC) but not a schedule 3A entity like Seda. There are no provisions within the body of the PFMA dealing with subsidiaries as a corporate form, separate from their parent entities. Therefore, the Minister of Small Business Development is not the Executive Authority and therefore her ability to exercise oversight responsibility over the agency as prescribed in the Public Finance Management Act is impaired.

**10. LEGISLATIVE AND POLICY MANDATE**

**sefa**’s operations are governed and guided by a wide range of legislative requirements and government policies. The following are the key legislative instruments and government policies that inform **sefa**’s strategy and operational plans:-

**Table 11: Applicable Legislations**

|  |  |
| --- | --- |
| **National Legislation** | **Government Policy/Strategies** |
| Industrial Development Corporation Act | White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) |
| National Small Business Act (1996) as amended in 2004 | Integrated Small Enterprise Development Strategy (2004) |
| National Credit Act | 2011 State Owned Enterprise (SOE) Presidential Review |
| Financial Intelligence Centre Act (FICA) | New Growth Path (NGP) |
| Public Finance Management Act (1999, as amended) | Industrial Policy Action Plan (IPAP) |
| Treasury Regulation 29.1.3 requirements | National Development Plan (NDP) |
| Companies Act of 2011 | Government’s Medium Term Strategic Framework (MTSF) -Outcome 4: Create Decent Employment Through Inclusive Growth |
| Co-operatives Amended Act |  |
| Short Term Insurance Act |  |
| Consumer Protection Act, 2008 |  |
| Promotion of Access to Information Act, 2000 |  |

**Source: sefa APP 2018/19**

**11. SEFA STRATEGIC PILLARS**

**Vision**

To be the leading catalyst for the development of sustainable small, micro, medium and co-operative enterprises through the provision of finance.

**Mission**

To provide simple access to finance in an efficient and sustainable manner to small, micro, medium and co-operative enterprises throughout South Africa by: -

* Providing loan and credit facilities to SMMEs and co-operative enterprises;
* Providing credit guarantees to SMMEs and co-operatives;
* Creating strategic partnerships with a range of institutions for sustainable SMMEs and co-operative enterprise development and support;
* Developing, through partnerships, innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance.

**Values**

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

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

**Objectives**

* Increase access and provision of finance to SMMEs and co-operatives and contribute towards job creation;
* Build an effective and efficient SEFA that is sustainable and performance driven.

**12. KEY FOCUS AREAS 2019/20**

* Scale up the development impact amongst SMMEs and Co-operatives using innovation and leverage while at the same time contributing to the sustainability of funded clients. To this extent **sefa** will introduce a blended financing model in partnership with government and the private sector;
* Introduce target lending programmes in economic sectors identified in the June 2019 State of Nation Address for youth owned enterprises and enterprises located in townships and rural communities/villages;
* Scale up and deepen the post-investment support by reducing impairments, improving collections and client sustainability;
* The repositioning of the Direct Lending program and the disposal of the Property portfolio;
* Reduce operating costs, improve efficiencies, build skills and capabilities;
* The development of agile business and management information systems for decision-making and improving customer interaction and;
* Deepening collaboration with Small Enterprise Development Agency, in particular by providing seamless online services to SMMEs and Co-operative Enterprises and pre-and post-investment support services.

**13. SEFA PROGRAMME OVERVIEW**

In order to ensure effective implementation of the Corporate Plan, **sefa** will continue to implement the following programmes:-

**Table 12: Strategic Programmes**

|  |  |  |
| --- | --- | --- |
| **Programme** | **Strategic Programmes** | **Strategic Initiatives** |
| * Access to finance for SMMEs and Co-operatives; | * Informal Sector and Micro-Enterprise Finance; | * Roll out Fresh Produce Market Project to two additional geographical areas; * Consolidate and strengthen strategic partnerships in under-served provinces & roll out approved projects; * Support MFI growth and development, new product development and new partnerships; * Partner with private and public institutions to offer crucial business development services needed by informal business that **sefa** cannot provide directly; * Raise funds from external sources (Corporates and International Donors) and use those funds as equity/quasi equity in niche intermediaries with mandates closely aligned to **sefa** and donor funding partners to improve the sustainability of end users; |
|  | * Direct Lending | * Increased Development Impact; * Improved Financial Sustainability; * Client-Centricity Towards Client-Sustainability; * Enhancing Operational Efficiencies and Effectiveness * Automation of front-end processes. |
|  | * Wholesale SME Lending | * Improve the sustainability of end users through the use of equity/quasi equity to fund niche intermediaries with mandates closely aligned to sefa and donor funding partners; * Expand the Structured Finance Solution (SFS) offering, in partnership with Direct Lending; * Build value adding partnerships to expand outreach to under-served Provinces; * Increase revenues through leveraging government, DFI, Donor, and ESD Resources; * Managing costs by maintaining a lean Wholesale Lending structure; * Preserve capital in Wholesale Lending business. |
|  | * Co-operatives Lending | * Leverage financial and non-financial resources of other role players into a holistic framework; * Develop a “Co-operative Growth Eco-system Plan”; |
|  | * Khula Credit Guarantee | * Extend coverage to include a wider range of financial institutions and commercial suppliers of inputs to SMEs; * Introduce flexibility of terms and conditions to increase attractiveness of products and services to targeted SME financiers. The aim is to re-engineer the scheme to facilitate the attractiveness and ease of use by participating institutions (new agreements, enhanced business processes and systems); * Develop, pilot and market new products and services to facilitate increased uptake of the indemnity facility. The following products and services will be developed and implemented; * Introduce risk-based pricing – develop and use a risk based premium pricing model. |
| * Post Investment/ Workout and Restructuring Management; | * The primary objectives of the unit are to manage the loan portfolio by reducing the current high levels of impairments from 45% in 2017/2018 to 36% in the 2018/2019 financial year and reduce it further by 100 basis points over the MTEF period. | * Implement a pro-active monitoring approach in the identification of early warning signals for portfolio investments; * Workout and Restructuring; * Mentorship and business support programme to develop client sustainability; * Collections; * Delinquent Loan accounts. |
| * Build an efficient and effective **sefa** that is performance driven and sustainable. | * Financial Management, Supply chain and Compliance. | * Cost Management; * Cash Preservation & Cash Management; * Raise Additional Funding Through External Donors; * Improved Financial Integrity and Automation |
|  | * Human Resource Management. | * Impact; * Sustainability; * Productivity; * Effectiveness. |
|  | * Information and communication technology (ICT). | * Improved ICT governance; * Network/Infrastructure management; * Application development. |
|  | * Corporate Strategy and Reporting. | * Corporate planning and reporting; * Research Management and Information Dissemination; * Project Management Office (PMO); * New Product Development. |
| * Build a strong and effective **sefa** brand emphasising accessibility to SMMEs. | * The role of Marketing and Communication is to position and market **sefa**, its products and services to SMMEs and Co-operatives and to facilitate strategic engagements with key stakeholders. | * Enhance the **sefa** brand emphasizing accessibility of its products and service to SMMEs and Co-operation Enterprises; * Customer Relationship Management; * Stakeholder Engagement; * Build an effective Internal Communication Platform. |
| * Compliance, Governance, Enterprise Risk   Management and Internal Audit. | * Operational Risks. | * Promote sustainability of **sefa** operations; * Continued compliance with new regulations and legislation; * Effective Reporting. |
|  | * Credit Risk Management. | * Credit risk Appetite; * Greater Alignment between credit and business; * Optimise credit portfolio reporting; * Better segmentation or diversification of portfolio; * Revise Pricing Framework for Direct and Wholesale Lending; * Risk Quantification Develop and maintain credit risk models. |
|  | * Internal Audit | * Assurance on core **sefa** business processes; * Create a sound Control Environment and assist Management to achieve organisational goals; * Improve Internal Audit Productivity/Effectiveness; * Improve Risk Management and Governance processes; |
|  | * Company Secretariat and DRM. | * Enhanced governance practices; * Enhanced guidance and secretarial support to Board and Committees; * Compliance with applicable laws, policies and procedures; * Automation; * Strengthen DRM to effectively support business decisions. |
|  | * Legal Services | * Contracting – Facilitate the drafting of loan agreement and amendments based on committee decisions; * Represent and facilitate the resolution of all sefa legal disputes; * Institute and facilitate the process of legal collection where funded clients has reneged on the contract agreements. |
| * Property Management. | * Properties management programme. | * Sale and transfer of Properties; * Effective and efficient administration of the property portfolio; * Ensure that the **sefa** property portfolio is preserved. |

**Source: SEFA Annual Corporate Plan 2019/20**

**13.1 Small Business and Innovation Fund**

The February 2019 Appropriation Bill established and allocated R3.2 billion over the MTEF period to sefa as the implementer of the Small Business and Innovation Fund (SBIF). The Fund targets:-

* Underserved small, micro and medium enterprises in the early stages of the business development cycle and also;
* Provides a range of financial instruments beyond what **sefa** can offer, including grant and quasi-equity funding which is more suitable to the sector that carries a higher risk.

**13.1.1 Strategic objectives of the fund**

* Increase access to finance to small, micro, medium and co-operative enterprises with specific emphasis on those in the early stage the business cycle;
* Increase the number and diversity of financial intermediaries that serve the SMMEs and co-operatives;
* Promote and facilitate funding of innovation in key industry sectors aligned to the government’s industrial policy and science and technology innovation strategy;
* Enhance financial inclusion by increasing access to finance for enterprises owned by targeted groups (women, youth, township and rural communities); and
* Leverage private sector investment to small businesses

**14. FINANCIAL CONSIDERATIONS**

**sefa** operations are funded by the following revenue streams: (a) interest and dividends from loans and advances, bank deposits and cash; (b) fee income; (c) property rental income: and (d) an annual government subsidy (the MTEF allocation). According to Estimates of National Expenditure the agency’s total budget for 2019/20 is R461.4 million. **sefa** financial position remains grim. During 2018/19 budget vote process the Board had approved budget cycle over the years 2018/19 to 2022/23. The budget incorporated the drawdown from the IDC facility. The loan facility amounts to R921 million, at zero percent interest rate and no raising fees. The loan is subject to 60 (sixty) month capital moratorium thereafter the loan shall be paid over a 120-month period. First instalment shall be on the 61st month following the first drawdown. The loan will be used for on-lending purposes only. Even though the facility amount to R921 million, **sefa** anticipates withdrawing only R640 million during the five (5) year period ending 2022/23. The IDC loan draw down is necessitated by the worsening cash status of **sefa** with the depletion of cash resources over the 5-year period because of high staff costs, high impairments rates and a worsened properties portfolio.

**15. OBSERVATIONS**

Having reflected on the Department, **sefa** and Seda annual performance plans and budgets for 2019/20, the Portfolio Committee hereby register the following observations and recommendations for consideration by the Department: -

15.1 The Portfolio Committee is pleased that following the national general elections and reconfiguration of the state departments, the Department of Small Business Development was spared in order to dispense its mandate of developing small enterprises. This could only reaffirm the prominence of the small business segment to South Africa’s economy, and the hope that it can lead the way to a more thriving economy;

15.2 The budget vote(s) engagement on 3 July 2019 marked the beginning of a new era, first interaction between the Department of Small Business Development and the Portfolio Committee during the sixth Parliament. The Chairperson of the Portfolio Committee Honourable Violet Siwela applauded the outgoing Portfolio Committee for a sterling foundational job done during the fifth Parliament, welcomed the new members and the Department under the new leadership of Minister Khumbudzo Ntshavheni, and Deputy Minister Rosemary Capa;

15.3 It was observed that the current annual performance plans signify the conclusion of the first medium term strategic framework, 2014 - 2019. The 2019 - 2024 is still being finalised hence most departments and entities are in no position to present new strategic plans that are in line with the philosophy of the new administration. Consequently, the DSBD annual performance plan presented is premised on the strategic plan approved by the former Minister Lindiwe Zulu in 2017;

15.4 During the presentation, the Department pointed out that “to deliver effectively on the new prioritise as state transition into the sixth administration, the operating model and organisational structure of the Department will require refinement. The latter process is aimed at streamlining process and strengthen support in the delivery of services and in particular closing gaps in critical areas such as Development Finance and Statistical Analysis in parallel. Furthermore, focus will also be at re skilling staff in other important roles such Monitoring and Evaluation amongst others”;

15.5 The Portfolio Committee notes that, due to the interconnectedness between the organisational structure and the strategy, the long outstanding issue of the organisational structure will only be attended to once the Department initiates its strategic planning activities. The Portfolio Committee further records and concur with the Department of Public Administration (DPSA) guidance to the DSBD in 2018 to the effect that “the changes to organisational structure of the Department of Small Business Development should be held in abeyance until the sixth administration is in place given the anticipated changes expected to the Machinery of Government. This will also afford the new Executive Authority an opportunity to apply his/her mind on the configuration of the Department”;

15.6 Likewise, the Portfolio Committee notes therefore that according to DPSA, the Department of Small Business Development is currently operating on a start-up organisational structure approved by the MPSA on the 16 April 2015;

15.7 The Portfolio Committee, having gone through 2018 budget vote report, notes how the Department, **sefa** and Seda have not implemented some of the recommendations of the fifth Parliament. The 2017 strategic plan made contentious propositions (49: Strategic Plan) e.g. transfer of Enterprise Incubation Programme and Shared Economic Infrastructure Facility (SEIF) to Seda, Informal and Micro Enterprise Development Programme (IMEDP) and Black Business Supplier Development Programme to **sefa**, and Co-operatives Incentives Scheme to Co-operatives Development Agency (an entity that does not yet exist). The EIP and IMEDP have since been transferred to Seda without thorough discussion and engagement with the Portfolio Committee. As a result, the Portfolio Committee does not have full appreciation of the ramifications on the structure and budget of the Department except what was offered during budget vote 31 presentation;

15.8 The successive budget vote reports have made note of the uneven allocation of resources to Programme one and other core programmes of the Department. Again, during the current budget vote period this observation is made;

15.9 Also, the uneven apportionment of resources to Seda Technology Programme (STP) and Enterprise Incubation Programme (EIP) allocations of R152 million and R57 million respectively is not consistency with the marching orders given by the President during SONA with regards to small enterprise incubation programme;

15.10 The Committee notes that, beside Small Enterprise definition which has since been gazetted, and Alternative Dispute Resolution, all other planned policy initiatives have been deferred for implementation 2019/20 financial year e.g. review of the National Small Enterprise Act, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises as well as review of the Integrated Strategy on the Development and Promotion of Co-operatives (2012 - 2022). While other interventions proposed by the fifth Parliament i.e. franchising industry regulations, review of the Business Act, Market Access Strategy as well as Wholesale and Retail charter does not form part of the DSBD service delivery area for 2019/20.

**16. RECOMMENDATIONS**

16.1 During the budget vote presentations it became apparent that there were a large number of legacy issues that remain unattended, some have budgetary implications while others are likely to hamper the speed with which the Department must execute its mandate. The Secretariat of the Portfolio Committee must outline all these and other matters for deliberations by the Portfolio Committee and the Department before 31 July 2019 so that they are implemented immediately;

16.2 The Portfolio Committee notes the Auditor general report with respect to allegations of fraud and corruption in the Department. The Portfolio Committee further observes the suspension of nine (9) officials and mindful of the fact that more still needs to be done. The fifth Parliament adjourned the matter for consideration by the Portfolio Committee during sixth Parliament. The Secretariat of the Portfolio Committee is for that reason directed to schedule an urgent meeting with the Office of the Auditor General before 31 July 2019 to table a formal report to the sixth Parliament and remedial action proposed. During the same session, the Department shall table or brief the Portfolio Committee with a detailed plan of action and disciplinary measures it shall adopt in applying the Auditor General recommendations;

16.3 It is envisaged that the 2019 - 2024 Medium Term Strategic Framework shall have been completed before 31 July 2019. The Portfolio Committee is urging the Department to immediately resume the crafting of the strategic plan, to comply with all the government prescripts pertaining to the strategic plans and organisational structure e.g. Public Finance Management Act,1999 and Public Service Act,1994 before the end of Q3 of the 2019/20 financial year;

16.4 In relation to 16.3 above, considering that other state departments i.e. Economic Development Department have been collapsed or reconfigured, this provides DSBD an opportunity to consolidate all small enterprise functions and budgets scattered in various state Departments. The Department must guide the Portfolio Committee which of the functions, budget and personnel will be relocated or transferred to the DSBD, so that if required, the Portfolio Committee can start the process of interacting with other Portfolio Committees of Parliament before the finalisation of the strategic planning processes for both the Department and the Portfolio Committee;

16.5 The strategic plan of the Department must also pronounce on the institutional realignment of entities e.g. standing recommendation to transfer **sefa** to DSBD and/or amalgamate Seda and **sefa** into a single entity, Small Enterprise Advisory Body, Co- operatives Development Agency, Co-operatives Tribunal, Co-operatives Training Academy as well as Co-operative Development Fund;

16.6 Moreover, subsequent to the creation of the Prudential Authority (PA), an agency of the South African Reserve Bank (SARB), most functions, budget and personnel from Co-operative Banks Development Agency (CBDA) were transferred to PA, leaving Co-operative Financial Institutions in the balance. Pursuant to the fifth Parliament recommendation, the Department must develop a well-articulated framework for leveraging Co-operatives Financial Institution and Co-operative Banks to unlock access to capital for small enterprises. The current strategic plan is mute on this and other critical interventions necessary to deal with issues of access to finance for small businesses. The proposed framework or plan must be presented to the Portfolio Committee before the end of the strategic planning period or Q3 2019/20;

16.7 As noted in the Portfolio Committee legacy report that **sefa**, throughout its existence, has only funded one Disobotla Primary Saving and Co-operative Bank, while the use of dubious intermediaries was widespread. The proposed framework requested in 16.6 must incorporate plans or strategy on how Small Business and Innovation Fund will expedite utilisation of community based Co-operative Financial Institutions and Co- operative Banks particularly in light of the fact that their credibility is not in question as they are now registered and regulated by the South African Reserve Bank;

16.8 Owing to the crosscutting nature of the small enterprise sector, it is unrealistic to anticipate that DSBD will distribute and deliver all the sector’s necessities by itself. It is inevitable that the Department will distribute some of the service and products through memorandum of agreements, transversal agreements and partnership agreements to name the few. The Department is accordingly called upon to develop and present to the Portfolio Committee a credible stakeholder matrix outlining potential stakeholders and their projected roles, thematically and sectoral, indicating succinctly the role Intergovernmental Relations Framework Act, 2005 in streamlining government services;

16.9 One of the critical delivery area for the Department is the issue of market access. Without strong private sector partnerships, the Department is not likely to go further in terms of realising this objective hence the Portfolio Committee call to the Department to spearhead Wholesale and Retail charter, to develop Market Access Strategy clearly stating how small enterprises will benefit from a 30 percent procurement policy and R100 billion Infrastructure Fund recently announced by the President;

16.10 The review of the National Small Enterprise Act, 1996 has been on the agenda since 2015 hence this has been a standing recommendation since then. The revised act or new bill must be accelerated and tabled before the end of Q3 2019/20. Should this deadline be missed, for whatever reason, the Portfolio Committee must initiate the process of creating the new bill in terms of Rule 271 (1), bills initiated by Assembly Committee. The Portfolio Committee Secretariat must schedule a meeting wherein DSBD would come and present progress, including presenting the rationale of excluding the definition of a small enterprise and alternative dispute resolution mechanism from the entire process of reviewing the act. The proposal of the Portfolio Committee is that the revised act or a new bill must incorporate dispute resolution mechanism e.g. Small Enterprise/Business Commission and Tribunal in a similar fashion to national credit act and competition act. In addition, DSBD position with respect to the review of the Co- operatives Act (as amended) must be clarified to the Portfolio Committee as these have implications on the programme and budget of the Committee. So are reviews of the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises and review of the Integrated Strategy on the Development and Promotion of Co- operatives (2012 - 2022). These have been under policy initiatives for three consecutive financial years without a hint of what their statuses are

Report to be considered.