**Report of the Portfolio Committee on Small Business Development on Budget Vote 36: Small Business Development for the 2022/23 financial year, dated 4 May 2022**

**1. INTRODUCTION**

The Portfolio Committee on Small Business Development (the Portfolio Committee) having considered Annual Performance Plans (APPs) and budget allocations of the Department of Small Business Development (the Department), alternatively (DSBD), and its entities, namely the Small Enterprise Finance Agency (Sefa) and the 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 outline of the State's Budget: how much money will be or ought to be spent, on what, in that financial year. The Minister of Finance delivered his budget speech on 23 February 2022. His speech set the pace for the tabling of the revised Strategic Plans, Annual Performance Plans and budgets. The Department also complied with this statutory obligation by tabling its budget vote before Parliament, which amongst others, proposes how the Department aim to reconcile its resources with the service delivery imperatives as outlined by the President of the Republic of South Africa in the State of the Nation Address. One of the foremost constitutional function of the Parliament is to therefore discuss, pass and oversee the budget of the Department.

The Department of Small Business Development’s Budget (Vote No. 36) was referred to the Portfolio Committee for consideration and reporting. 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. The annual performance plan shows funded service-delivery targets or projections. While 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). This budget vote report covers the current financial year and the following two outer years.

**1.2 Purpose of the Budget Vote**

The budget is a political and financial instrument that the government employs 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 thus 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. The purpose of vote 36 of the Department in this regard is to promote the development of small businesses 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, vote 36, over the 2022/23 financial year;
		2. To peruse vote 39 in relation to Sefa as the agency is still being funded through the Department of Trade, Industry and Competition (DTIC) via 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 36 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**

Due to the country’s ongoing lockdown as a consequent of the Covid-19 pandemic, Portfolio Committee meetings are still being held virtually. In compliance with the referral by the National Assembly, the Portfolio Committee held briefings with the Department of Public Service Administration (DPSA), Seda and Sefa on 19 and 20 April 2022, and later with the Department of Small Business Development on 29 April 2022. This budget vote report is accordingly a culmination of that interaction.

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

**2.1 Aim and Purpose of the Department**

To lead and coordinate an integrated approach to the promotion and development of entrepreneurship, Small, Micro and Medium Enterprises (SMMEs) and Co-operatives, and to ensure an enabling legislative and policy environment to support their growth and sustainability.

**2.2 Mandate of the Department**

The Department of Small Business Development is tasked with the responsibility of leading and coordinating an integrated approach to the promotion and development of entrepreneurship, small businesses and co-operatives; and ensuring an enabling legislative and policy environment to support their growth and sustainability. The realisation of this mandate will lead to a transformed economy, increased employment, and the reduction of poverty and inequality. A legislative framework that includes the following acts guide the Department’s mandate -:

* the National Small Enterprise Act (1996);
* Business Act (1991);
* National Small Business Amendment Act (2004);
* Section 3(d) of the Industrial Development Corporation Act (1940);
* Co-operatives Development Act (2005);
* Co-operatives Amendment Act (2013) and;
* the Co-operatives development policy.

**2.3 Vision of the Department**

A transformed and inclusive economy driven by sustainable, innovative SMMEs and Co-operatives.

**2.4 Mission of the Department**

The coordination, integration and mobilization of efforts and resources towards the creation of an enabling environment for the growth and sustainability of SMMEs and Co-operatives.

**2.5 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;
* Commitment and;
* Caring organisation.

**2.6 Programme Structure (2022/23)**

The structure of the Department during the current financial year consist of the following four programmes -

**Table 1: Programme Structure**

|  |  |  |
| --- | --- | --- |
| **NO.**  | **Programme Programme Name** | **Sub-Programmes** |
| **Programme 1** | **Administration** | * Ministry;
* Departmental Management (Office of the DG);
* Corporate Management;
* Financial Management;
 |
| **Programme 2** | **Sector and Market Development** | * Research;
* Business Information and Knowledge Management;
* Ease of Doing Business;
* Access to Market Support;
* Sector Specific Support.
 |
| **Programme 3** | **Development Finance** | * Programme Policy;
* SMMEs Design and Support;
* Risk Cover & Business Rescue;
* Co-operative Support;
* Monitor and Report on entity transfers.
 |
| **Programme 4**  | **Enterprise Development**  | * Enterprise and Supplier Development;
* Entities Performance;
* SMME Competiveness;
* Entrepreneurship;
* Policy and Legislation Support (IGR and Coordination).
 |

**Source: DSBD Annual Performance Plan (2022/23)**

**3. POLICY AND LEGISLATIVE PRIORITIES FOR 2022/23**

**3.1 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.

**3.2 The Medium Term Strategic Framework**

With respect to the seven (7) priorities identified in the Medium Term Strategic Framework (2019), the Department has a primary/lead role in relation to Priority 2: Economic Transformation and Job Creation and their related sub-outcomes and interventions which are as follows -

* Upscale and expand support to small businesses;
* Creating more jobs;
* Inclusive economic growth;
* Re-industrialisation of the economy and emergence of globally competitive sectors;
* Increased access to and uptake of Information and Communication Technology (ICT);
* Competitive and accessible markets through reduced share of dominant firms in priority sectors; and
* Mainstreaming of Youth, Women, and Persons with Disabilities with minimum 40% target for Women, 30% for Youth and 7% for Persons with disabilities in the SMMEs and Co-operatives Sector.

**3.3 State of the Nation Address**

During the State of the Nation Address (2022) the President underscored the role of the small enterprise sector as an engine of economic growth. He further announced strategic interventions for execution during the current financial year in order to reinforce the sector’s contribution to growth and development. The President cited, amongst others, the government efforts in reviewing the Business Act – alongside broader evaluation of legislations that affect SMMEs, and the reduction of regulatory burden on informal businesses.

He informed the nation that in an endeavour to improve the business environment for companies of all sizes, a dedicated capacity in the Presidency was being established to cut red tape across government. Accordingly, the red tape team to be headed by Mr Sipho Nkosi, Chairperson of the Small Business Institute, is being established and expected to identify priority reforms for the year ahead, including mechanisms to ensure government departments pay suppliers within the required 30 days. The team will also work with other departments and agencies to unblock specific obstacles to investment and business growth.

**3.4 The Economic Reconstruction and Recovery Plan**

The world will take years to recover from the Covid-19 pandemic. The pace of economic recovery is massively divergent across developing, middle-income to wealthy nations. South Africa has not been insulated as raptures caused by Covid-19 pandemic continue to expose major fault lines and inequities. It is in this context that South African government has crafted a strategic blueprint for economic recovery, the Economic Reconstruction and Recovery Plan (ERRP). The 2022/23 APP is thus presented within the context of driving the implementation of the ERRP. The plan has the following five key policy pillars -

* 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.

**3.5 Planned Legislative and Policy Initiatives**

Since proclamation in 2014, the Department of Small Business Development has not tabled any new bill nor amendment for consideration by Parliament. During the previous financial years, it had undertaken to review and table amendments to the National Small Enterprise Act (1996), Business Act (1991) and finalise the definition of SMMEs. The draft bill i.e. National Small Enterprise Amendment Bill was published for public comment in Government Gazette 43981 in December 2020. However, no significant progress has been registered to date. As in previous year, the Department has prioritised the conclusion of the SMMEs and Co-operatives Funding Policy as well as the business case for the new single small business support entity.

**4. OVERVIEW OF THE 2022/23 BUDGET ALLOCATIONS AND PROGRAMME PERFORMANCE PLANS**

As the Department proceeds to implement its roadmap, pursue a specific direction and performance goals, medium term focus will be on providing support to SMMEs, co-operatives and informal traders. This will include the establishment of support infrastructure to expose SMMEs and co-operatives to new markets, improve access to finance and markets as well as finalise amendments to the National Small Enterprise Act (1996). Expenditure is expected to increase at an average annual rate of 0.6 per cent, from R2.6 billion in 2021/22 to R2.7 billion in 2024/25. Transfers and subsidies account for 89.6 per cent (R7 billion) of the department’s budget over the period ahead, while 7.8 per cent (R657 million) is allocated for compensation of employees and 2.5 per cent (R191.3 million) for goods and services.

On policy and legislative front, the Department has been allocated R416 million to craft national small enterprise master plan, establish a Small Enterprise Ombud Service, review the Business Act, review the definition of the SMMEs and finalise amendments to the National Small Enterprise Act (1996). Over the medium term, Seda and Sefa will be allocated R2.8 and R2.9 billion respectively in order to provide support to SMMEs through internally administered incentives such as the Craft Customised Sector Programme and the Co-operatives Development Support Programme under Programme three, link 750 SMMEs and Co-operatives to international market opportunities, with particular emphasis on enterprises run by women, young people and people with disabilities. To ensure that small businesses are able to access opportunities and dedicated support measures, the Department plans to develop a National Small Enterprise Master Plan and contribute to the development of a creative industries master plan. Spending for these initiatives is within an allocation of R416 million over the MTEF period in the Sector and Market Development programme.

**Table 2: Overview of 2022/23 MTEF Budget Estimates**

|  |  |
| --- | --- |
| **Programme** | **MTEF** |
| **2022/23****(R’000)** | **2023/24****(R’000)** | **2024/25****(R’000)** | **TOTAL****(R’000)** |
| **Administration** | 126.8 | 136.4 | 146.9 | 410.1 |
| **Sector and Market Development** | 131.4 | 137.9 | 146.7 | 416.0 |
| **Development Finance** | 1 370.7 | 1 348.8 | 1 396.3 | 4 115.8 |
| **Enterprise Development** | 934.2 | 946.8 | 995.5 | 2 876.4 |
| **TOTAL** | **2 563.1** | **2 569.9** | **2 685.3** | **7 818.4** |

**Source: National Treasury ENE (2022/23)**

**4.1 Programme 1: Administration**

The purpose of programme one is to provide strategic leadership, management and support services to the Department. Programme 1 has four sub-programme and sub-purpose to perform the following functions -:

* Ministry - provide administrative and logistical support to the Minister and Deputy Minister, as well as support staff and make provision for their salaries;
* Departmental Management (Office of the DG) - provide strategic leadership, management and support services to the Director General and the Department;
* Corporate Services - provide enterprise-wide support services comprising of human resources, legal services, learning and development and transformation policy and coordination;
* Financial Management - provide strategic leadership and advice on supply chain, financial and asset management related services to the department; and

**Table 3: Programme 1 - Administration**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme 1: Administration** | **2022/23** | **2023/24** | **2024/25** | **Total MTEF** |
| **Sub-programmes** | **R'000** | **R'000** | **R'000** |  **R'000** |
| Ministry | 28 680 | 28 767 | 29 143 | 86 590 |
| Departmental Management | 31 688 | 34 023 | 39 306 | 105 017 |
| Corporate Services | 40 712 | 45 287 | 48 034 | 134 033 |
| Financial Management | 25 757 | 28 294 | 30 456 | 84 507 |
| **Total** | **126 837** | **136 371** | **146 939** | **410 147** |

**Source: DSBD Annual Performance Plan 2022/23**

MTEF allocation under programme one increased from R356 million during the previous financial to R410 million in 2022/23 fiscal year. All four sub-programmes constituting the programme have slightly improved their distributions as follows: Ministry has R87 million, Departmental Management (ODG) has R105 million, Corporate Management has R134 million while Financial Management is allocated R85 million. Programme one is responsible for, inter alia, 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.

**4.2 Programme 2: Sector and Market Development**

The purpose of programme 2 is to facilitate and increase access to markets for SMMEs and co-operatives through business information, product development support and value chain integration. The Programme is responsible for the following sub-programmes -:

* Sector and Market Development – provide leadership to the branch and support entry and growth of SMMEs in prioritised and designated sectors of the economy;
* Business Information and Knowledge Management – provide evidence based (economic analysis, econometrics, research) business information to direct sector thought leadership;
* Ease of Doing Business – reduce the administrative and regulatory burden of doing business for SMMEs;
* Access to Market Support – provide domestic and international market support services to SMMEs.

**Table 4: Programme 2 - Sector and Market Development**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SECTOR AND MARKET DEVELOPMENT** | **2022/23** | **2023/24** | **2024/25** | **Total MTEF** |
| **Sub-programmes** | **R'000** | **R'000** | **R'000** |  **R'000** |
| Sector and Market Development Management | 2 189 | 2 177 | 2 190 | 6 556 |
| Business Intelligence & Knowledge Management | 21 073 | 23 478 | 24 830 | 69 381 |
| Ease of Doing Business | 5 318 | 7 091 | 8 312 | 20 721 |
| Access to market support | 102 854 | 105 198 | 111 319 | 319 371 |
| **Total** | **131 434** | **137 944** | **146 651** | **416 029** |

**Source: DSBD Annual Performance Plan 2022/23**

Programme two allocation is down from R418 million to R416 million over the medium term. The allocation for four sub-programmes making-up programme two is distributed as follows: Sector and Market Development Management has R6.7 million, Business Intelligence and Knowledge Management has R69 million, Ease of Doing Business has R21 million and Access to Market Support has R319 million. Through programme two, the Department facilitates and increase access to markets for SMMEs and co-operatives through disseminating business information, product development support and value chain integration, business infrastructure etc.

**4.3 Programme 3: Development Finance**

The purpose of the programme is to expand access to finance for SMMEs and co-operatives. Programme three is separated into four sub-programmes namely –

* Development Finance Management – to provide leadership to the branch and support entry and growth of SMMEs in prioritised and designated sectors of the economy;
* Model Funding Collaboration – to create an enabling financial support structures for SMMEs;
* Blended Finance – to design blended financial support initiatives for SMMEs;
* Business Viability – to provide business assurance strategies for SMMEs.

**Table 5: Programme 3 - Development Finance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DEVELOPMENT FINANCE**  | **2022/23** | **2023/24** | **2024/25** | **Total MTEF** |
| **Sub-programmes** | **R'000** | **R'000** | **R'000** |  **R'000** |
| Development Finance Management  | 2 337 | 2 338 | 2 351 | 7 026 |
| Business Viability  | 4 251 | 4 261 | 6 675 | 15 187 |
| Blended Finance  | 1 345 702 | 1 321 706 | 1 366 778 | 4 034 186 |
| Model Funding collaboration  | 18 364 | 20 537 | 20 470 | 59 371 |
| **Total** | **1 370 654** | **1 348 842** | **1 396 274** | **4 115 770** |

**Source: DSBD Annual Performance Plan 2022/23**

The Programme has an allocation of R4.115 billion over the medium-term with four sub-programmes - Development Finance Management has been apportioned R7 million, Business Viability has R59 million, Blended Finance has R4 billion and Model Funding Collaboration has R15 million. During the MTEF period, the programme will ensure that the SMME’s and Co-operatives Funding Policy is approved and implemented to promote broader participation in the mainstream economy by small businesses. Through this programme, the Department will implement the Township and Rural Enterprises Programme (TREP) incentives schemes that are meant to stimulate and facilitate the development of sustainable and competitive enterprises in the township and rural areas. The Department has introduced a blended finance model that entails de-risking enterprises traditionally not supported by commercial banks and existing development finance institutions. This is done through matching a loan facility to a grant, which is allocated R827.3 million over the medium term expenditure period.

**4.4 Programme 4: Enterprise Development**

The purpose of Programme 4 is to administer the promotion of an ecosystem that enhances entrepreneurship and the establishment, growth and sustainability of small businesses and Co-operatives as well as coordinating business development support interventions across various spheres of Government. The Programme has the following sub-programme –

* Enterprise Development Management – provide leadership to the branch, exercise oversight in the execution of programmes by the implementing agencies and coordinate the provision of an entrepreneurship development and support service infrastructure;
* Enterprise and Supplier Development – drive the transformation of the economy through the formulation of policy instruments and advocacy work aimed at the inclusion of SMME’s in the mainstream economy and;
* SMME Competitiveness – work with Municipalities through their integrated Development Plans to develop, enhance and implement enterprise development programmes toward improved Local Economic Development (LED).

**Table 6: Programme 4 - Enterprise Development**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ENTERPRISE DEVELOPMENT** | **2022/23** | **2023/24** | **2024/25** | **Total MTEF** |
| **Sub-programmes** | **R'000** | **R'000** | **R'000** |  **R'000** |
| Enterprise Development Management  | 2 308 | 2 308 | 2 320 | 6 936 |
| Enterprise and Supplier Development  | 900 466 | 909 797 | 952 829 | 2 763 092 |
| SMME Competitiveness  | 31 410 | 34 664 | 40 327 | 106 402 |
| **Total** | **934 184** | **946 770** | **995 476** | **2 876 430** |

**Source: DSBD Annual Performance Plan 2022/23**

Programme 4 (Enterprise Development) has been allocated R2.8 billion over the medium-term with three sub-programmes funded as follows: The Enterprise Development Management has R7 million, Enterprise and Supplier Development has an allocation of R2.8 billion, and SMME Competitiveness up from R46 million in 2021/22 to R106 million during the current financial year. The “assessment review of SMME regulatory impediments to reform” is a new output. It is introduced during 2022/23 financial year to assist the Department detect regulatory impediments impacting on SMMEs and Co-operatives growth and sustainability.

**5. OVERVIEW OF THE STRATEGIC FOCUS OF THE PUBLIC ENTITIES OF THE DEPARTMENT**

Currently, there are two agencies reporting to the Department, that is Seda and Sefa. However, in August 2021 the Cabinet resolved to consolidate them, together with Co-operatives Banks Development Agency (CBDA) into a single agency. The merger was initially set to be effective from 1 April 2022. Nevertheless, on 6 April 2022, Cabinet approved a 20-month extension period for the amalgamation of three entities. For the next two years entities will continue to receive their budgets via different budget votes i.e. budget vote 8, 36 and 39.

**5.1 Small Enterprise Finance Agency**

**5.1.1 Background and Mandate**

The Small Enterprise Finance Agency (Sefa) was established in April 2012 following a merger 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) which seeks “to foster the development of small and medium enterprises and co-operatives”. It is thus a wholly owned subsidiary of IDC. In terms of the Public Finance Management Act, Sefa is a schedule 2 entity (in line with the parent entity IDC) and still receive its budget allocation via vote 39.

**5.1.2 Sefa’s Vision, Mission, Values and Strategic Objectives**

The table below highlights a strategic overview of Sefa’s vision, mission, values and core objectives -

**Table 7: Sefa Mission, Values and Strategic Objectives**

|  |  |
| --- | --- |
| **Vision** | To be the leading catalyst for the development of sustainable small, micro, medium and co-operative enterprises through finance. |
| **Mission** | To provide simple access to finance, efficiently and sustainably, for SMMEs and co-operatives throughout South Africa by -* Offering innovative funding facilities and credit guarantees;
* Promoting client sustainability through post-investment support and capacity building;
* Promoting financial inclusion and wealth creation through partnerships and innovative product development;
* Leveraging strategic assets to ensure sustainability and broadening support to beneficiaries
 |
| **Values** | Sefa’s 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.
 |
| **Strategic Objectives** | * Ensure Sefa’s is a high impact, high-performance DFI that is responsive to the government’s microeconomic policies and specifically the DSBD MTEF plan;
* Align Sefa’s organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy;
* Develop the Sefa brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models;
* Improve Sefa sustainability, operational effectiveness, efficiency and service delivery by streamlining business processes and deploying technology solutions.
 |

**Source: Sefa Corporate Plan 2021/2025**

**5.1.3 Legislative and Policy Mandate**

Sefa’s operations are governed and guided by a wide range of legislative requirements and government policies. The table below outlines the most prominent policies and Acts that guide and influence Sefaoperations.

**Table 8: Guiding Legislations**

|  |
| --- |
| **Policies and legislation that guides Sefa Operations** |
| **Foundational Policies** | **Sector-Based****Policies** | **Legislation** |
| The National Strategy on theDevelopment and Promotion ofSmall Business in South Africa (1995) | Co-operativesDevelopment Policy(2004) | National Small Business Act(1996; revised 2004) |
| Integrated Small BusinessDevelopment Strategy (2004 –2014) | Integrated Strategy onthe Development andPromotion of Cooperatives(2012) | National Credit Act |
| The Integrated Strategy on thePromotion of Entrepreneurship andSmall Enterprises (2005) | National InformalBusiness UpliftmentStrategy (2013) | Industrial Development Act |
|  | Youth EnterpriseDevelopment Strategy2013-2023 (2014) | Financial Intelligence CentreAct (FICA) |
|  | Consumer Protection Act,2008 |
| Companies Act of 2011 |
| Co-operatives Act (No. 14 of2005) |
| Short Term Insurance Act |
| Promotion of Access toInformation Act, 2000 |
| Public Finance ManagementAct (1999 as amended) |

**Source: Sefa Annual Performance Plan 2022/23**

* + 1. **Strategic Priorities Underpinning Planning (2022/23)**

This 2022/23 Corporate Annual Performance Plan is for year three of the five-year Strategic Plan 2019/24. It builds on both the achievements and challenges experienced in the prior years. The following priorities have informed this Corporate Annual Performance Plan -

1. **Building a sustainable loan book**
* Expansion of credit and decreasing impairments;
* Investment and building of sustainable black-owned financial intermediary base;
* Focus on building client’s sustainability (capacity building services);
* Implement a coherent strategy to raise capital in order to grow the loan book;
* Implement loan programmes that are responsive to government policies and programmes.
1. **Improving performance on key development indicators**
* Introduce targeted loan programmes to promote financial inclusion, and strengthen focus on enterprises owned by youth, women, people with disabilities, and those based in townships;
* Strengthen capacity of microfinance division, and address dependence on just two microfinance intermediaries.
1. **Improving the cost structure**
* Drive cost efficiency (funding model, right-sizing, etc.);
* Fast-track systems development and digitisation;
* Implement the turnaround strategy for the property portfolio - design products to leverage the portfolio to respond to infrastructure requirements of SMMEs;
* Strengthen PIM capability to improve the performance of the loan book.
1. **Enhancing organisational capabilities across Sefa value chain**
* Establish a project management capability to drive organisational projects, including merger considerations;
* Establish a Treasury function in the merged entity, to better manage capital raising and funds received;
* Conclude the organisational review process and optimise the functioning of Sefa;
* Establish KCG and KBP as fully operating subsidiaries of **sefa**.
1. **Building the Sefa brand and increasing Sefa visibility**
* Increase investment in marketing and client outreach;
* Strengthen collaboration with key participants (public and private sector, and donors) in the eco-system – for different parts of the value chain;
* Strengthen Sefa sectoral research and knowledge management capabilities – utilise the body of knowledge to strengthen programme design and implementation.

**5.1.5 Sefa Budget Consideration**

Over the medium term, Sefa will put effort on implementing economic recovery programmes, and continue to manage Covid‐19 relief programmes such as the SMME debt relief fund, the business growth/resilience facility introduced in the previous financial year as well as the Back Support Scheme announced by National Treasury on 26 April 2022. The Scheme will also help those businesses recovering from the July 2021 civil unrest in KwaZulu-Natal and Gauteng, as well as the current on-going flood related disaster in KwaZulu Natal, Eastern Cape and Northern Cape. Though this may be adjusted during the course of the financial year, but in terms of the initial estimates, Sefa expects to approve R6.3 billion in finance over the period ahead for SMMEs and Co-operatives and disburse R5.1 billion. Expenditure is expected to decrease at an average annual rate of 7 per cent, from R1.4 billion in 2021/22 to R1.1 billion in 2024/25. This is mainly due to lower grant expenses, lower provisions for insurance claims and expenses and various cost reduction initiatives.

Transfers from the Department account for an estimated 64.3 per cent (R1.8 billion) of the agency’s revenue over the medium term, with the remainder generated by interest on loans and advances to clients, fees on loans, and rental income. Revenue is expected to increase at an average annual rate of 6.9 per cent, from R937.1 million in 2021/22 to R1.1 billion in 2024/25, mainly due to a projected increase in interest income as lending activities increase. According to Sefa, the 2022/23 budgets were prepared in line with the priorities of the agency’s Corporate Annual Performance Plan which was presented to Parliament on 19 April 2022. In terms of this APP, Sefa will focus on the following priorities -

* building a sustainable loan book;
* improving performance of the key development indicators;
* improving the cost structure;
* enhancing the organisations capabilities across Sefa value chain and;
* the building of Sefa brand and increasing the Sefa visibility.

**5.2 Small Enterprise Development Agency**

**5.2.1 Background and 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. 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.

**5.2.2 Seda Vision, Mission and Values**

**Table 9: Seda’s Vision, Mission, Values**

|  |  |
| --- | --- |
| **Vision** | To promote entrepreneurship and facilitate the development of small enterprises by providing customized business support services that result in business growth and sustainability in collaboration with other role players in the ecosystem |
| **Mission** | To make a difference in SMMEs live’s everyday |
| **Values** | - Nurture- Innovation- Customer Centricity- Responsible Conduct |

**Source: Seda Strategic Plan (2020 – 2025)**

**5.2.3 Seda Budget Consideration**

Due to belt-tightening measures currently being implemented across the state sector, Seda applies zero-based budgeting. From 2020/21 financial year Seda experienced massive decline in its revenues. Over the medium term, expenditure is expected to increase at an average annual rate of 2.9 per cent, from R870.8 million in 2021/22 to R949.6 million in 2024/25. However, as depicted in table 10 below these allocations are still significantly lower than 20219/20 financial year figures of R952 million. The agency expects to derive 95 per cent (R2.7 billion) of its revenue over the medium term through transfers from the Department. Revenue is expected to increase in line with expenditure. Seda is tasked with the responsibility to promote business competitiveness, viability and localisation, with a particular focus on the development of township, rural and informal businesses by facilitating the establishment of new incubators in these areas. Over the MTEF period, the agency plans to support an estimated 10 500 SMMEs and co-operatives to be competitive in local markets; and create 17 500 jobs within the SMME ecosystem.

**Table 10: Budget Summary (MTEF 2019 - 2025)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Income R’000****(Historical and projected financial years)** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** |
|  |  |  |  |  |  |
| **Audited** | **Budget** |
| SEDA- DSBD Budget from MTEF | 607.3 | 598.8 | 546.9 | 616.7 | 620.7 | 648.6 |
| STP-DSBD from MTEF Budget | 152.3 | 148.6 | 156.5 | 159.4 | 160.5 | 167.7 |
| Seda - National Gazelle | 2.8 | - | - | - | - | - |
| Seda - DSBD Specific Projects | 37.6 | 5.0 | 73.4 | 29.8 | 30.0 | 31.4 |
| STP - Capacity Building  | 36.9 | 16.1 | 15.9 | 16.2 | 16.3 | 17.0 |
| STP- Enterprise Incubation  | 57.8 | 61.0 | 59.6 | 62.0 | 62.4 | 65.2 |
| External earnings | 34.0 | 23.5 | 6.9 | 12.0 | 12.5 | 13.2 |
| Other income | 23.7 | 14.7 | 11.5 | 6.0 | 6.3 | 6.5 |
| **TOTAL INCOME** | **952.4** | **867.7** | **870.8** | **902.2** | **908.7** | **949.6** |
|  |
| **Expenditure R’000** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** |
|  |  |  |  |  |  |
| Compensation of employees | 367.4 | 335.3 | 368.0 | 409.5 | 421.7 | 420.4 |
| Goods and services | 534.4 | 400.8 | 470.5 | 450.9 | 439.6 | 486.6 |
| Depreciation | 14.3 | 12.5 | 13.9 | 18.7 | 19.6 | 14.8 |
| Sub-total | 916.1 | 748.7 | 852.4 | 879.1 | 880.9 | 921.8 |
| Capital expenditure | 15.0 | 24.2 | 18.4 | 23.2 | 27.7 | 27.7 |
| **TOTAL EXPENDITURE** | **931.2** | **772.8** | **870.8** | **902.2** | **908.7** | **949.6** |

**Source: SEDA Annual Performance Plan (2022/23)**

**5.2.4 Seda Programme Summary**

**5.2.4.1 Programme 1: Township, Rural and Informal Businesses**

The purpose of Programme 1 is to support rural, township based enterprises and informal businesses to ensure that they are competitive and contribute meaningfully. Table 11 below provides summary of performance indicators, quarterly and annual indicators. All the outputs measures are structured to provide indication whether the outcome goal of increasing the entrepreneurship awareness, growth and sustainability of township and rural-based SMMEs and Cooperatives and the integration and co-ordinated ecosystem to support SMMEs and Cooperatives will be achieved over the strategic period.

**Table 11: Programme 1 Output Indicators**

|  |  |  |
| --- | --- | --- |
| **Output Indicators** | **2022/23 Annual Target** | **Quarterly Indicators** |
| **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** |
| Number of SMMEs and Co-operatives reached through entrepreneurship awareness sessions | 20 000 | 3000 | 7000 | 3000 | 7000 |
| Number of Township and Rural Business Supported | 16000 | 3000 | 5000 | 3000 | 5000 |
| Number of Incubation Centres Established | 11 | - | 3 | 4 | 4 |
| Number of New Seda Access Points | 80 | 20 | 20 | 20 | 20 |
| Ecosystem Development Plan | 40% | - | - | 40 | - |

**Source: Seda Annual Performance Plan (2022/23)**

**5.2.4.2 Programme 2: Business Competitiveness and Viability Programme**

The purpose of Programme 2 is to provide support to SMMEs and Co-operativesby providing them with necessarysupport to develop and enhancebusiness production capacity andcapabilities. This also includesimproving their competitivenessin order to access local andinternational markets. There are two outcomes in this programme: increased localisation and market penetration by SMMEs and Co-operatives, and increased growth and sustainability of SMMEs and Co-operatives. Both these outcomes are supported by corresponding outputs, which are intended to track the implementation of the strategy over the MTEF period.

**Table 12: Programme 2 Output Indicators**

|  |  |  |
| --- | --- | --- |
| **Output Indicators** | **2022/23 Annual Target** | **Quarterly Indicators** |
| **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** |
| Number of SMMEs and Cooperatives Exposed to Local Markets | 2000 | 400 | 600 | 400 | 600 |
| Number of SMMEs and Cooperatives Supported to Participate International Markets | 1000 | 200 | 300 | 200 | 300 |
| Number of SMMEs and Cooperatives Assisted through Incubation Programme | 2500 | 500 | 100 | 1500 | 2500 |
| Number of SMMEs and Cooperatives Assisted with Productivity Improvement  | 2000 | 500 | 500 | 500 | 500 |
| Number of SMMEs and Cooperatives Assisted through the Technological Transfer Assistance Programme | 70 | 10 | 20 | 15 | 25 |
| Number of SMMEs and Cooperatives Assisted with Quality Improvement | 2500 | 500 | 750 | 500 | 750 |
| Number of SMMEs and Cooperatives whose Turnover has Increased by 5% p/a | 450 | 100 | 150 | 100 | 100 |
| Number of Jobs Created by SMMEs and Cooperatives | 4000 | 800 | 1200 | 800 | 1200 |
| Number of Jobs Created by SMMEs and CooperativesNumber of Jobs Sustained by SMMEs and Cooperatives | 6000 | 1000 | 2000 | 1000 | 2000 |
| Number of SMMEs and Cooperatives Supported in Priority Sectors(scale up/high growth potential) | 100 | 20 | 30 | 20 | 30 |
| Number of SMMEs and Cooperatives Supported with Training, Mentorship, and Coaching | 20000 | 4000 | 6000 | 4000 | 6000 |

**Source: Seda Annual Performance Plan (2022/23)**

**5.2.4.3 Programme 3: Administration**

The purpose of Programme 3 is toprovide strategic leadership and support to core delivery to ensure successful implementation of the organisations strategy. This includes monitoring organisations performance, strategic alignment with the shareholders’ expectations and capacitating the organisation to achieve its set objectives.

**Table 13: Programme 3 Output Indicators**

|  |  |  |
| --- | --- | --- |
| **Output Indicators** | **2022/23 Annual Targets** | **Quarterly Milestones** |
| **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** |
| Percentage of innovative ideas implemented  | 35% | - | - | - | 35% |
| Percentage of Staff who performed at 311 and Above in performance evaluation | 60% | - | - | - | 60% |
| Percentage of Staff satisfaction | 50% | - | - | 50% | - |
| Percentage of customer satisfaction | 80% | - | - | - | 80% |
| Percentage of vacancy rate  | 10% | 10% | 10% | 10% | 10% |
| Number of Priority Systems Digitised  | 2 | - | - | - | 2 |

**Source: Seda Annual Performance Plan (2022/23)**

**6. OBSERVATIONS**

Having reflected on the Annual Performance Plans and budgets for 2022/23 of the Department, Seda and Sefa, the Portfolio Committee hereby registers the following observations and recommendations for consideration by the Department: -

6.1 The Committee notes and welcome the finalisation of the Creative Industries Masterplan, with pending referral of the National Integrated Small Enterprise Development Masterplan to Cabinet for approval, the finalisation and implementation of the SMME- focused Localisation Policy Framework and Township and Rural Entrepreneurship Programme (TREP).

 6.2 The Committee welcomes the re-introduction of the Small Business Advisory Council. This has been the regular recommendation of the Committee since the fifth administration.

6.3 With respect to measures targeted at cutting the red tape, the Committee supports and welcome the appointment of Mr Sipho Nkosi, a seasoned business expert to assist the government eliminate red tape that stifles small business growth.

6.4 From the time when the Department was proclaimed in 2014, the Committee records that it has not tabled a bill nor legislative amendment for consideration by Parliament in spite of numerous loopholes that necessitates policy or legislative response. The draft National Small Enterprise Amendment Bill intended to amend the National Small Enterprise Act (1996) was published for comments in Government Gazette 43981 in December 2020. However, not much headway has been attained since then.

6.5 The Committee has taken note that in its annual report and subsequent presentation to Parliament, the Department did not make commitment to refer the draft bill to Parliament for finalisation despite assurance during the previous financial cycle, 2021/22, that the Department will ensure that the National Small Enterprise Amendment Bill is taken through Parliamentary processes.

6.6 The Committee is mindful that the Department’s achievement of its objectives pivots on the successful completion of the National Small Enterprise Amendment Bill. For instance, the amalgamation of Sefa, Seda and CBDA must be underpinned by an act of Parliament, the establishment of the Small Enterprise Ombud Office is exclusively reliant on the bill, organisational structure and the definition of SMMEs are all

inextricably intertwined with amendments of the Bill. According to National Treasury, financial resources to the tune of R416 million have been ring-fenced over the MTEF period to establish a Small Enterprise Ombud Service, review the Business Act, review the definition of the SMMEs and finalise amendments to the National Small Enterprise Act (1996).

6.7 The Committee further observes that the Business Amendment Bill to replace the Business Act (1991) will most likely be referred to Parliament in 2025. Performance or output indicators as outlined in the Annual Performance Plan of the Department over the medium term period indicate “progress reports on the review of the Businesses Amendment Bill and proposed changes produced” as performance targets. No referral to Parliament has been made mention of. It is noted that before this act was transferred from the Department of Trade, Industry and Competition (DTIC) to the Department of Small Business Development, the DTIC had already begun drafting and gazetted Licensing of Business Bill in March 2013.

6.8 As a result, and in light of ongoing tension between local and foreign owned businesses, the Committee notes that interventions aimed at bringing policy certainty for township and rural enterprises are neither buttressed nor reinforced by any form of legislation or policy. The Committee holds a firm view that having an act or policy in place ensures that sustainability and continuity is safeguarded as compared for instance to a ‘programme’ which may be changed regularly at the whim of the executive authority.

6.9 The Committee has been monitoring developments in Gauteng, and in that regard, wishes to extend congratulatory remarks to the Gauteng government for signing into law the Township Economic Development bill, and the City of Joburg (CoJ) council for adopting its Informal Trading Policy.

6.10 The Committee further observes that the Department has phased out grants and incentives in favour of concessional loans, blended financing, income-contingent repayments, instalment relief and/or payment holidays to name the few. While these interventions are welcome for going-concern enterprises that are able to produce i.e. management accounts, financial statements, collateral etc, it is nonetheless not clear to what extent are social enterprises e.g. co-operatives, impaired by this policy position.

6.11 The Committee notes the recommendation of the fifth Parliament to the Department to conduct forensic investigation following claims of corruption and misappropriation of the Co-operatives Incentives Scheme (CIS). It is noted that outcomes of that inquiry have not been shared with the Committee.

6.12 The Committee welcomes DSBD undertaking that places emphasis “on the development and support for Co-operatives, which are sometimes overlooked when addressing the issue of small enterprises”. The Committee will monitor the Small Business Development Portfolio commitment to support 200 co-operatives, financially and/or non-financially, during the 2022/23 financial year.

6.13 The Committee takes note that the target or performance indicator “finalisation of the SMME and Co-operatives Funding Policy” has been on the DSBD successive annul performance plans since 2020/21 without it being finalised. The Committee considers finalisation of this policy imperative as it seeks to engage the Department on its policy hypothesis that ‘Co-operatives are enterprises that are income and profit generating’ as opposed to being ‘social enterprises’.

6.14 The Committee observes that from 2019 to 2025, Seda budget is projected to register negative growth rate. Seda’s budget cut in excess of R300 million during the previous financial year is a source of concern for the Committee. Unlike Sefa, Seda derives its revenue exclusively from the government. Its mandate does not allow it to embark on profit generating activities. Whilst it is understood that these reductions are provisional measures owing to ongoing pandemic, they are however, being carried out in spite of the onerous responsibility entrusted to the Department to turn around the curve of unemployment ignite economic activity.

6.15 Lastly, the Committee applauds the government wide approach to District Development Model (DDM). It however, observes that a Parliamentary Constituency Office (PCO) with members in excess of 400, plus provincial legislatures, have not been utilised strategically to promote government-wide programmes.

**7. RECOMMENDATIONS**

Having reflected on the Annual Performance Plans and budgets for 2022/23 of the Department, Seda and Sefa, the Portfolio Committee hereby registers the following recommendations for consideration by the Minister of Small Business Development: -

7.1 As referenced earlier, a number of Department’s key performance targets and budget hinges on successful completion of the National Small Enterprise Amendment Bill. These include, inter alia, the merger that must be underpinned by an act of Parliament, the creation of entities such as the Small Enterprise Ombuds Office and Small Business Advisory Council, as well as the organisational structure or organogram. As of now, it is not clear to the Committee by when and how each of these activities will be accomplished and/or the systematic or sequential approach that the Department will pursue in achieving them. The Committee hereby recommends that the Department crafts a Project Management Plan with verifiable tasks and timelines, detailing how it will go about executing these activities before 31 May 2022.

7.2 The Committee strongly recommends to the Minister that the proposed business case required by National Treasury, DPSA and DPME concerning the merger, structural reconfiguration and filling of vacant posts, referral of the National Small Enterprise Amendment Bill to Parliament and subsequent creation of the Small Enterprise Ombuds Service, among others, should not be achieved at the expense of service delivery and to the detriment of the small business sector.

7.3 The amalgamation of the three agencies, should if possible, be assumed in isolation or separately from regular operations of the entities as all three agencies are governed by different legislations that may ultimately require alignment or amendment. The Minister must make certain that a proper coordination between the entities is monitored to ensure that the mandate of the Portfolio is achieved.

7.4 The DPSA reminded the Committee on 19 April 2022 that the Department is still operating on a start-up structure. Finalisation of the Department’s organisational structure and filling of senior posts should be given primacy. Both the Minister of Small Business Development and the Minister of Public Service Administration must endeavour to conclude discussions on this matter before the end of Q2 of the current financial year, 2022/23, and early enough for the next financial year planning cycle which begins in August 2022.

7.5 In its budget vote report of 16 July 2020, the Committee made a recommendation to the Department to speedily finalise the SMME and Co-operatives Funding Policy and present this to the Committee once endorsed by the Cabinet. The Committee is again calling on the Department to finalise this policy together with the National Integrated Small Enterprise Development Masterplan for presentation to the Committee once Cabinet processes are exhausted.

7.6 Many co-operatives are struggling to access funding or comply with Sefa requirements. While DSBD policy stance on the government's catalytic and supportive role in the development of co-operatives is invisible*.* The Committee would like to recommend to the Department to reinvent the Co-operatives Development Support Programme (CDSP) to include performance linked incentive scheme for co-operatives.

7.7 The Committee is calling on the Minister to ensure that the forensic investigation is concluded and investigation report of the Auditor-General referred or shared with the Committee before the end of Q2.

7.8 The Committee further appeals to Sefa to furnish or supply a list of co-operatives funded during 1 April 2021 to 31 March 2022 before 31 May 2022.

7.9 The conceptualisation of the Township and Rural Entrepreneurship Programme (TREP) is welcomed and a necessary intervention in light of the many obstacles facing growth and sustainability of the rural and township enterprises. However, this is a programme and not a policy, which renders it most susceptible to government modifications. For instance, instead of the programme, Gauteng moved for the enactment of legislation. In all likelihood, Gauteng would not be the last provincial government to enact such type of a bill into law. This points to a legislative gap that falls squarely at the doorstep of the Department. The Committee is of the view and recommends that the Department must consider an overarching framework for adaptation by all other provinces.

7.10 So are informal trading policies and municipal by-laws, currently, each municipality and provincial departments are crafting their own laws. The fragmentation and lack of uniformity may unreasonably cost fiscus billions of rands. The Committee is calling on the Department to fast-track tabling of the Business Amendment bill to a date earlier than 2025. The President would never have made mention of this bill in his SONA if it was not urgent that it be concluded.

7.11 To support the President’s aspirations to eliminate red tape, the Committee calls for the creation of a Parliamentary Ad hoc Committee or a Structure that will interface with the DPME Socio Economic Impact Assessment System (SEIAS) unit which it is widely understood that it will be working with Mr Nkosi.

7.12 Also, to give meaning to the President’s call for a new social compact, the Committee is calling on the Department to actively pursue partnerships with the private sector, non-governmental organisations (NGOs), female and youth led businesses, labour and communities in order fight the scourge of unemployment, inequality and poverty.

7.13 Lastly, during the Department’s appearance before the Committee on 29 April 2022, the Committee felt strongly that the Department must include in its annual performance plans, output indicators that incorporates or involves working with Parliamentary Constituency Offices. This could be facilitated or achieved through the District Development Municipal Champions. The Committee will monitor this adaptation during quarterly reports presentations.

Report to be considered.