

REPORT OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, SMALL BUSINESS DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR ON BUDGET VOTE 36: SMALL BUSINESS DEVELOPMENT, AND THE STRATEGIC PLAN AND 2022/2023 ANNUAL PERFORMANCE PLAN OF THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT, DATED 18 MAY 2022

The Committee, having considered Budget Vote 36 and the 2022/2023 Annual Performance Plan of the *Department of Small Business Development*, reports that the Committee met with the Department on 17 May 2022, wherein the Department outlined the *Budget and Spending Plans*.

The Committee notes the revised *2020-2025 Strategic Plan* tabled by the Department, and noted the key priorities of the revised plan which include acceleration of the implementation of the *Township and Rural Entrepreneurship Programme*; *Localisation Policy Framework and Implementation Programme on SMMEs and Co-operatives*. Furthermore, the Department over the medium term committed to promoting sustainability and growth of *Small Medium and Micro Enterprises* (SMMEs) and Co-operatives by designing and implementing *Business Viability Facility*. The Committee further notes the alignment of the Department's plan with the *Economic Reconstruction and Recovery Plan* (ERRP); the *National Development Plan* (NDP) and the revised *Medium Term Expenditure Framework* (MTSF).

The Committee further notes that over the medium term, the Department will focus on providing support to SMMEs, including establishing infrastructure to expose SMMEs and Cooperatives to new markets, including providing greater access to finance for start-ups. Further, the Committee noted the Departmental plans for finalising amendments to the *National Small Enterprise Act* (1996) and developing plans for the meaningful integration of small businesses into the mainstream economy.

In the medium term, Departmental 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 to entities- *Small Enterprise Fund Agency* (SEFA) and *Small Enterprise Development Agency* (SEDA) account for 89.6 per cent (R 7 billion) of the Department's budget over the medium term, 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. The cost breakdown of the four functional policy programmes of the Department is reflected in Table 1 below:

Table 1: Medium Term Expenditure Outlook

Programmes											
1. Administration											
2. Sector and Market Development											
3. Development Finance											
4. Enterprise Development											
Programme	Audited outcome			Adjusted appropriation	Average growth rate (%)	Average Expenditure/ Total (%)	Medium-term expenditure estimate			Average growth rate (%)	Average Expenditure/ Total (%)
	2018/19	2019/20	2020/21				2021/22	2022/23	2023/24		
R million	2018/19	2019/20	2020/21	2021/22	2018/19 - 2021/22	2021/22	2022/23	2023/24	2024/25	2021/22 - 2024/25	2021/22 - 2024/25
Programme 1	110.0	101.7	94.9	109.1	-0.3%	4.9%	126.8	136.4	146.9	10.4%	5.0%
Programme 2	45.2	106.1	34.2	126.4	40.9%	3.7%	131.4	137.9	146.7	5.1%	5.2%
Programme 3	347.9	1 106.1	1 259.3	1 518.9	63.4%	49.6%	1 370.7	1 348.8	1 396.3	-2.8%	53.9%
Programme 4	916.5	914.9	860.7	882.1	-1.3%	41.9%	934.2	946.8	995.5	4.1%	36.0%
Total	1 419.5	2 228.8	2 249.2	2 636.5	22.9%	100.0%	2 563.1	2 569.9	2 685.3	0.6%	100.0%
Change to 2021				98.2			2.8	-	-		
Budget estimate											
Economic classification											
Current payments	206.6	198.8	183.7	222.8	2.5%	9.5%	253.1	282.6	312.6	12.0%	10.2%
Compensation of employees	133.0	137.1	135.0	154.6	5.1%	6.6%	190.0	220.3	246.7	16.9%	7.8%
Goods and services ¹	73.6	61.8	48.7	68.2	-2.5%	3.0%	63.0	62.4	65.9	-1.1%	2.5%
<i>of which:</i>											
<i>Audit costs: External</i>	5.3	3.2	3.4	6.0	4.1%	0.2%	4.6	4.6	4.8	-7.1%	0.2%
<i>Computer services</i>	7.0	5.3	6.3	7.4	1.7%	0.3%	7.7	7.2	7.5	0.4%	0.3%
<i>Consultants: Business and advisory services</i>	5.5	3.1	0.3	6.3	5.0%	0.2%	4.0	4.6	4.8	-8.6%	0.2%
<i>Operating leases</i>	20.4	21.6	22.9	9.8	-21.6%	0.9%	13.5	13.6	14.7	14.4%	0.5%
<i>Property payments</i>	0.0	-	0.6	2.5	841.0%	0.0%	2.6	2.7	2.8	3.8%	0.1%
<i>Travel and subsistence</i>	20.8	17.8	8.1	18.1	-4.4%	0.8%	15.9	15.3	16.0	-4.1%	0.6%
Interest and rent on land	-	-	-	0.0	0.0%	0.0%	-	-	-	-100.0%	0.0%
Transfers and subsidies¹	1 206.4	2 025.7	2 061.6	2 409.2	25.9%	90.3%	2 305.3	2 282.4	2 367.6	-0.6%	89.6%
Departmental agencies and accounts	840.1	881.8	824.5	838.5	-0.1%	39.7%	884.2	889.9	929.8	3.5%	33.9%
Public corporations and private enterprises	365.7	1 143.6	1 235.4	1 570.3	62.5%	50.6%	1 421.1	1 392.5	1 437.7	-2.9%	55.7%
Non-profit institutions	-	-	1.2	-	0.0%	0.0%	-	-	-	0.0%	0.0%
Households	0.7	0.4	0.6	0.4	-11.9%	0.0%	-	-	-	-100.0%	0.0%
Payments for capital assets	6.5	4.2	3.9	4.5	-11.6%	0.2%	4.7	4.9	5.2	4.9%	0.2%
Machinery and equipment	5.0	4.2	3.9	4.1	-6.4%	0.2%	4.7	4.9	5.2	7.8%	0.2%
Software and other intangible assets	1.5	-	-	0.4	-37.5%	0.0%	-	-	-	-100.0%	0.0%
Payments for financial assets	-	-	-	0.0	0.0%	0.0%	-	-	-	-100.0%	0.0%
Total	1 419.5	2 228.8	2 249.2	2 636.5	22.9%	100.0%	2 563.1	2 569.9	2 685.3	0.6%	100.0%

Source: 2022 National Treasury Estimates of National Expenditure

The Department reported that work in provinces would be facilitated by the SEDA and SEFA, through the following programmes: *Township, Rural and Informal Business and Sector and Market Development*. For this, SEDA has been allocated R634.5 million for the 2022/23 financial year. In respect of SEDA, the Department reported a funding shortfall of R214 million for the 2022/23 financial year and a shortfall of R783.1 million over the medium term. In addition, the Department reported that its baseline allocation is continuing to decline whereas the targets are increasing on annual basis. The Department highlighted that the increase relating to targets is due to increased demand to service the SMMEs. The Department anticipate that this will result in SEDA struggling to meet the demand and targets.

In respect of SEFA, the Department reports that over the medium term, the entity has budgeted for a cost-to-income ratio of 87 per cent in 2022/23 financial year, 80 per cent in 2023/24 financial year, and 76 per cent in 2024/25 financial year. Further, the Department highlighted that the budgeted income generation by SEFA (including the MTEF grant) is sufficient to cover the operating costs (excluding impairments, grants and IDC finance charges). It was also indicated that over the MTEF period, SEFA has budgeted to have positive cash flow balances throughout.

Committee Members welcomed the annual performance plan of the Department, in particular the *Township and Rural Entrepreneurship Fund* (TREP) and the implementation of the *District Development Model* per province. Committee Members raised concerns regarding delays in the finalisation of the organisational structure of the Department. Members noted that SMMEs should be a driver of job creation in the country, noting that international best practice in this regard determines that SMMEs should contribute at least 80 per cent towards job creation. Members further highlighted the importance of performance audits to determine the efficacy of Departmental programmes. Further, Members stressed that the Department need to take advantage of the *African Continental Free Trade Agreement*, and the opportunities this would present for SMMEs and Cooperatives. Members further urged the Department to work closely with local economic development units of local municipalities to ensure that SMMEs and informal businesses have access to business support. It was further stressed by the Committee that the Department need to fast track the finalisation of legislation, particularly the *Business Amendment Bill* and the *National Small Enterprise Amendment Bill* before the end of the sixth term of Parliament.

The *Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour*, having considered *Budget Vote 36, revised 2020-25 Strategic Plan, and the 2022/2023 Annual Performance Plan of the Department of Small Business Development*, reports that the Committee has concluded its deliberations thereon with the following recommendations:

- 1 The Committee recognises the financing gap experienced by SMMEs and Cooperatives, particular in provinces and regions that are lagging behind in terms of economic development. The Minister should continue to engage the *Minister of Finance* to consider allocating additional resources over the 2023 medium term to the Department to scale-up funding and financing to bolster growth and expansion of SMMEs and Cooperatives across the country, and closing the rural and urban financing gap.
- 2 Growth and development of SMMEs remains a critical policy priority of government. The role of the SMMEs in economic growth, employment and innovation find expression in the *National Development Plan, Economic Reconstruction and Recovery Plan* and the *Re-Imagined Industrial Strategy*. To this end, the Minister working through the Department, before the end of the 2023/24 financial year, should finalise the review and legislation development of the *National Small Enterprise Act* (1996), the *National Small Business Amendment Act* (2004) and the *Business Act* (1991), and submit such *envisaged Acts* (Bills) to Parliament for consideration.
- 3 Over the 2023 medium term, the Minister working together with the *Minister of Finance* should consider providing funding to establish and strengthen the capacity and capability of the *Office of the Small Enterprise Ombud Service*. The independence of the *Office of the Small Enterprise Ombud Service* should be entrenched.

Report to be considered.