

## **The Budgetary Review and Recommendation Report of the Portfolio Committee on Small Business Development, Dated 24 November 2021**

The Portfolio Committee on Small Business Development, having considered the 2020/21 performance and expenditure of the Department of Small Business Development and its entities, Small Enterprise Finance Agency and Small Enterprise Development Agency, reports as follows:

### **1. INTRODUCTION**

The Budgetary Review and Recommendation Report (BRRR) of the Portfolio Committee on Small Business Development has been compiled in compliance with the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009. The objective of the report is to provide an appraisal of the Department of Small Business Development and its entities' service delivery performance given available resources, effectiveness and efficiency of the Department's use and allocation of available resources; and may include recommendations on the forward use of resources. The Portfolio Committee (the Committee) oversees the budget and performance of the Department of Small Business Development (the Department), alternatively, (DSBD), as well as its entities, Small Enterprise Finance Agency (Sefa) and Small Enterprise Development Agency (Seda).

#### **1.1. Purpose of the Budgetary 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 BRRR is therefore an instrument Parliament utilises to assess the effectiveness and efficiency of a Department's use and forward allocation of available resources and may include recommendations on the use of resources in the medium term.

#### **1.2 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.

#### **1.3 Mandate of the Department**

The Department of Small Business Development plays a major role in implementing 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. With respect to the seven priorities identified in the Medium Term Strategic Framework (MTSF), the Department has a primary responsibility in relation to Priority 2: Economic Transformation and Job Creation and their related sub-outcomes and interventions. Other policy and strategy mandates informing the strategic direction of the Department include the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005), the Integrated Strategy on the Development and Promotion of Co-operatives (2012) and National Informal Business Upliftment Strategy (NIBUS) and Implementation Framework (2014 and 2015).

##### **1.3.1 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 (EA) of the agency and as such exercise oversight role over the entity as prescribed by the Public Finance Management Act. Seda is a schedule 3A national public entity in terms of the Public Finance Management Act (PFMA), Act 1 of 1999, as amended. The agency decree is to serve as the implementation arm for DSBD specifically on non-financial products and services.

##### **1.3.2 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. 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 fusion of the two entities, Seda and Sefa, including Co-operatives Bank Development Agency (CBDA) into a single entity in conformity with PFMA and Companies Act(s), has already begun.

#### **1.4 Preparation of BRRR Report**

In preparation for the BRRR report the Portfolio Committee received briefings from the Auditor-General of South Africa on 10 November 2021, as well as DSBD and entities on 17 November 2021. Whereas during the course of 2020/21 the Committee undertook the following activities -

- Received regular briefings from the Department and entities on quarterly performance and expenditure reports;
- Held virtual oversight sessions with the Department beneficiaries and stakeholders;
- Scrutinised performance of the Department and entities in relation to set targets as captured in the Strategic Plan, the Annual Performance Plan and Budget of the Department for the 2020/21 financial year, Economic Reconstruction and Recovery Plan (ERRP) and National Development Plan (NDP) etc;
- Assessed the impact of support interventions offered by the overall portfolio for the benefit of small enterprises, including updates on the expenditure of Covid-19 relief funds and other support measures to cushion the sector from devastating impacts of the pandemic;
- The report also draws from other briefings, reports and inputs that the Portfolio Committee received throughout the 2020/21 financial year, and the 2021/22 financial year to date.

#### **1.5 Outline of the Report**

This report consists of seven sections. Section one (1) covers the introduction, briefly outline the mandate of the Portfolio Committee and the Department, the purpose of BRR 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, the Medium Term Strategic Framework and the State of Nation Address that the Department has to contribute to in achieving them. Thereafter, an overview of the strategic plans of the Department and its entities are highlighted with a view to assess the extent to which they address the broader government priorities and plans originating from the afore-said policies and plans.

Section three (3) revisits 2020/21 recommendations to ascertain if any of these have at all been given attention or implemented. Section four (4) and five (5) considers the Department's and entities financial and nonfinancial performance against its allocation for the financial year 2020/21.

Section seven (6) of the report considers Committee observations and perspectives with regard to the annual reports of the Department and entities concerning its mandates, strategic objectives and core issues previously and currently identified by the Committee. Whereas section eight (7) 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.

## **2. OVERVIEW OF THE RELEVANT POLICY FOCUS AREAS**

The National Development Plan (NDP) is a long-term development plan, crafted by the National Planning Commission (NPC) on behalf of the South African government in collaboration with South Africans from all walks of life. The NDP aims to achieve the following objectives by 2030 -:

- Uniting South Africans of all races and classes around a common programme to eliminate poverty and reduce inequality;
- Encourage citizens to be active in their own development, in strengthening democracy and in holding their government accountable;
- Raising economic growth, promoting exports and making the economy more labour absorbing whilst focusing on key capabilities of both people and the country;
- Capabilities include skills, infrastructure, social security, strong institutions and partnerships both within the country and with key international partners;
- Building a capable and developmental state and;
- Strong leadership throughout society that work together to solve our problems.

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

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 (SDG). 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.

## **2.2 Relationship with the Medium Term Strategic Framework (2019 - 2024)**

The period in progress marks the beginning of the second Medium Term Strategic Framework following the adoption of the NDP. In 2013, the Cabinet had then decided that the 2014 - 2019 MTSF would form the first five-year implementation phase of the NDP. With respect to the seven priorities identified in the MTSF, DSBD obligation is in relation to Priority 2: Economic Transformation and Job Creation and their related sub-outcomes and interventions as follows-

- Creating more jobs;
- Inclusive economic growth;
- Re-industrialisation of the economy emergence of globally competitive sectors;
- Increased access to and uptake of ICT;
- Competitive and accessible markets through reduced share of dominant firms in priority sectors;
- Mainstreaming of Youth, Women, and Persons with Disabilities with minimum 40 percent target for Women, 30 percent for Youth and 7 percent for Persons with Disabilities in the SMMEs and Co-operatives Sector.

## **2.3 State of the Nation Address**

During the State of the Nation Address the President accentuated the small enterprise sector as an engine of growth for the future. He cited, amongst others, that plans and actions to support local manufacturers through Localisation Policy Framework and import substitution industrial policy that could help catalyse growth were already being implemented. Master plans e.g. on clothing and textiles, sugar, poultry and automotive sector were being rolled out and provide useful examples of what can be attained if private and public partnership were to be intensified. In that regard, the Portfolio Committee would like to see a Department that is responsive to the President's marching orders through integrating and converting SONA policy aspirations into tangible and implementable programmes e.g. incentivise entrepreneurs to invest in the economy, remove redundant bureaucratic red tape and improve ease of doing business, pay particular attention to unfavourable tax regime that throttle small enterprises, tackle unstable power supply and relatively high connectivity costs, and intensify market access initiatives.

## **2.4 The Economic Reconstruction and Recovery Plan**

The global economy is "on a cliff-hanger," still lurching from the Covid-19 pandemic whose impact will be felt for years to come. South Africa has not been spared. It is in this context that South African government has created a strategic blueprint for economic recovery, the Economic Reconstruction and Recovery Plan (ERRP). Thus, according to the Minister of Small Business Development, "the 2021/22 APP was presented within the context of driving the implementation of the ERRP with a focused view on achieving inclusive growth". The plan has the following five policy objectives -

- To create jobs, primarily through aggressive infrastructure investment and mass employment programmes;
- To re-industrialise our economy, focusing on growing small businesses;
- To accelerate economic reforms to unlock investment and growth;
- To fight crime and corruption; and
- To improve the capability of the State.

## **2.5 Summary of the Key Priorities informing the 2020-25 Strategic Plan and 2020/21 Annual Performance Plan**

During May 2020, the Department and entities presented their five-year strategic as well as annual and corporate plans which underlined key priority/focus areas. The annual performance currently being considered is premised on the commitments contained in these statutory documents and they included -:

- Finalisation and implementation of the Township Entrepreneurship Fund;

- Establishment of Funds in partnership with the private sector;
- Review and implement Credit Guarantee Scheme;
- Finalise and implement the SMME Funding Policy;
- Finalise amendments to the National Small Enterprise Act to deal mainly with the establishment of the SMME Ombud Office, regulations/licensing of businesses owned by foreign nationals and unfair business to business practices;
- Implement National Incubation Policy and Incubation Standards; and
- Accelerate establishment of incubators and digital hubs in the townships and rural areas.

### 3. SUMMARY OF PREVIOUS KEY COMMITTEE RECOMMENDATIONS

During the 2020 Budgetary Review and Recommendation Report, the Portfolio Committee made the following recommendations to the Minister and the Department -:

**Table 1: 2020 BRRR Recommendations**

|     |   |  |
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| 3.1 | Strategic posts have remained vacant for too long. The Committee notes that absence of a permanent Director General may handicap the Department in fulfilling its mandate. Filling up the post of an Accounting Officer is critical and should be expedited ideally before the end of 2020/21 financial year, including other senior posts i.e. Deputy Director General(s) and Chief Director(s).   | <p>The recruitment of the DG post is underway. Interviews were held on 10 December 2020. The process towards Cabinet approval is underway.</p> <p>The Director Communication and Marketing post has been filled with effect from 1 December 2020.</p> <p>The vacant Chief Director and Director posts were advertised, the process to fill the posts is underway.</p> <p>The DDG posts will be advertised as soon as the organisational structure is concurred by MPSA.</p>  |
| 3.2 | The Committee is mindful that filling of vacant posts is reliant on a successful finalisation of the organisational structure. Accordingly, the Departments of Small Business Development and Public Service and Administration ("DPSA") are being urged to cordially conclude this matter preferably before the end of the 2020/21 financial year.   | The organisational structure has been consulted with the Minister of Finance. The major challenge is budget availability to fund the whole structure during the MTEF period causing complications in the issuing of supporting letter by the National Treasury, which is the condition for submission to Minister for Public Service and Administration (MPSA). Once the letter from National Treasury is received, the organisational structure will be submitted to MPSA for consultation and concurrence. It is hoped that the submission will still be done in the 2020/2021 financial year, subject to the letter from National Treasury being received.  |
| 3.3 | During the 2019 BRRR process the utilisation of financial intermediaries (not properly registered, licensed and regulated) by sefa was raised sharply by members of the Committee and flagged by the FFC as increasing the cost of capital for struggling small enterprises. The Portfolio Committee viewpoint is that sefa should consider insourcing wholesale lending facility, alternatively, consider auxiliary approaches to lending money to its clients e.g. giving priority to financial institutions regulated by the South African Reserve Bank (Prudential Authority and Financial Sector Conduct Authority) and National Credit Regulator. | <p>A standard contractual obligation is that all sefa's financial intermediaries must register with the applicable financial regulatory authority, such as the National Credit Regulator and must comply with the provisions of the relevant legislation unless a written exemption is provided by the relevant regulatory authority. Exemption by the National Credit Regulator is granted when a Retail Financial Intermediary's operations fall outside the ambit of the National Credit Act, and sefa seldom receives such applications.</p> <p>All currently sefa-funded MFIs are registered with the National Credit Regulator and charge interest rates within the prescribed range by the National Credit Act.</p> |

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|     |   | sefa prescribes the maximum interest rate the RFIs can charge through its Committee credit sanctioning process. This ensures that developmental benefit of sefa's concessionary funding is passed on to the end-user client.   |
| 3.4 | While significant improvement in adherence to the Black Business Supplier Development Programme (BBSDP), Co-operative Incentive Scheme (CIS) and National Information Business Upliftment Strategy (NIBUS) guidelines were noted in the 2019/20 financial year, some instances of non-compliance were still noted. The most glaring weakness is the absence of post funding visits across the schemes. According to Auditor General, "the Department exposes itself to not achieving against its core mandate if the post funding visits are not undertaken to ensure small businesses were positively impacted by the efforts of the Department. The Department must thus ensure that the guidelines for the different incentive schemes are revised to ensure that they are aligned to the objectives of the scheme and are not susceptible to abuse. | <p><u>Informal Micro-Enterprise Development Programme (IMEDP) and the Shared Economic Infrastructure Facility (SEIF)</u></p> <p>Officials are to adhere to what is included in the Department's guidelines. Line Management will review the applicant files to ensure that all the required documents have been submitted and functions will be clearly outlined in the performance agreement of each official. Monthly reports will be submitted for discussion at branch meetings. This is already underway.</p> <p>The BBSDP Programme has been officially discontinued since the 2020/21 financial year and replaced with Blended Finance administered through sefa. Only a handful of applications are being finalised by the DSBD through the implementation of an action plan that has been developed in line with the guidelines. The Small Enterprise Development Agency (Seda) and sefa will assist with the post investment monitoring.</p> <p>All payments are guided by the contingent liability schedule which is informed by the monthly BAS reports. This is work in progress.</p> <p><u>Cooperatives Incentives Scheme (CIS)</u><br/>A list of all CIS fully paid applications was compiled and submitted to Seda for post investment support (i.e. verification and/or implementation of paid activities). This is because of capacity constraints within the DSBD CIS unit. The expected outcome is a comprehensive post disbursement report from Seda. Line Management reviews and signs off all complete application files prior and post CIS adjudication. All Claim files submitted to Finance were verified and signed off by relevant line managers prior to authorisation by unit manager. The applicable files are also being reviewed and signed off pre-adjudication. The practice is that all application files must be reviewed for completeness during the CIS Technical meeting(s). This is work in progress. Seda will assist with the post investment monitoring.</p> |
| 3.5 | The management, and/or, Bid Adjudication Committee must ensure strict adherence to the guidelines and Standard Operating Procedures ("SOP") of incentive schemes. The responsibility for ensuring compliance with guidelines and SOP should be clearly  | <p>The DSBD management ensures that officials adhere to what is entailed in the Department's guidelines and SOPs.</p> <p>Applications are now submitted to the Department via SMMESA database:</p>   |

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|      | allocated and responsible officials should be held accountable for any non-compliance. Automating application and approval processes must be expedited in order partly to reduce non-compliance and improve efficiency. The Portfolio Committee should be informed quarterly concerning the progress attained.   | <a href="https://smmesa.gov.za/">https://smmesa.gov.za/</a>   |
| 3.6  | Management or responsible officials have an obligation to conduct site visits to beneficiaries in order to verify if goods and services are/were actually delivered/received through pre-and post-site visits. Owing to Seda's geographic footprint the agency could be utilised for this purpose.   | Seda and sefa assist the Department with post investment monitoring. sefa's post investment monitoring division conducts regular site visits to beneficiary clients to ensure that sefa loans are utilised for the purposes stated in the applications and agreements with sefa. Furthermore, sefa has contractual conditions in the lending agreements with regard to the utilisation of the loaned amounts.   |
| 3.7  | The tenacious skewedness in the distribution of funds and resources as observed in all quarterly reports in favour of Gauteng and KwaZulu-Natal, at the expense of other struggling provinces like Northern Cape and North West, necessitates urgent attention. Historical inequities exist between provinces as well as between districts within each province. Remedial measures could include, amongst others, equitable allocation of resources per provinces and districts. | As part of the SMME Support Plan that the Department developed, the interventions have been distributed amongst provinces and district targets to ensure that there is an equitable allocation of resources across all interventions.   |
| 3.8  | For the past 11 months, the Department has been without the Audit Committee. The existence of an Audit Committee in South African national government departments is not only a legal requirement. These committees perform certain activities as an additional layer of accountability instrument to the departments. The Department must accordingly appoint members of the Audit Committee before 31 March 2021.  | The recruitment process of the Audit and Risk Committee members is underway.  |
| 3.9  | The audit opinion of the Department has remained unchanged for the past few years. According to the Auditor General, "the main obstacles preventing the department from obtaining a clean audit outcome remains the quality of submitted annual performance reports". The Portfolio Committee implores the Department to pay special focus in this particular area and ensure that internal audit is properly capacitated with competent personnel.                              | Additional resources have been redirected towards the auditing of performance information. Also, in its Audit Plan, Internal Audit has included the review of performance indicators and targets to ensure consistency and adequate reporting in the quarterly reports and key strategic planning documents that include Strategic Plan, Annual Performance Plan, Service Delivery Improvement Plan, Annual Report, as well as the Strategic Planning, Monitoring and Reporting Framework and Standard Operating Procedure (SOP). This collaboration between Internal Audit and the Strategy unit will assist in improving the audit outcome. |
| 3.10 | The Portfolio Committee has noted AG forewarnings that Management (accounting officers/ authorities and senior management) do not respond timeously and with the required urgency in addressing risks and improving internal   | Progress on the implementation of controls by management where recurring findings are made by the AGSA is provided on a quarterly basis to the Portfolio Committee, as part of the quarterly reports for the department and the rest of the Portfolio will do the same. The Department also   |

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|  | controls. The Committee is calling on the Department to act swiftly in dealing and implementing AG recommendations. In line with the AG recommendation to the Committee, all DSBD, Seda and sefa quarterly reports must provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio. | took a decision to have the implementation of the audit action plan reflected as one of the key Performance Areas in the managers' performance agreements. |
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**Source: 2020 BRRR Report**

#### **4. OVERVIEW OF FINANCIAL AND NON-FINANCIAL PERFORMANCE**

##### **4.1 Non-financial Performance Summary**

During the fiscal year under review the Department had set out to achieve 22 annual targets over the reporting period. It did reasonably well by obtaining 19 (86%) of the planned targets and could not deliver on the three (14%). It must be said however that the financial year under consideration was very testing and unnerving as the entire world wrestled with the outbreak of the Covid-19 pandemic. The Department and its entities were at the fore of driving efforts to extenuate harmful impacts of the pandemic on small enterprises. As a result, the Department had to reconfigure its annual performance plan (APP) three times to accommodate unpredictable and fluctuating conditions brought on by the pandemic.

The first annual performance plan was tabled in May 2020, second and third APPs in July 2020 despite the former never implemented. The Department consists of four programmes namely: Administration, Sector Policy and Research, Integrated Co-operatives Development and Enterprise Development and Entrepreneurship. Table 2 below provides summarised information regarding the performance of each of the four programmes of the Department. Owing to ongoing uncertainties and disruptions caused by the pandemic the Department is being evaluated or reporting against revised APP which its implementation commenced during Quarter two (2).

**Table 2: Performance Summary per Programme**

| <b>Branch</b>   | <b>No. of Output Indicators</b> | <b>Annual Targets</b> | <b>Achieved</b> | <b>Not Achieved</b> |
|---|---------------------------------|-----------------------|-----------------|---------------------|
| <b>1. ADMINISTRATION</b>                              | 7                               | 7                     | 7 (100%)        | 0 (0%)              |
| <b>2. SECTOR POLICY AND RESEARCH</b>                  | 4                               | 4                     | 4 (100%)        | 0 (0%)              |
| <b>3. INTEGRATED CO-OPERATIVES DEVELOPMENT</b>        | 7                               | 7                     | 5 (71%)         | 2 (29%)             |
| <b>4. ENTERPRISE DEVELOPMENT AND ENTREPRENEURSHIP</b> | 4                               | 4                     | 3 (75%)         | 1 (25%)             |
| <b>TOTAL</b>  | <b>22</b>                       | <b>22</b>             | <b>19 (86%)</b> | <b>3 (14%)</b>      |

**Source: DSBD Annual Report (2020/21)**

##### **4.1.1 Programme One: Administration**

The programme is responsible for the provision of strategic leadership, management and support services to the Minister, Director-General, the Department and entities. The programme has seven (7) indicators and all of them were achieved. The Department did well to provide leadership and strengthen its oversight function over its public entities in light of the greater need for partnership and collaboration due to the Covid-19 pandemic. The Department achieved unqualified audit opinion on performance information without findings and without material adjustments, paid 100 percent of its valid creditors within 30 days and attained 57 percent in respect of women in its Senior Management Services (SMS).

As noted when the Department appeared before the Committee to present its annual report, it indicated that it does not have an Internal Control Unit due to lack of budget. However, the Audit and Risk Committee (ARC) which was not in place for the better part of 2020/21 financial year, was duly formed and began operating in March 2021. While the Internal Audit Unit is in place and reports administratively to the Director-General and functionally to the Audit and Risk Committee.

#### **4.1.2 Programme Two: Sector Policy and Research**

The Sector Policy and Research Programme achieved all its planned annual targets for the period under review. The Programme is responsible for creating an enabling environment for the development and growth of sustainable small businesses and Co-operatives through commissioning research; the development and review of policy and legislation; the coordination and promotion of sound intergovernmental relationships; promoting the sector interests in the regional and global arena; and effective monitoring and evaluation of programmes to ensure the desired impact is achieved in contributing towards the creation of employment opportunities and economic growth.

Under the programme, SMMEs-focused Localisation Policy Framework and Implementation Programme approved was approved by Cabinet in October 2020. The amended draft National Small Enterprise Amendment Bill was successively approved by Cabinet for public comments – gazetted for public comments in December 2020. Furthermore, to promote broader participation of small businesses in the mainstream economy the Executive Committee (EXCO) of the Department developed and approved the SMMEs and Co-operatives Funding Policy.

#### **4.1.3 Programme Three: Integrated Co-operatives Development**

Programme three, Integrated Co-operatives Development, is responsible for creating an enabling environment that facilitates the establishment, growth and development of Co-operatives through the development and review of legislation and policy, the design, and piloting and monitoring of the impact of support services and instruments; the championing of functional partnerships and cooperation agreements; and the advocacy and thought leadership in advancing economic growth, job creation and social cohesion.

The Programme achieved five (5) as opposed to seven (7) targets it had set out to achieve. Among some of the achievements include finalization of the Creative Industries Masterplan which has already been submitted to the Minister, 238 products produced by SMMEs and Co-operatives have been linked to markets and National Integrated Small Enterprise Development Masterplan approved by EXCO. The Programme failed to reach the threshold of R31 million earmarked for Co-operatives registering an underspending of R20 million, while of 2 000 women-owned businesses supported to register on international platform, only 1015 were assisted.

#### **4.1.4 Programme Four: Enterprise Development and Entrepreneurship**

The objective of this programme is to create an enabling environment for the development and growth of sustainable small businesses through the development and review of policy and legislation; design and piloting of support instruments; promotion of entrepreneurship; and facilitation of the development of small enterprises in township and rural areas. The programme achieved three of the four targets (75%) it had set to achieve. The only target missed of financially and/or non-financially supporting 28 000 Township and Rural Enterprises was missed by a whopping 14 013. The Department attributes this underperformance to the Township and Rural Entrepreneurship Programme (TREP) target which itself was also not achieved due to the stringent selection or qualifying criteria. The selection criteria have since been amended to improve uptake.

### **4.2 Financial Performance Summary**

Of the R2.28 billion appropriated to the Department of Small Business Development during the previous financial year, it successfully disbursed R2.25 billion or 98.7% of the final appropriation. The Department thus incurred an underspending of R29 million or 1.3% of the budget. The Department received unqualified audit opinion with findings. Akin to the previous findings, the Auditor General cautioned the Department that the instability and prolonged vacancies in key positions could cause a competency gap and affect the rate of improvement in audit outcomes.

Accordingly, expenditure performance stagnation has largely been imputed to high vacancy rate in the senior management level. Table 3 below provides a summary or synthesis of what had been allocated to the Department, allocation for four branches or programmes, actual expenditure by each branch, variances as well as branch and DSBD expenditure in percentage terms. Administration



programme continue to receive the largest chunk of the budget, R113 million, compared to other three (3) core programmes of the Department.

**Table 3: Financial Appropriation vs Expenditure**

| Programme                                   | Adjusted Appropriation | Final Appropriation | Actual Expenditure | Variance      | Expenditure as a % of Final Appropriation |
|---|------------------------|---------------------|--------------------|---------------|---|
|   | R'000                  | R'000               | R'000              | R'000         | R'000                                     |
| Administration                              | 109 388                | 113 095             | 111 348            | 1 747         | 98.5%                                     |
| Sector Policy and Research                  | 16 444                 | 16 714              | 13 370             | 3 344         | 80.0%                                     |
| Integrated Co-operatives Development        | 91 680                 | 82 332              | 64 038             | 18 294        | 77.8%                                     |
| Enterprise Development and Entrepreneurship | 2 060 291              | 2 065 662           | 2 060 438          | 5 224         | 99.7%                                     |
| <b>Total</b>                                | <b>2 277 803</b>       | <b>2 277 803</b>    | <b>2 249 195</b>   | <b>28 608</b> | <b>98.7%</b>                              |

Source: 2020/21 DSBD Annual Report

#### 4.2.1 Annual expenditure for Programme One

Expenditure on Administration amounted to R111.3 million (98.5%) against the final appropriation of R113.1 million, resulting in an under expenditure of R1.7 million (1.5%). Compensation of Employees contributed R1.3 million to the under-expenditure due to vacancies and Machinery and equipment underspent by R304 thousand due to cost of minor assets being budgeted for as major assets. The main cost drivers on expenditure for Programme One are Compensation of Employees at R64.1 million and Goods and Services at R44.2 million.

**Table 4: Expenditure Estimates - Programme 1**

| Subprogramme            | Final Appropriation R'000 | Actual Expenditure R'000 | Over/Under Expenditure R'000 |
|-------------------------|---------------------------|--------------------------|------------------------------|
| Ministry                | 21 640                    | 21 612                   | 28                           |
| Departmental Management | 14 167                    | 13 450                   | 717                          |
| Corporate Services      | 52 456                    | 51 815                   | 641                          |
| Financial Management    | 19 189                    | 18 840                   | 349                          |
| Communications          | 5 643                     | 5 631                    | 12                           |
| <b>Total</b>            | <b>113 095</b>            | <b>111 348</b>           | <b>1 747</b>                 |

Source: DSBD Annual Report 2020/21

#### 4.2.2 Annual expenditure for Programme Two

Sector Policy and Research amounted to R13.4 million (80.3%) against the final appropriation of R16.7 million, resulting in an underexpenditure of R3.3 million (19.7%). Compensation of Employees contributed R3.3 million to the under-expenditure due to vacancies, whilst Goods and Services underspent by R31 thousand, mainly on travel and subsistence. The main cost drivers on expenditure for Programme Two are Compensation of Employees at R12 million and Goods and Services at R1.4 million.

**Table 5: Expenditure Estimates - Programme 2**

| Subprogramme | Final Appropriation R'000 | Actual Expenditure R'000 | Over/Under Expenditure R'000 |
|--------------|---------------------------|--------------------------|------------------------------|
|              |                           |                          |                              |

|   |               |               |              |
|---|---------------|---------------|--------------|
| Research                                    | 10 329        | 9 868         | 431          |
| Policy and Legislation                      | 4 027         | 1 436         | 2 591        |
| Monitoring and Evaluation                   | 2 353         | 2 063         | 290          |
| International Relations and Trade Promotion | 5             | 4             | 1            |
| <b>Total</b>                                | <b>16 714</b> | <b>13 370</b> | <b>3 344</b> |

Source: DSBD Annual Report 2020/21

#### 4.2.3 Annual expenditure for Programme Three

Integrated Co-operatives Development amounted to R64 million (77.8%) against the final appropriation of R82.3 million, resulting in an under-expenditure of R18.3 million (22.2%). Delays in the assessment of approved applications for the outstanding provisions by Seda led to the Co-operatives Incentive Scheme (CIS) underspending by R10.3 million. A total CIS allocation was reduced by an amount of R45.8 million, which comprise of R23.5 million to the Covid-19 Emergency relief fund during the Special Adjustment Budget, a further R13 million was to the Department of Public Enterprise for SAA during the Adjustment Budget process, as well as R9.3 million virement approval by National Treasury to move funds to BBSDP. Compensation of Employees underspent by R7.9 million due to vacancies.

**Table 6: Expenditure Estimates - Programme 3**

| Subprogramme                                   | Final Appropriation R'000 | Actual Expenditure R'000 | Over/Under Expenditure R'000 |
|--|---------------------------|--------------------------|------------------------------|
| Co-operatives Development                      | 8 705                     | 7 464                    | 1 241                        |
| Co-operatives Programme Design and Support     | 60 158                    | 43 118                   | 17 040                       |
| Supplier Development and Market Access Support | 13 469                    | 13 456                   | 13                           |
| <b>Total</b>                                   | <b>82 332</b>             | <b>64 038</b>            | <b>18 294</b>                |

Source: DSBD Annual Report 2020/21

#### 4.2.4 Annual expenditure for Programme Four

Enterprise Development and Entrepreneurship amounted to R2.060 billion (99.7%) against the final appropriation of R2.066 billion, resulting in an under-expenditure of R5.2 million (0.3%). Transfer payments underspent by R2.1 million (2%) against final appropriation of R2.032 billion due to BBSDP noncompliant claims. Compensation of Employees underspent by R2.7 million due to vacancies and Goods and Services underspent by R61 thousand.

**Table 7: Expenditure Estimates - Programme 4**

| Subprogramme                        | Final Appropriation R'000 | Actual Expenditure R'000 | Over/Under Expenditure R'000 |
|-------------------------------------|---------------------------|--------------------------|------------------------------|
| Enterprise and Supplier Development | 2 010 027                 | 2 009 831                | 196                          |
| SMME Programme Design and Support   | 54 768                    | 50 081                   | 4 687                        |
| Entrepreneurship                    | 867                       | 527                      | 340                          |
| <b>Total</b>                        | <b>2 065 662</b>          | <b>2 060 438</b>         | <b>5 224</b>                 |

Source: DSBD Annual Report 2020/21

### 4.3 Economic Classification

In regards to economic classification as illustrated in table 8 below expenditure on the compensation of employees was R135 million (89.7%) against the final appropriation of R150.5 million, resulting in an under expenditure of R15.6 million (10.3%) due to existing vacancies. Expenditure on goods and service tallied to R48.7 million (99.5%) against the final appropriation of R49 million, which constituted an under spending of R261 thousand (0.5%). Spending on capital assets was R3.9 million (92.5%) against the allocation of R4.2 million, which constituted an under spending of R317 thousand (7.5%),

due to items cost below less than the major assets and not being able to shift budget to goods and services. While expenditure on transfers and subsidies constituted R2.062 billion (99.4%) of the final appropriation of R2.074 billion, which equates to an underspending of R12.5 million (0.6%). The underspending is mainly from CIS at R10.3 million and BBSDP at R2.1 million.

**Table 8: Economic Classification**

| Economic Classification   | Final Appropriation | Actual Expenditure | (Over)/Under Expenditure |
|---------------------------|---------------------|--------------------|--------------------------|
|                           | (R'000)             | (R'000) (%)        | (R'000)                  |
| Compensation of Employees | 150 513             | 134 955            | 15 558                   |
| Goods and services        | 48 963              | 48 702             | 261                      |
| Capital asset             | 4 224               | 3 907              | 317                      |
| Transfers and Subsidies   | 2 074 103           | 2 061 631          | 12 472                   |

**Source: DSBD Annual Report (2020/21)**

#### **4.4 Report of the Auditor-General**

Auditor-General of South Africa (AGSA), alternatively AG, officials appeared before the Portfolio Committee on 10 November 2021 to present the audit findings. The Department obtained unqualified audit opinion with findings. According to AG, the audit opinion of the Department has remained unchanged for the past five financial years. The main obstacles preventing the Department from obtaining a Clean Audit outcome remains the compliance area in the Black Business Supplier Development Programme (BBSDP) and Co-operatives Incentive Scheme (CIS) environment and a material adjustment in the provision note.

While Sefa continued to sustain its record of clean audits. Seda audit opinion on one hand, has regressed from clean audit the previous years to an unqualified audit with material findings on compliance with laws and regulations related to the public entity not having adequate controls to collect all revenue from long outstanding debtors, and also material adjustments made to submitted financial statements as a result of material misstatements identified through the audit process. Among some of the concerns expressed in the AG report include inter alia -:

- Accounting officer/authority and senior management do not respond with the required urgency to AG messages about addressing risk and improving internal controls;
- Slow response by management in addressing compliance related matters pertaining to: Inadequate implementation and monitoring of action plans by these role players to address key audit matters have been identified as a root cause for the repeat findings. This is particularly relevant to the compliance monitoring environment of the Department;
- The findings at the DSBD were recurring and this is despite discussions held with the auditees on the implementation of preventive control measures;
- The non-compliance identified is similar to that reported in the prior year. DSBD did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation;
- The Department did not conduct post site visits to confirm whether the funds transferred to private enterprises were used for the intended purposes. There were recurring instances of adjustments made to the provisions disclosure note;
- Irregular expenditure increased from R496 000 to R1 464 000 in the current year, as a result of procurement of vehicles from g-Fleet for the period 1 February 2020 to 31 March 2021 without following the provisions of section 8.5 of Instruction Note 3 of 2016/2017. The irregular expenditure at the department was due to a transversal issue and none was identified during the audit process, the department should continue maintaining the preventative controls to prevent a regression in the audit outcomes.

## **5. REVIEW OF THE DEPARTMENTAL ENTITIES**

### **5.1 Small Enterprise Development Agency**

Small Enterprise Development Agency is one of the two entities reporting to the Department of Small Business Development with its mandate oriented towards providing nonfinancial support to small enterprises. The agency's performance information is presented in accordance to the approved

Annual Performance Plan 2020/21 wherein it had pledged to accomplish 23 indicators. However, it could only achieve 12 indicators which reflects an achievement of 52 percent on set indicators. For the first time in five years, Seda obtained an unqualified audit outcome with findings. This clearly depicts a slump in performance which according to the agency's own analysis is attributable to the moratorium to fill vacant posts pending finalization of the merger.

There are three main programmes in the Seda Annual Performance Plan (APP) presented to Parliament in May 2020, namely, Enterprise Development Division (EDD), Seda Technology Programme (STP) and lastly Administration. The sections below provide detailed support offered under each programme and its contribution to the institutional outcome -:

#### 5.1.1 Programme One: Enterprise Development Division

The purpose of Programme One: Enterprise Development Division (EDD) 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 contribution to Gross Domestic Product. The table below gives information on the number of performance indicators under this programme and level of success in achieving them.

**Table 9: EDD Performance Indicators**

| No. | Performance Measure   | Target | Achievement |
|-----|---|--------|-------------|
| 1.  | Number of Districts where the Facilitation Model Implemented  | 15     | 8           |
| 2.  | Number of spaza shop supported  | 16 666 | 5 703       |
| 3.  | Percentage of BDS Standards developed and implemented   | 50%    | 100%        |
| 4.  | Number of SMMEs participating in Export Development   | 2 487  | 4 694       |
| 5.  | Number of Co-location Points Supported  | 66     | 77          |
| 6.  | Number of SMMEs assisted with Access to Finance   | 4 973  | 4 232       |
| 7.  | Percentage of SMMEs which accessed finance successfully   | 40%    | 61%         |
| 8.  | Number of SMMEs Assisted through the Information Centre   | 14 666 | 8 576       |
| 9.  | Number of BDS Providers & Practitioners capacitated to provide Sector Specific Support                  | 198    | 345         |
| 10. | Number of co-operatives supported through ecosystem partners  | 2 600  | 1 222       |
| 11. | Number of SMMEs accessing Business Development Support (min 40% women, 30% youth & 7% disabled persons) | 55 667 | 23 123      |

**Source: Seda Annual Report (2020/21)**

The Programme has the largest staff compliment of the three programmes. It excelled in a number of indicators such as 100 percent implementation of the business development standards, 4 694 number of SMMEs supported through Export Development, 77 Co-location Points supported, 61 percent of SMMEs who accessed finance successfully and 345 business development Providers and Practitioners capacitated with Sector Specific training. However, the Programme did not do well in some of the indicators particularly the Spaza Shop programme where out of 9137 applications received, more than 4000 were rejected. Also, on the key government flagship programme, District Development Model (DDM), the agency performed below required standards. There are nevertheless measures currently being implemented in order overcome areas of underperformance.

#### 5.1.2 Programme Two: Seda Technology Programme

The aim of Programme Two: Seda Technology Programme (STP) is 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 two challenging years of business start-up by providing support to improve their product offering and

other business development support. The Programme has seven (7) performance indicators and only two (2) were not achieved. Some of the achievements registered by the programme includes 25 percent achievement in the implementation of the Incubation and Acceleration Eco-system Facilitation Model, 100 percent development of the Incubation and Acceleration Standards, 826 number of SMMEs Accessing Finance through Pitching, 1336 number of Tech Start-Up Enterprises Supported and 101 Incubation Centres.

**Table 10: STP Performance Indicators**

| No. | Performance Measure   | Target | Achievement |
|-----|---|--------|-------------|
| 1.  | Percentage of Incubation & Acceleration Eco-system Facilitation Model Developed & Implemented       | 25%    | 25%         |
| 2.  | Percentage of Incubation & Acceleration Standards Completed   | 100%   | 100%        |
| 3.  | Number of Investment Ready SMMEs prepared to Access Finance through Pitching                        | 300    | 826         |
| 4.  | Number of Tech Start-Up Enterprises Supported   | 700    | 1 336       |
| 5.  | Number of Incubation Centres, CFERIs & Digital Hubs Supported (prioritising township & rural areas) | 96     | 101         |
| 6.  | Number of SMMEs Receiving Technology Transfer & Technical Assistance                                | 5 000  | 3 557       |
| 7.  | Number of SMMEs Supported with Conformity assessments   | 500    | 206         |

**Source: Seda Annual Report (2020/21)**

### 5.1.3 Programme Three: 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.

**Table 11: Administration Performance Indicators**

| No. | Performance Measure  | Target        | Achievement    |
|-----|--|---------------|----------------|
| 1.  | Value of Support Leveraged from Partners   | R 20 Million  | R 60,4 Million |
| 2.  | Number of SMMEs Accessing Procurement Opportunities in Government & Corporates (30% government set asides & ESD) | 800           | 35             |
| 3.  | Turnover increase in supported Enterprises through Eco-system Partnership  | R 666 million | R 1,1 Billion  |
| 4.  | New Jobs Created & Reported by Eco-system Partners Supported   | 6 300         | 2 292          |
| 5.  | Number of Jobs Sustained by Eco-system supported   | 18 666        | 8 283          |

**Source: Seda Annual Report (2020/21)**

Under Programme three, Seda registered improved performance such as R60 million expenditure on support Leveraged from Partners, the noted achievement contributed to the improved service access offered to SMMEs and Co-operatives, R1 billion turnover increase for SMMEs, this achievement

reflects the organisations efforts to increase the turnover generated by SMMEs and Co-operatives. However, there is still a room for improvement. The agency did not do particularly well on the number of SMMEs Accessing Procurement opportunities in the Government and private sector, there were too few number of new jobs created and number of jobs sustained. The agency cited ongoing lockdowns and business disruptions as major contributor to the agency not achieving these set targets.

#### 5.1.4 Financial Overview

The agency's total revenue budget for 2020/21 fiscal year was R883 million while total expenditure budget was R990 million. The actual expenditure for the period 1 April 2020 to 31 March 2021 amounted to R773 million resulting in a pro-rata underspending of R218 million (21.96%). During the presentation of its annual report in Parliament, Seda alerted the Portfolio Committee that it will be making formal submission to National Treasury to request the roll-over of the surplus funds in the amount of R221 million. The surplus funds will be utilised to honour the current commitments that Seda had at year-end and enable Seda to cover inadequately funded programmes and projects of the Seda Technology Programme.

**Table 12: Seda Budget**

| <b>Seda Budget 2020/21</b>  |                     |                                 |                                     |
|-----------------------------|---------------------|---------------------------------|-------------------------------------|
| <b>Programme</b>            | <b>Budget R'000</b> | <b>Actual Expenditure R'000</b> | <b>Over/Under Expenditure R'000</b> |
| Programme 1: EDD            | 512.2               | 432.7                           | 79.5                                |
| Programme 2: STP            | 270.1               | 171.4                           | 98.7                                |
| Programme 3: Administration | 208                 | 168.7                           | 39.3                                |
| <b>Total</b>                | <b>990.3</b>        | <b>772.8</b>                    | <b>217.5</b>                        |

**Source: Seda Annual Report (2020/21)**

During the course of the previous financial year, government embarked on the special adjustments appropriation in accordance to section 30 (2) of the Public Finance Management Act ("PFMA") which specifies the type of spending that the adjustments budget may provide for. This is sort of adjustment that would only be invoked due to significant and unforeseeable economic and financial events. Seda's budget was reduced by 10 percent, downscaling certain planned interventions. Programmes one and two were allocated 79 percent of the budget and spent 78 percent. The year ended with a 22 percent under-expenditure, which contributed to overall underperformance. According to Seda, "the main reason for the underperformance was Covid-19's effect on face-to-face client engagement, group interventions and trainings, travel and trade, exhibitions and international trade missions, and visits to client premises to assess operations and recommend interventions".

#### 5.1.5 Report of the Auditor-General

For the first time in many years Seda could not achieve clean audit opinion. According to AG, "Seda audit opinion have regressed to an unqualified audit with material findings on compliance with laws and regulations related to the public entity not having adequate controls to collect all revenue from long outstanding debtors, as well as material adjustments made to submitted financial statements as a result of material misstatements identified through the audit process". The AG cited numerous reasons as triggering this poor showing by Seda some of which are -

- Slow response in improving key controls and addressing risk areas pertaining to: Inadequate implementation and monitoring of action plans by these roles players to address key audit matters have been identified as a root cause for the repeat findings;
- Material adjustments had to be performed that resulted in the entity receiving an unqualified opinion and the major root case was not implementing proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support performance reporting;
- There were no adequate controls in place to collect revenue from long outstanding debtors and there were recurring instances of casting errors in the provisions note;
- Irregular expenditure increased from R0 to R266 639 in the current year as result of the expired operating lease contract which was not monitored and quotation contract awarded to a supplier that did not achieve the highest score rating;
- The area of Information and Communications Technology (ICT) governance has a number of deficiencies particularly the lack of ICT governance framework, the ICT strategic plan not



being approved, eight (8) incomplete ICT risk treatment plans, the ICT steering committee not being fully functional, lack of IT training for IT staff, IT skill development plans not being developed, an inadequate IT disaster recovery and service continuity contract;

- The instability and prolonged vacancies in key positions can cause a competency gap and affect the rate of an improvement in the audit outcomes, capacity to undertake post-site visits was not adequate.

## **5.2 Small Enterprise Finance Agency**

Small Enterprise Finance Agency is an agency of the Department of Small Business Development entrusted with the responsibility to champion access to finance for small enterprises. Sefa's loan financing programmes primarily focus on black entrepreneurs, women, youth, entrepreneurs with disabilities, enterprises in rural communities and townships, and Military Veterans. These programmes are aligned with the New Growth Path (NGP), Industrial Policy Action (IPAP) and the National Development Plan (NDP). The agency's budget allocation are funded by the following revenue streams i) government annual transfers, ii) interest income and dividends, iii) property rental income and iv) donor funding. Sefa's operating model makes provision for financing and support to small, micro, medium and co-operative enterprises through its regional office network and indirectly through intermediary financial institutions such as Retail Finance Intermediaries (RFIs), Microfinance Finance Institutions (MFIs), Funds, Joint Ventures (JVs) and Co-operative Financial Institutions (CFIs). In addition, the agency administers a Credit Guarantee Scheme that indemnifies banks and other financial institutions who provide credit facilities to small businesses against possible default.

### **5.2.1 Overview of the Service Delivery Performance**

As an agency of the DSBD, Sefa's programmes are responsive to the Department's policy initiatives such as those aimed at addressing imbalances of the past. To offer a holistic approach to small business development, some of these programmes are carried out in collaboration with Seda, which is instrumental in providing non-financial support. Sefa's role in DSBD portfolio strategy is to enhance the financial inclusion of the small business sector and to build a sustainable funding ecosystem that responds with speed, to small enterprises' needs.

The agency offers four main products, namely, Direct Loans (asset finance, Term Loans, Revolving loans and Bridging loans, Purchase Order Product and Amavulandela Scheme for 48 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. Accordingly, on 20 May 2020 Sefa appeared before the Portfolio Committee to present its Annual Performance and Corporate Plan and pledged to deliver against the target as captured in table 13 below.

**Table 13: Corporate Performance Scorecard**

| Measurement Indicator   | FY 2020/21     | 2021/22        | 2022/23        | 2023/24        | 2024/25        | 5-year Target  |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Loan Book Performance</b>  |                |                |                |                |                |                |
| Total Approvals - sefa and TEF (R'000)                                    | 1,894,905      | 2,118,492      | 2,170,584      | 2,252,780      | 2,389,787      | 10,826,548     |
| Approvals - sefa (R'000)  | 1,265,905      | 1,268,492      | 1,270,584      | 1,314,780      | 1,361,187      | 6,480,948      |
| Approvals - TEF (R'000)   | 629,000        | 850,000        | 900,000        | 938,000        | 1,028,600      | 4,345,600      |
| Total disbursements to SMMEs and Co-operatives (R'000)                    | 1,886,166      | 2,031,274      | 2,144,708      | 2,215,078      | 2,306,042      | 10,583,269     |
| Number of SMMEs and Co-operatives financed                                | 148,202        | 154,011        | 160,798        | 167,004        | 176,061        | 806,076        |
| <b>Number of jobs facilitated</b>   | <b>180,197</b> | <b>188,667</b> | <b>196,352</b> | <b>203,135</b> | <b>212,797</b> | <b>981,148</b> |
| <b>Development Impact</b>   |                |                |                |                |                |                |
| Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000) | 721,913        | 812,510        | 857,883        | 886,031        | 922,417        | 4,200,754      |
| Facilities disbursed to enterprises to rural towns and villages (R'000)   | 848,775        | 475,797        | 424,032        | 462,468        | 519,428        | 2,730,500      |
| Facilities disbursed to women-owned businesses (R'000)                    | 926,806        | 1,015,637      | 1,072,354      | 1,107,539      | 1,153,021      | 5,275,358      |
| Facilities disbursed to black-owned businesses (R'000)                    | 1,584,434      | 1,709,715      | 1,807,260      | 1,871,405      | 1,955,832      | 5,101,409      |
| Disbursements to township-based enterprises (R'000)                       | 1,138,656      | 1,217,757      | 1,288,262      | 1,328,178      | 1,382,042      | 6,354,895      |
| Facilities to people with disabilities (R'000)                            | 56,585         | 60,938         | 64,341         | 66,452         | 69,181         | 317,498        |

**Source: Sefa Corporate Plan (2021/25)**

Sefa performance against the predetermined objectives during the past financial year is shown below on table 14 per each channel the agency uses to lend money. As at 31 March 2021, Sefa's portfolio had a balance of R2.5 billion including funds, up 32 percent compared to R1.9 billion recorded at the end of 2020 financial year. The Wholesale Lending portfolio is currently at R1.2 billion, while Direct Lending portfolio constituted R1.3 billion or 53 percent of total portfolio. The significant increase in the portfolio balance was driven largely by the COVID-19 relief programme, with R513 million in SMME Debt Relief Fund approvals and the subsequent disbursements of R316.2 million during the period under review.

**Table 14: Loan Book Performance**

| Criteria                   | Direct Lending | SME Wholesale Lending | Informal & Micro-Finance Lending | Khula Credit Guarantee |
|----------------------------|----------------|-----------------------|----------------------------------|------------------------|
| Approvals                  | 1,242 billion  | 455 million           | 55 million                       | 130 million            |
| Disbursements              | 832 million    | 306.6 million         | 239 million                      | 239 million            |
| Number of SMMEs financed   | 1 443          | 558                   | 57 875                           | 5 224                  |
| Number of jobs facilitated | 19 700         | 7 033                 | 57 959                           | 6 596                  |

**Source: Sefa Annual Report (2020/21)**

To enhance portfolio collections, the Post Investment Management and Workout and Restructuring team embarked on a pro-active portfolio management strategy. Although several accounts were given a payment holiday, when they were due, Sefa team managed to collect, in total, R400 million against a target of R325 million, which was also higher than the previous year's collections of R355 million. The establishment of a separate collections function during the year under review has been a key driver behind this achievement. In respect of audit outcomes, the agency did exceedingly well by accomplishing unqualified clean audit opinions since inception on 1 April 2012.

## 6. OBSERVATIONS



Having reflected on the Department, Sefa and Seda annual reports for 2020/21 financial year, the Portfolio Committee hereby registers the following observations for consideration by the Department: -

6.1 The Covid-19 pandemic is causing unimaginable damage to the small business sector. The Portfolio Committee is mindful of the difficult conditions within which the Department must discharge its responsibility. It is also cognisant of the interruptions that the pandemic has had on the targets and budgets of the Department and entities;

6.2 There is a noticeable pattern of underspending across all programmes of the Department and Seda. Both organisations attribute this low spending to high vacant posts especially at senior management level. Despite budgetary constraints, the Department continues to underspend on important services and surrender funds to the National Revenue;

6.3 Whereas Seda's total revenue budget for 2020/21 fiscal year was R883 million, the actual expenditure for the period 1 April 2020 to 31 March 2021 amounted to R773 million resulting in a pro-rata underspending of R218 million;

6.4 The Committee has also been advised that due to an imminent merger between Sefa and Seda, as well as Co-operatives Bank Development Agency there is a moratorium on filling of vacant posts. The Portfolio Committee remains in the dark as regards the progress or current developments concerning the merger;

6.5 The Committee has observed a continuous pattern of deferring the tabling of draft bills to Parliament. In terms of the Department's 2019/20 APP all legislative initiatives planned for completion were adjourned for tabling during 2020/21 financial year(s) and again to 2021/22 financial year e.g. National Small Enterprise Business Act, revision of the Integrated on the Promotion of Entrepreneurship and Small Enterprises and review of the Integrated Strategy on the Development and Promotion of Co-operatives (2012 - 2022). The Committee is concerned with this perpetual postponement;

6.6 Regarding the audit outcomes the Portfolio Committee is pleased with the overall performance of the portfolio but notes that there is still room for improvement. Sefa achievement of consecutive clean audit outcomes since inception is applauded. Seda backsliding from clean to unqualified audit opinion with findings require urgent attention while audit outcome of the Department is welcomed;

6.7 However, the audit opinion of the Department has remained unchanged for the past five financial years. The main obstacles preventing the Department from obtaining a clean audit outcome remains the quality of submitted annual performance reports;

6.8 The Committee is concerned that audit areas flagged for improvement during the past financial years keep resurfacing e.g. material non-compliance with the various incentive guidelines has been reported, the systems to collect and report on achievements related to these incentives were not adequate to ensure credible information, adjustments were required during audit process on four incentive related achievements, there was no evidence that the Department performed post approval site visits for the paid applicants for both BBSDP and CIS;

6.9 The Portfolio Committee has noted AG forewarnings that Management (accounting officers/ authorities and senior management) do not respond timeously and with the required urgency in addressing risks and improving internal controls;

6.10 The AG further notes that slow response by management in addressing compliance related matters pertaining to: Inadequate implementation and monitoring of action plans by these role players to address key audit matters have been identified as a root cause for the repeat findings. This is particularly relevant to the compliance monitoring environment of the Department.

## **7. RECOMMENDATIONS**

Informed by its deliberations, the Portfolio Committee recommends that the Minister of Small Business Development take steps to ensure that -:

7.1 The Department act swiftly in dealing and implementing AG recommendations. There should be necessary urgency by management in responding to the AG's requests relating to addressing risks identified and improving internal controls that will improve the audit outcomes of both the Department and entities;

- 7.2 There should be regular and timely reviews of performance information by senior management to ensure that valid, accurate and complete reporting is done to minimise reporting errors;
- 7.3 The Department should take appropriate steps to ensure that identified deficiencies in internal controls are addressed by management to mitigate against recurrence of the findings with regard to the usefulness and reliability of the reported performance information. Management should also develop an action plan to respond to address the findings raised by the AGSA;
- 7.4 Non-compliance with key legislation which remains a challenge especially in Supply Chain Management (SCM), which has led to irregular expenditure and fruitless and wasteful expenditure being incurred is addressed;
- 7.5 Effective monitoring and oversight by the Accounting Officer, Internal Audit and Audit Committee is adhered to. These are critical in ensuring that the audit outcomes in the performance information environment of the Department is maintained in future years;
- 7.6 The vacant posts are filled. The Committee is mindful that filling of vacant posts is reliant on a successful finalisation of the merger of DSBD entities and CBDA. However, this process should not be achieved at the expense of service delivery. Strategic posts have remained vacant for too long and this is affecting the performance of the Department and entities. The process must be fast-tracked and finalized before the end of 31 March 2022;
- 7.7 The Accounting Officer, EXCO, Management or responsible officials do adhere to their obligation of ensuring that site visits are conducted to all beneficiaries of the Department and Seda programmes in order to verify if goods and services are/were actually delivered/received through pre-and post-site visits. Owing to Seda geographic footprint the agency could be utilised for this purpose. While Parliamentary Constituency Offices (PCOs) should also be explored to grow DSBD countrywide footprint;
- 7.8 The Department looks at efficient spending of its baseline funds and promptly identify idling reserves in order to avoid future and undesirable virements and suspensions. Poor spending on programmes as well as goods and services which are usually a manifestation of vacant posts, are typically the basic triggers and motivation behind such virements;
- 7.9 All outstanding bills e.g. review of the National Small Enterprise Act (1996) are accelerated and tabled to Parliament in line with the strategic plan and successive annual performance plans of the Department before 31 March 2022;
- 7.10 The Department position with respect to the review of the Co-operatives Act (as amended), Business Act (1991), soon to be transferred Co-operative Banks Act (2007) is 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).

Unless otherwise indicated, responses to the above recommendations should be submitted to the National Assembly not later than three months after the adoption of this report by the National Assembly.

Report to be considered.