**The Budgetary Review and Recommendation Report of the Portfolio Committee on Small Business Development, Dated 19 October 2022**

The Portfolio Committee on Small Business Development, having considered the 2021/22 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 11 October 2022, as well as DSBD and entities on 12 October 2022. Whereas during the course of 2021/22 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 2021/22 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 the Covid-19 and Flood 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 2021/22 financial year, and the 2022/3 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 2021/22 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 2021/22.

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**

In this year’s State of the Nation Address (SONA) the President asserted that “the government will embark on extensive measures to unleash the potential of small businesses, micro businesses and informal businesses”. A new - redesigned loan guarantee scheme announced during the address is already being implemented to enable small businesses to bounce back from the pandemic, civil unrest and floods that swept through provinces of KwaZulu Natal and parts of the Eastern Cape. The Bounce-back scheme incorporates the lessons from the previous loan guarantee scheme. The scheme involves Development Finance Institutions (DFIs) and non-bank SME providers in offering finance, expand the types of financing available and adjust eligibility criteria to encourage greater uptake. The President also informed the nation that the review of the Business Act – alongside a broader review of legislations that affects SMMEs – to reduce the regulatory burden on informal businesses is underway. There is a general unanimity that the country is beset by too many regulations that are unduly complicated, costly and difficult to comply with. This prevents companies from growing and creating jobs.

**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;
* Accelerate establishment of incubators and digital hubs in the townships and rural areas.

**3. SUMMARY OF PREVIOUS KEY COMMITTEE RECOMMENDATIONS**

During the 2021 Budgetary Review and Recommendation Report, the Portfolio Committee made the following recommendations to the Minister and the Department -:

 **Table 1: 2021 BRRR Recommendations**

|  |  |  |
| --- | --- | --- |
| 3.1 | The Department act swiftly in dealing and implementing Auditor General 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. | Action plans to address AG audit findings have been developed by the Department and its entities and are being implemented. Progress on implementation is monitored on a quarterly basis. |
| 3.2 | 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. | The Department has an approved Framework on Strategic Planning and Performance Reporting and the Standard Operating Procedures, aligned to the Revised Framework for Strategic Plans and Annual Performance Plans and the Framework for Managing Performance Information, that are implemented through the Strategic Planning and Reporting Cycle Implementation Plan in order to ensure that the processes for planning and reporting are integrated within the Department. Through implementing the Implementation Plan and constant engagements with the Branch Heads and process owners, awareness is created on the importance of reporting validated, accurate and complete performance information.In addition to the above, the Department conducts mid-year and end year reviews of its performance information and supporting evidence, against the Annual Performance Plan (APP) and the Technical Indicators. This process assists in providing clear communication of the necessary actions that need to be taken in ensuring that the implementation of the APP is on track. This is also covered in the reviews of performance information that Internal Audit conducts as per the audit plan.Significant effort is being directed towards ensuring that at branch level regular and timely reviews of performance information are discussed with the aim to reduce reporting errors. The latter is providing some level of assurance and with the intention that this will be a permanent feature at branch meetings. |
| 3.3 | 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; | The Department has already successfully addressed the first part of this observation, which cautions the DSBD against repeat findings with regard to the usefulness and reliability of the reported performance information. The audited 2020/21 performance information report was declared useful and reliable by AGSA. The 2020/21 performance information report did not only manage not to have repeat findings, but it had no findings at all (it was without findings), hence it resulted into clean audit opinion (unqualified opinion without findings). The Enterprise Development branch has put in place controls to ensure that deficiencies in internal controls are addressed by management to mitigate against recurrence of the findings regarding the usefulness and reliability of the reported performance information. This process will improve overtime.Action plans to address AG audit findings have been developed and are being implemented. Progress on implementation is monitored on a quarterly basis. |
| 3.4 | 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; | DSBD has largely remained compliant with SCM processes that are guided by the existing SCM Policy that is anchored on a myriad of instruction notes from National Treasury. At times irregular expenditure results out of differing interpretation between implementing officials, AGSA and Office of the Chief Procurement Officers. None of the investigations have identified loss of state resources as services were duly rendered and deserving of payment. To date, all of DSBD’s irregular expenditure has been investigated, officials sanctioned in line with the Public Service Regulations. Fruitless and wasteful expenditure: where such cases are identified, investigations are undertaken, and the relevant sanctions implemented – such as full recovery of the loss from responsible officials. Consequence management to guard against non-compliance is being implemented. |
| 3.5 | 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; | The Department has an approved Framework on Strategic Planning and Performance Reporting and the Standard Operating Procedures, aligned to the Revised Framework for Strategic Plans and Annual Performance Plans and the Framework for Managing Performance Information, that are implemented through the Strategic Planning and Reporting Cycle Implementation Plan to ensure that the processes for planning and reporting are integrated within the Department. Through implementing the Implementation Plan and constant engagements with the Branch Heads and process owners, awareness is created on the importance of reporting validated, accurate and complete performance information.In addition to the above, the DSBD conducts mid-year and end year reviews of its performance information and supporting evidence, against the Annual Performance Plan (APP) and the Technical Indicators. This process assists in providing clear communication of the necessary actions that need to be taken in ensuring that the implementation of the APP is on track.Internal Audit conducts reviews of performance information as provided for in the audit plan. The Audit and Risk Committee exercises oversight on a quarterly basis. |
| 3.6 | 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; | The finalisation of the merger of the Department’s agencies does not impact the filling of strategic posts within the Department as they are independent activities and not mutually or directly dependent but may contribute. The Department’s structure is in the stage of obtaining support form National Treasury in terms of budget and affordability and then concurrence from DPSA for implementation. The project plan is pegged at obtaining the go ahead before 31 March 2022. |
| 3.7 | 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 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; | The Department will build internal capacity to conduct monitoring and evaluation functions to ensure that we are able to track the delivery and impact of the SBD Portfolio’s work throughout the country. Seda will continue to perform pre- and post-investment site visits on its supported beneficiaries and sporadically when so requested by the department. |
| 3.8 | 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; | Financial management does monthly spending reviews and requisite reporting highlighting areas of underperformance and recommends reprioritisation of funds to SMMEs benefitting programmes with National Treasury’s support.Underperformance is mainly in COE – due to the structure not being finalised and incentives programmes. Management has instituted various structures to primarily attend to poor programme spending and address emerging risk which are often encountered during the implementation process. This structure constitutes of senior managers who periodically sit to review programme performance and audit related issues amongst others.This is done in full consultation and involvement of all the key programmes of the department. There are no idling reserves to talk about in the Department. Virements are rarely done. Where they are done, they are done on a serious case/basis.  |
| 3.9 | 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; | The National Small Enterprise Bill is dependent on the opinion awaited from Treasury on whether the Department requires a completely new legislation or to just amend the existing Act. This will then determine whether the Department tables the Bill or waits to include in the merger.The Department is currently engaged in stakeholder consultations on the Businesses Act (1991) targeting various critical stakeholders especially Municipalities, hence the amendment Act is not being submitted to Parliament during the current financial year. The Department intends to table amendments to the Businesses Act during the 2023/24 financial year. |
| 3.10 | 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). | The reviews of the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE) and Co-operatives Development Strategy have been overtaken by the development of the National Integrated Small Enterprise Development Masterplan, which incorporates all the pillars of the Strategies. The Department is currently engaged in stakeholder consultations on the Businesses Act (1991) targeting various critical stakeholders especially Municipalities, hence the amendment Act is not being submitted to Parliament during the current financial year. The Department intends to table amendments to the Businesses Act during the 2023/24 financial year. |

**Source: 2021 BRRR Report**

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

**4.1 Non-financial Performance Summary**

During the period under review the Department had set out to achieve 24 annual targets. One area of concern flagged by the Committee during its previous BRRR process was the urgency to complete organisational structure and filling of vacant posts particularly at senior management level. The Department reports that the inability to finalise the structure expressively impacted operations and spending in respect of the Cost of Employment budget due to vacancies in critical positions. As a consequent, the Department’s overall performance declined to 60 percent of its annual performance targets from a high of 86 percent during the previous year. However, the 60 percent achievement includes only targets that have been 100 percent achieved. It excluding those that may be partially achieved. 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.

**Table 2: Performance Summary per Programme**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Branch** | **No. of Output Indicators** | **Annual Targets** | **Achieved**  | **Not Achieved** |
| **1. Administration**  | 8 | 9 | 6(66.7%) | 3(33.3%) |
| **2. Sector Policy and research** | 6 | 6 | 4(66.7%) | 2(33.3%) |
| **3. Integrated** **co-operatives development**  | 6 | 6 | 3(50%) | 3( 50%) |
| **4. Enterprise Development and entrepreneurship**  | 4 | 4 | 2(50%) | 2(50%) |
| **Total** | **24** | **25** | **15****(60%)** | **10****(40%)** |

**Source: DSBD Annual Report (2021/22)**

**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. During the year under review, Programme One registered significant achievement on a number of targets. The Department achieved an unqualified audit opinion on the nonfinancial performance information and Annual Financial Statements for the 2020/21 financial year. Public engagements, which were implemented in District Municipalities, formed core of the DSBD and its agencies’ programmes as the Department far exceeded this target by 58 engagements. The Department further developed a base control system to ensure singular applications and incorporate both international and local platforms. These achievements were registered as part of Phase three database – key trade exchange platform integrated and enhanced reporting implemented. Despite the challenges experienced by the Department in achieving at least 50% female SMS representation due to resignations of female SMS members and appointments of male SMS members, the Department managed to overachieve on the target of representation of PWDs. The Department is working towards a recruitment plan that will assist in going back to maintaining at least 50% female SMS representation.

**4.1.2 Programme Two: Sector and Market Development**

The purpose of the programme is to facilitate and increase access to markets for SMMEs through business information, product development support and value chain integration. The annual target of 250 products has been overachieved, with the Department introducing a total of 288 products to market for this financial year. Relationships have been established with key private sector partners and the Department continues to monitor the supply and demand side of products and services produced and rendered by SMMEs and Co-operatives. The target of 200 businesses exposed to international markets in the financial year 2021/22 has been overachieved. An annual total of 242 businesses were exposed during the 2021/22 financial year. It should be noted that since the 2020 lockdown, exposing businesses to international market opportunities was an impossible target to meet. The SBD Portfolio commenced with participating in virtual sessions to facilitate exposure to businesses that may not have necessarily qualified due to not being export ready. This initiative, together with the few face-to-face exposure engagements, greatly assisted in achieving this significant milestone of 242.

* + 1. **Programme Three: Development Finance**

The aim of the programme is to expand access to finance for SMMEs and Co-operatives through innovative service offerings. During the period under consideration the Department supported 953 Crafters through the Craft Customised Sector Programme against the planned target of 800. Further to this, significant overachievement was recorded on start-up youth businesses supported financially and non-financially and competitive SMMEs and Co-operatives supported targets that have been overachieved by more than double the target that was set for each. There are inherent challenges in supporting the youth, women-owned, and businesses owned by PWDs such as lack of collateral. The support provided under Programme Three toward the start-up youth businesses is one of the initiatives that seeks to curb some of these challenges.

On areas of underperformance under this programme the Department is accelerating finalisation of the SMMEs and Co-operatives Funding Policy. Also, the number of Co-operatives supported to the value of R13 million while the target was R89 million points to a policy incongruity on co-operatives development that requires urgent intervention. The Committee remains of the view that the phasing out of Co-operatives Incentive Scheme (CIS) in favour of concessional loans, blended financing, income-contingent repayments, instalment relief and/or payment holidays to name the few may have been introduced in good faith but premature. Co-operatives are social enterprises which service their members. Members reinvest most, if not all of their surplus into the co-operative. They should not therefore be treated as enterprises for gain.

**4.1.4 Programme Four: Enterprise Development**

The objective of the programme is to oversee 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. One of the key milestone achieved under this programme was the finalisation and submission to the Minister of the National Integrated Small Enterprise Development Masterplan for Cabinet approval. However, the Department concedes that some of important pieces of legislations i.e. Business Amendment Bill, National Small Enterprise Amendment Bill which includes the establishment of the Small Enterprise Ombud Service and relooking at the definition of SMME were not taken through Parliamentary processes. It is also not likely that this target will be achieved during the current financial year due to a merger of Sefa, Seda and CBDA into a single entity under one legislation.

**4.2 Financial Performance Summary**

As illustrated in table 3 below, as of of 31 March 2022 the annual expenditure by the Department amounted to R2.613 billion against the final appropriation of R2.637 billion, reflecting a financial performance of 99 percent. The variance of R24 million was recorded with programme two contributing the largest portion of the overall underspending - compensation of employees underspent by R11.5 million due to vacancies, transfers contributed R4 million due to delays in the commencement of the Product Markets programme, whilst machinery and equipment underspent by R1 million due to supply chain challenges in the delivery of computer equipment. Other programmes that somewhat underspent were Development Finance at R2.8 million due to vacant posts amounting to R2.2 million and Customised Craft Sector Programme underspending by R380 thousand. While Enterprise Development fell short of exhausting its entire budget by R2.6 million due to vacant posts. The Department received its maiden clean audit opinion during the 2021-22 financial period, with no material findings or adjustments on either the audit of performance information or the Annual Financial Statements.

**Table 3: Financial Appropriation vs Actual 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 | 103 300 | 101 002 | 99 194 | 1 808 | 98.2 |
| Sector and Market Development | 138 746 | 107 139 | 90 431 | 16 708 | 84.4 |
| Development Finance | 1 520 109 | 1 554 382 | 1 551 625 | 2 757 | 99.8 |
| Enterprise Development | 874 908 | 874 540 | 871 968 | 2 572 | 99.7 |
| **TOTAL** | **2 637 063** | **2 637 063** | **2 613 218** | **23 845** | **99.1** |

**Source: 2021/22 DSBD Annual Report**

**4.2.1 Annual expenditure for Programme One**

Key milestone under programme one during the period under consideration is the attainment of the first ‘clean audit’. The programme expenditure added up to R99 million or 99 percent against the final appropriation of R101 million, resulting in an under-expenditure of R1.8 million. Goods and Services contributed R1.6 million to the under expenditure due to low expenditure than projected for Operating leases (R471 thousand), Training underspent by R332 thousand as most trainings were attended virtually and others cancelled due to COVID-19, Consultants and Professional Services also contributed by R242 thousand.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Subprogramme** | **Final Appropriation****R'000** | **Actual Expenditure****R'000** | **Over/Under Expenditure****R'000** |
| Ministry | 25 584 | 25 464 | 120 |
| Departmental Management | 28 000 | 27 817 | 183 |
| Corporate Services | 29 117 | 27 799 | 1 318 |
| Financial Management | 18 301 | 18 114 | 187 |
| **TOTAL** | **101 002** | **99 194** | **1 808** |

**Source: DSBD Annual Report 2021/22**

**4.2.2 Annual expenditure for Programme Two**

Sector and Market Development – programme two disbursement amounted to R90.4 million (84.4%) against the final appropriation of R107.1 million, resulting in an under expenditure of R16.7 million (15.6%). Compensation of Employees underspent by R11.5 million due to vacancies and Transfers contributed R4 million to the underspending due to delays in the commencement of the Product Markets Programme, whilst machinery and other equipment contributed R1 million due to delays in the delivery of ordered computer equipment.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Subprogramme** | **Final Appropriation****R'000** | **Actual Expenditure****R'000** | **Over/Under Expenditure****R'000** |
| Sector and Market Development Management | 1 581 | 808 | 773 |
| Business Information and Knowledge Management | 19 459 | 14 254 | 5 205 |
| Ease of Doing Business | 7 961 | 7 564 | 397 |
| Access to Market Support | 78 138 | 67 805  | 10 333 |
| **TOTAL** | **107 139** | **90 431** | **16 708** |

**Source: DSBD Annual Report 2021/22**

**4.2.3 Annual expenditure for Programme Three**

The Development Finance – programme three expenditure for the period under review amounted to R1.551 billion against the final appropriation of R1.554 billion, resulting in an under expenditure of R2.8 million. Compensation of Employees contributed R2.2 million to the under expenditure due to vacancies. The main cost drivers of expenditure in the Programme are Transfers and Subsidies at R1.528 billion, Compensation of Employees at R21.6 million, and Goods and Services at R1.7 million. The drivers of expenditure on Goods and Services are Travel and Subsistence (R998 thousand), Communication (R282 thousand) and Legal Costs (R206 thousand). The Committee has noted with concern the unfortunate performance – support to co-operatives and lack or absence of a strategy thereof to deal with the matter.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Subprogramme** | **Final Appropriation****R'000** | **Actual Expenditure****R'000** | **Over/Under Expenditure****R'000** |
| Development Finance Management | 1 912 | 1 270 | 642 |
| Model Funding Collaboration | 7 057 | 6 976 | 81 |
| Blended Finance | 1 534 086 | 1 532 434 | 1 652 |
| Business Viability | 11 327 | 10 945 | 382 |
| **TOTAL** | **1 554 382** | **1 551 625** | **2 757** |

**Source: DSBD Annual Report 2021/22**

**4.2.4 Annual expenditure for Programme Four**

Expenditure on programme summed up to R872 million against the final appropriation of R875 million, resulting in an under expenditure of R2.6 million. Compensation of Employees contributed R2.5 million to the under expenditure due to vacancies. The main cost drivers for expenditure in the Programme are Transfers and Subsidies at R838.6 million, Compensation of Employees at R27.9 million, as well as Goods and Services at R5.3 million. The drivers of expenditure in Goods and Services are Venues and Facilities (R2.2 million), Travel and Subsistence (R1.9 million), Communication (R355 thousand), Consultants (R288 thousand) and Contractors (R180 thousand).

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Subprogramme** | **Final Appropriation****R'000** | **Actual Expenditure****R'000** | **Over/Under Expenditure****R'000** |
| Enterprise Development Management | 6 378 | 5 783 | 595 |
| Enterprise and Supplier Development | 857 223 | 856 799 | 424 |
| SMME Competitiveness | 10 939 | 9 386 | 1 553 |
| **TOTAL** | **874 540** | **871 968** | **2 572** |

**Source: DSBD Annual Report 2021/22**

* 1. **Economic Classification**

Table 8 – economic classification depicts an outlay of R138 million on the Compensation of Employees against the final appropriation of R155 million. There was underspending of R16 million owing to vacancies. Expenditure on Goods and Services reached R74 million against the final appropriation of R76 million, which constitutes an under spending of R1.8 million. The items contributing to the underspending are mainly Operating leases (R471 thousand) due to lower expenditure than projected; Training and development (R332 thousand) as most training was either cancelled or attended virtually; Travel and subsistence and travel agency fees underperformed by R272 thousand; Consultancy service (R242 thousand) as some services were carried by donor funds; operating and fleet services fees (R248 thousand) jointly and whilst Consumable supplies and stationery jointly contributed R129 thousand. Disbursement on Capital assets was R3 million against the final appropriation of R4.5 million while Transfers and Subsidies incurred an expenditure of R2.4 billion.

**Table 8: Economic Classification**

|  |  |  |  |
| --- | --- | --- | --- |
| **Economic Classification** | **Final** **Appropriation** | **Actual Expenditure**  | **(Over)/Under Expenditure** |
| **(R’000)** | **(R’000) (%)** | **(R’000)** |
| Compensation of Employee | 154 762 | 138 425 | 16 337 |
| Goods and Services | 75 784 | 73 949 | 1 835 |
| Transfers and Subsidies | 2 402 031 | 2 397 586 | 4 445 |
| Capital Assets | 4 476 | 3 250 | 1 226 |

**Source: DSBD Annual Report (2021/22)**

**4.4 Report of the Auditor-General**

The report of the Auditor General presented to the Committee on 11 October 2022, it noted that there has been no change in the general audit outcomes of the Portfolio. The Portfolio as whole has performed well.

**The Department**

The audit opinion of the Department has positively changed in the current year after being unqualified with findings for six years prior. The current year’s improvement in opinion indicates management’s successful attempts at addressing action plans. The submitted financial and performance information had no material misstatements in them and were considered reliable and accurate. Also, the quality of compliance with legislation improved, with the Department having addressed matters causing non-compliance in their incentives’ guidelines by amending the guidelines pertaining to post site visits and the required timeframe in which they should be conducted. A total of 15 targets out of 25 planned targets were achieved for 2021-22, which represents a 60 percent achievement based on the annual performance report.

**Public Entities**

Seda agency maintained its outcome of an unqualified audit with findings on the reporting on predetermined objectives. The audit outcome in respect of the predetermined objectives has regressed to an adverse opinion with findings due to the extent to which the majority of performance indicators were not measurable and reliable. The public entity’s financial statements have been prepared on a going concern basis. No matters or conditions have been identified during the year under review that may cast significant doubt on the entity’s ability to continue as a going concern. While Sefa audit opinion remains unqualified with no material findings, where the quality of the submitted financial and performance information had no material misstatements identified in them and were considered reliable and accurate. Further, there were no instances of material non-compliance with the specific requirements of applicable legislation. The agency continues to maintain its clean audit status since incorporation in 2012.

**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 2021/22 wherein it had vowed to accomplish 30 indicators at output level. Of the 30, the agency succeeded in achieving 24 indicators reflecting a performance achievement of 80 percent. However, the current year audit outcome in respect of the predetermined objectives continued to regress to an adverse opinion with findings due to the extent to which the majority of performance indicators were not measurable and reliable.

The Auditor General identified limitations in the management of the performance information, which requires management attention; key weaknesses emanate from various levels of data collection aggregation and validation. This clearly represents a sustained slump in performance which according to the agency’s own analysis is attributable to the moratorium to fill vacant posts pending finalisation of the merger. Few performance indices points to an organisation besieged by uncertainty with high incidents of labour turnover. There are three main programmes in the Seda Annual Performance Plan (APP) presented to Parliament in 2021, namely, Enterprise Development Division (EDD), Seda Technology Programme (STP) and 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 is to support township, rural-based enterprises and informal businesses to ensure that they are competitive and contribute meaningfully to the economy. This includes providing compliance support to aid business formalisation to enable business growth by providing necessary support to ensure that they are competitive.

**Table 9: Enterprise Development Divison**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.**  | **Performance Measure**  | **Target**  | **Achievement**  |
| 1. | Number of SMMEs and Cooperatives reached through entrepreneurship awareness sessions | 37 104 | 67 029 |
| 2. | Number of Spaza shops and general dealers supported | 9 276 | 7731 |
| 3. | Number of Personal Care businesses supported | 2 000 | 2 993 |
| 4. | Number of Informal and Micro Restaurants and Tshisanyama supported | 1 500 | 4 523 |
| 5. | Number of Fruit and vegetable vendors supported | 4 638 | 4 832 |
| 6. | Number of Panel beaters, motor mechanics, auto spares and auto-fitment businesses supported | 4 638 | 2 806 |
| 7. | Number of Small scale bakeries and confectionaries supported | 2 000 | 2 843 |
| 8. | Number of Clothing, leather and textile businesses supported | 2 000 | 3 840 |
| 9. | Number of Butcheries supported | 2 000 | 1 889 |
| 10. | Number of jobs created | 4 683 | 5 176 |

**Source: Seda Annual Report (2021/22)**

One of the notable areas of underachievement on programme one was towards support spaza shops and general dealers under Retail Support Programme. Seda reports that “branches were experiencing several challenges with the conversion of informal Spaza shops to formal, as these are mostly owned by foreigners”. There are plans to turnaround this target by improving partnerships with associations to improve the uptake. Also on the scheme to support panel beaters, motor mechanics, auto spares and auto-fitment businesses, the agency plans to increase the capping to R1 million in order to improve uptake.

**5.1.2 Programme Two: Business Competitiveness and Viability**

The purpose of programme two is to support small businesses and Co-operatives by providing them with the necessary support to develop and enhance business production capacity and capabilities. This also includes improving their competitiveness in order to access local and international markets. The programe has 13 indicators and 11 of them were achieved. Key achievements under programme two include 3 087 enterprises supported to be competitive in local markets, 1 933 enterprises exposed to international markets, 3 820 enterprises assisted with quality improvement, 9 839 enterprises supported in the manufacturing sector and 4 692 enterprises supported through sector specific training.

**Table 10: Business Competitiveness and Viability**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Performance Measure**  | **Target**  | **Achievement**  |
| 1. | Number of SMMEs & Cooperatives supported to be competitive in local markets | 2 500 | 3 807 |
| 2. | Number of SMMEs and Cooperatives listed to supply wholesalers and retailers | 1 000 | 623 |
| 3. | Number of SMMEs & Cooperatives exposed to international markets | 1 000 | 1 933 |
| 4. | Number of SMMEs & Cooperatives registered onexport platforms | 1 000 | 1 170 |
| 5. | Number of SMMEs and Cooperatives assisted with incubation programme | 3 247 | 3 269 |
| 6. | Number of SMMEs and Cooperatives assisted with productivity improvement | 2 783 | 2 901 |
| 7. | Number of SMMEs and Cooperatives assisted with quality improvement | 2 783 | 3 820 |
| 8. | Number of SMMEs & Cooperatives assisted through the ecosystem | 70 000 | 52 830 |
| 9. | Percentage of Identified Stakeholders Participating in the Ecosystem | 75% | 100% |
| 10. | Number of SMMEs and Cooperatives whose turnover has increased | 2 783 | 2 990 |
| 11. | Number of SMMEs and Cooperatives supported in the manufacturing Sector | 2 783 | 9 839 |
| 12. | Number of SMMEs and Cooperatives supported through Sector specific training | 2 783 | 4 692 |
| 13. | Number of SMMEs and Cooperatives supported enterprise Coaching | 2 783 | 2 794 |

**Source: Seda Annual Report (2021/22)**

On access to markets, Seda could not achieve its target of listing 1000 SMMEs and Co-operatives to wholesalers and retailers. According to the agency some of the intended beneficiaries for product listing required additional business development interventions before they could be listed by wholesalers and retailers. There are plans to engage more wholesalers and retailers to establish partnerships to enable supported clients to access their shelf space. Clients who are market-ready will be encouraged to register their products with those identified wholesalers and retailers.

**5.1.3 Programme Three: Administration**

The key objective for programme three is to be responsible for strategic leadership and support to core delivery to ensure successful implementation of the organisation’s strategy. This includes monitoring organisations performance, strategic alignment with the shareholders’ expectations and capacitating the organisation to achieve its set objectives. Important milestones under the programme includes 33 percent of innovative ideas implemented, 67 percent of staff recognized for excellence, 95 percent level of customer satisfaction, 86 percent level of stakeholder satisfaction and 88 percent of Seda funds allocated to core delivery. This achievement reflects the organisational efforts to deliver on the mandate through an agile, innovative, excellent and customer centric organisation.

**Table 11: Administration**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Performance Measure**  | **Target**  | **Achievement**  |
| 1. | Percentage of innovative ideas implemented | 25% | 33% |
| 2. | Percentage of staff recognised for excellence | 25% | 67% |
| 3. | Percentage of staff satisfaction | 75% | 43% |
| 4. | Percentage of customer satisfaction | 80% | 95% |
| 5. | Percentage of stakeholder satisfaction | 80% | 86% |
| 6. | Percentage of vacancy rate | 10% | 7% |
| 7. | Percentage of funds allocated to core delivery | 75% | 88% |

**Source: Seda Annual Report (2021/22)**

In the 2021/22 financial year, a permanent moratorium was placed on filling vacant positions – to ensure that the merger process was not compromised. During the agency’s appearance before the Committee to present its annual report, Seda did allude to the instability emanating from uncertainty as a result of employees being employed on contractual basis. The Committee was informed that majority of employees are dissatisfied with a number of areas which included organisational leadership and management, remuneration and benefits, recognition and resources provision. As a result, Seda is struggling to retain its quality and experienced staff.

**5.1.4 Financial Overview**

In the financial year under review, the organisation had a total income of R902 million, which represented only a four (4) percent increase from the 2020/21 financial year. The percentage growth was mainly due to the increase in allocation from the Department of Small Business Development grant and other specific projects. Seda made an application to Treasury to approve the previous year’s surplus and National Treasury approved R294 million. This increased the expenditure budget to R1.190 billion. The actual expenditure for the period under review amounted to R1.185 billion resulting in an underspending of R5.2 million compared to R218 million in 2021. Based on the total amount spent, Seda does not have surplus funds to roll over for the first time in more than 5 years. Included in the expenditure of R1.185 billion is an overall spending of R773 million on goods and services during the 2021/22 financial year compared to R400 million in the previous year.

**Table 12: Seda Budget**

|  |
| --- |
| **Seda Budget 2021/22** |
| **Programme** | **Budget****R’000** | **Actual Expenditure****R’000** | **Over/Under Expenditure****R’000** |
| Programme 1 | 530 758 | 540 884 | -10 126 |
| Programme 2 | 462 430 | 456 076 | 6 354 |
| Programme 3 | 197 099 | 188 106 | 8 993 |
| **TOTAL** | **1 190 287** | **1 185 067** | **5 220** |

**Source: Seda Annual Report (2021/22)**

The 93 percent increase in spending as compared to the previous year was due to the approved surplus by the National Treasury and a decrease in spending on general administrative activities such as travelling and face-to-face stakeholder engagement projects, which were impacted by lockdown restrictions due to the Covid-19 pandemic. The financial resource constraints due to budget cut over the Medium Term Expenditure Framework (MTEF) period had adverse impact on the implementation of some projects. This ultimately impacted some projects with a high propensity to deliver impact whilst they require substantial investments from the organisation. Some of these projects include technology transfer programme which mainly assists manufacturing businesses with the purchase of advanced production equipments.

**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. Accelerating financial inclusion for SMMEs remains critical in helping the South African economy to develop and grow. During the 2021/22 financial year, Sefa stroveto increase diversity in its intermediary base and sought to increase the capacity of black-owned financial institutions that it works with. In carrying its mandate, the agency is mindful that access to capital remains one of the primary challenges facing SMMEs and co-operatives.

As a result, during the period under review, Sefacontinued to reimagine and modernise its lending processes, so that it can take advantage of new opportunities for financing SMMEs and capture more of the forecast growth. The agency approved loans to the value of R2,4 billion representing 116 percent of the annual target and disbursed R2,3 billion into the economy representing 86 percent of the annual disbursement target for the year. The finance supported 76 129 businesses and facilitated 96 589 jobs in the economy. The number of businesses supported represented 40 percent of the target and 46 percent of jobs target.

**5.2.1 Service Delivery Channels**

The Sefa lending operations comprise of the following channels - Micro Finance Institutions (MFIs), SMME Wholesale and Retail Financial Intermediaries, Joint Ventures and Khula Credit Guarantee via the commercial banks and trade credit suppliers. Sefamicrofinance distribution channel is made up of Direct Lending and Micro Finance Institutions accessing wholesale facilities and then lending to informal and micro enterprises in accordance with the National Credit Act. Sefa reported that due to Covid-19 pandemic the demand within these MFIs declined significantly. In the 2021/22 financial year, Sefa supported informal and microenterprises in eight of the nine provinces. Economy is recuperating from turbulent years of the pandemic. The agency managed to grow its loan book to R3.4 billion from R2.5 billion in 2021. This reflects 36 percent growth that is mainly driven by Direct Lending at R2 billion from R1.3 billion in 2020/21 financial year. Whilst the Wholesale Lending book also grew from R1.2 billin during 2020/21 financial year to R1.4 billion during the period under consideration. Total approvals grew by 32 percent year on year at R2.5 billion from 1.9 billion during the previous financial year. Whilst total disbursements grew by 44 percent year on year from R1.6 billion to R2.3 billion. This noteworthy performance was achieved notwithstanding capacity limitations linked to the pending merger.

**5.2.1.1 Wholesale Lending**

As one of Sefa main distribution channels of deploying funding into the economy, the Small and Medium Enterprises (SME) Wholesale Lending Division deploys funding to retail financial intermediaries and specialised funds with the objective of increasing access to finance to SMMEs. To supplement this objective, Sefa also enters into joint ventures and other strategic partnerships in order to crowd-in financial and business support as well as technical resources of the public and private sector strategic partners. The SMME Wholesale programme is a significant contributor to Sefa loan book performance, with R361 million approved to 12 new intermediaries during 2021/22 financial year while R570 million was disbursed by intermediaries to SMMEs between April 2021 and March 2022.

**5.2.1.2 Micro-Finance Institutions**

In the financial years preceding 2021/22, Sefa ability to implement an effective microfinance strategy was significantly hampered by a lack of internal staff capacity in Sefa and the absence of developmental microfinance institutions geared to micro entrepreneurs. Sefa was still primarily depended on two large microfinance institutions (MFIs), namely Small Enterprises Foundation (SEF) and Phakamani Foundation as retail partners. During this year the relationship with these partners was stabilised and long-term funding agreements were settled and the impact expectations with these partners were set in place. The role of the Microfinance Unit is to facilitate and increase access to finance and reduce the cost of end-user financing to informal and micro enterprises, with targeted rural, peri urban and township areas as a focal point.

**5.2.1.3 Direct Lending**

Direct Lending compliments the Wholesaling Lending programme and enables Sefato implement a hybrid lending model in the SMME lending space. The channel targets entrepreneurs that have viable businesses and are not able to secure funding from the open markets. Direct Lending mainly provides debt funding and in certain programmes offers blended financing instruments. The available financing instruments include: asset finance, term loans, revolving credit loans and bridging loans. Direct Lending approvals have grown significantly over the past five years. The approvals grew by 18 percent when compared to the previous financial year. This trend is attributed to various programmes that were introduced in the past two years – such as Township and Rural Entrepreneurship Programme, Small Enterprise Manufacturing Support Programme, Youth Challenge Fund, Debt Relief Scheme, Business Viability Programme and Business Recovery Programme. Direct Lending disbursements have shown a corresponding trend to approvals over the past five years. Direct Lending disbursements grew by 39 percent when compared to the previous financial year. Disbursements are real investment in the economy and contribute towards the development impact outcomes. The high level of disbursements has resulted in a total loan book of R2 billion as of 31 March 2022.

**5.2 Financial Performance**

Sefa obtained unqualified audit opinion - 10 years running. The agency’s financial position is showing signs of improvement at the back of the increased size of the loan book and the increase in cash and cash equivalents. The net loans and advances have increased by R640 million to a carrying amount of R1.5 billion at year end. Also, the improvement in the cost-to-income ratio showed significant signs of improvement with 43 percent growth in revenue. However, the group reported a loss before tax of R172 million from R283 million in 2021. The overall impairments write-off and bad debt provisions on loans and advances have increased by a net amount of R339 million from the previous year due to the growth in the loan portfolio. At year end, the impairment provision had grown from R800 million in 2021 to R1 billion in 2022.

**6. OBSERVATIONS**

Having reflected on the Department, Sefa and Seda annual reports for 2021/22 financial year, the Portfolio Committee herewith registers the following observations for consideration by the Department -

6.1 The Committee welcomes overall performance of the Portfolio. Achieving a clean audit opinion was certainly the highlight for the Department. Whereas Sefa and Seda maintained clean and unqualified audit opinions respectively. Improved spending is evident across the entire Portfolio. However, there is scope for improvement from Seda’s audit opinion which has transgressed over the past two financial years, the Departments’ sliding performance to 60 percent achievement of its annual targets from a high of 85 percent during the previous financial year to Sefa’s rising impairments to R1 billion from R800 million in 2021. These require increased scrutiny.

6.2 The Committee notes that the Department has been unable to refer the National Small Enterprise Amendment Bill to Parliament as pledged in its consecutive annual performance plans. The Department reported that this was due to pending incorporation of the Sefa and CBDA into Seda – and for that reason, Cabinet has approved a 20-month extension to give the Department a leeway to include a chapter on the merger.

6.3 The Committee is fully aware that the Department’s attainment of its objectives is dependent on a successful completion of the National Small Enterprise Amendment Bill. These include but not limited to the merger which must be supported by an act of Parliament, the creation of statutory entities such as the Small Enterprise Ombuds Office and Small Business Advisory Council, and definition of the term ‘small enterprise’. In terms of the estimation or timeline provided by the Department recently, it is inferred that the bill will be tabled to Parliament on or before December 2023.

6.4 The Committee further notes that the Business Amendment Bill to replace the Business Act (1991) has still not been brought before Parliament notwithstanding numerous assurances by the Department to table the draft bill once all executive processes are exhausted. The Committee is not optimistic that this bill will soon be finalised because in the annual performance plan (2022/23) presented to Parliament - it was intimated that the bill might only be referred to Parliament in 2025.

6.5 The Committee has noted the increase in the number of complaints of unfair business practice referred to it by the sector including the petition currently before it. During the fifth Parliament, the Committee conducted intense engagements with the sector in order to understand small business concerns to ascertain possible policy, legal and regulatory mechanisms that Parliament could put in place. The Committee had then made a recommendation to the Department to establish an Ombuds office within a period of 24 months. It has now been five years since that recommendation was first made.

6.6 The Committee notes the Minister’s acknowledgement that “SMME credit gap in South Africa is in excess of R350 billion, with start-ups and micro businesses being the most underserved”. The Committee welcomes the proposed cocktail of interventions such as de-risking of lending space to SMMEs through credit guarantees, rethinking forms of collateral, and improving credit information systems that currently disadvantage underserved communities. The Committee is hopeful that these proposed measures will be contained in the SMME and Co-operatives Funding policy soon to be finalised by the Department.

6.7 Pursuant to 6.6 above, the Committee observed with great concern that not even a single co-operative benefited from Sefa funding during 01 April 2021 to 31 March 2022. The Committee rejects the Department’s assertion that “Sefa’s balance sheet is limited and cannot afford to offer 100 percent grants to SMMEs and Co-operatives”. If the Department and Sefa are able to diagnose the source of the challenge being that “the blended finance system that is used to fund the Co-operatives makes it difficult for many Co-operatives to qualify and have access to the funds available to them - due to the fact that through blended finance, Co-operatives have to have a positive / healthy credit score”, then the onus is on the Department and Sefa to devise mechanisms or mitigating strategy to deal with imbalance. During the Department’s tabling of its annual performance plan (2022/3), the Committee expressed its displeasure and cautioned against phasing out of 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, among others, management accounts, financial statements, collateral etc, it was premature for the Department to extend this blanket policy to co-operatives.

6.8 The Committee is noting disjointed working relationship between Seda and Sefa in as far as handling of applications for funding are concerned. Difficulty in achieving seamless and collaborative rapport between the two agencies is showing beyond doubt the urgency and necessity to combine the two entities. The Committee further took note of Sefa Chief Executive Officer’s remarks that it may not be in the best interest of Sefa to merge with Seda and CBDA. The Committee will follow up to ascertain how best could this merger be accomplished without compromising service delivery.

6.9 In the previous BRRR (2019) and Legacy report, the Committee noted that the Department lacks appreciation or the role Stokvels, Village banks and Co-operatives Banking Institutions (CBIs) play in bridging funding gap for informal traders, co-operative enterprises and entities operating in far-flung areas in particular. In its Wholesale Lending facility, Sefa provides funding to financial intermediaries only regulated by the National Credit Regulator (NCR). However, the agency has not investigated nor attempted to bring to the fold the Co-operative Banking Institutions registered, licensed and regulated by the Co-operatives Banks Development Agency, Companies and Intellectual Property Commission, Prudential Authority and Financial Sector Conduct Authority (agencies of the South African Reserve Bank) and Financial Intelligence Centre to mention the few. Collective oversight by these agencies implies a much more improved governance and risk-based approach to managing public funds. During the fifth Parliament, the Committee had detected that some of the intermediaries Sefa worked with, either went under, applied for voluntary liquidation or their debts were written off while they still owed Sefa millions e.g. Marang Financial Services, Retmil Financial Services and Super Grand to mention but the few.

6.10 The Committee has taken note that when the Department and agencies report performance highlights in respect of co-operatives and informal traders tend to club or aggregate beneficiaries under one umbrella of SMMEs. Such a reporting methodology conceals the narrow and askew distribution of resources amongst SMMEs mostly private businesses registered in terms of the Companies and Close Corporation Act(s), social enterprises registered in terms of the Co-operatives Act and informal traders registered in terms of the Municipal By-laws. Also, provincial aggregation instead of regions or district municipalities does not provide clear picture of how resources are spread equitably across the regions.

6.11 The Committee has noted that not only are co-operatives prejudiced from benefiting adequately from the Portfolio programmes, informal traders are also casualties. For instance, Seda struggled to meet its projected target on the support to Spaza shops and general dealers, an area where as a country we are performing dismally. The agency attributes this shortcoming to numerous challenges such as “failure to convert informal Spaza shops to formal traders as these are mostly owned by foreigners” - a grave indictment and demonstration that our policy as a country is not responsive. This development is not only common to spaza shops and general dealers, there is a complete takeover and deliberate displacement of informal traders i.e. clothing and retail, saloons and cellphone shops with persons whom ordinarily and in terms of South African laws are not eligible to conduct those types of businesses.

6.12 Members of the Committee have over time expressed misgivings at the rate at which Committee resolutions and recommendations in general are being executed by the Department. For instance, the Committee resolutions in the legacy report carried over from the fifth Parliament are far from being completed. The sixth administration is effectively left with less than 18 months to conclude its term. During the legacy report deliberations by members of the fifth Parliament, they had been confronted with a delicate question of whether the Department should continue to exist. The Committee had then concluded that “the Department must continue to exist. Empirical evidence suggests that no economy can exist without the small enterprise sector. The National Development Plan situates more accountability on the sector to create 11 million jobs which is a further indication that the challenge of tackling unemployment will come from a vibrant small enterprise sector. Based on the Committee experience, the establishment of the Department was absolutely necessary, and it must therefore remain in order to fulfil what it had intended to accomplish”. It is therefore not unanticipated that members of the Committee during the sixth Parliament, considering the degree to which the Department is falling short of implementing resolutions contained in various Committee reports, would be faced with a similar conundrum.

6.13 The Committee has long noted and flagged red tape as an area of interest as it believes it is one of the biggest constraints on economic opportunity, business investment and job creation. At the start of its term, the Committee had sought to dissect and analyse common bottlenecks bedevilling small enterprise sector from realising full potential. The Committee had then re-examined all previous government initiatives aimed at eliminating red tape e.g. Regulatory Impact Assessment, Socio Economic Impact Assessment System,Guidelines for Reducing Municipal Red Tape and national Red Tape Reduction (“RTR”) strategy developed by the Department. None of these interventions seem to have yielded any positive responses considering the rate at which small enterprises are disappearing due to red tape.

6.14 The Committee welcomes the Department’s approach to District Development Model (DDM) and the use of co-locations to expand the Portfolio footprints. It however, observes that Parliamentary Constituency Offices (PCO) with members of Parliament in excess of 400, plus provincial legislatures, have not been utilised strategically to promote government-wide programmes.

6.15 The Committee has noted Seda’s outcome of an unqualified audit with findings on the reporting on predetermined objectives. According to the Auditor General the audit outcome has regressed to an adverse opinion with findings due to the extent to which the majority of performance indicators were not measurable and reliable. According to the Auditor General, there was no good planning, in-year performance management, and monitoring and reporting, the management did not adequately exercise oversight responsibility regarding performance reporting as well as related internal controls.

**7. RECOMMENDATIONS**

Informed by its deliberations, the Portfolio Committee recommends that the Minister of Small Business Development take steps to implement the following resolutions -

7.1 As noted earlier that the National Small Enterprise Amendment bill might only be referred to Parliament in 2023, and considering the period that has elapsed since this bill has been on the drafting phase, the Committee is of the view that a staggered approach to the development of the bill should be considered. The precedent was set by the Department of Trade and Industry when it successively amended the National Small Business Act (1996) in 2003 and 2004. The Department must endeavour to review its timelines. The third quarterly report (2022/23) should consist of implementation framework on how it plans to meet these milestones bit by bit.

7.2 The Committee is of the view that in light of a variety of challenges besetting the sector, and hundreds of complaints from small business owners before the Committee, a segmented approach should indeed be given primacy. The Committee herewith recommends to the Department to consider the following propositions for implementation on or before 31 March 2023 –

* The Small Enterprise Ombudsman Services Bill announced by the Former Minister Khumbudzo Ntshavheni in July 2020 be referred to Parliament. The Committee understands that the bill had gone through all legal hurdles;
* The National Small Enterprise Amendment Bill which incorporated a chapter on the creation of the “Small Enterprise Ombud Service” is referred to Parliament. The bill had gone through all legal scrutiny including obtaining Socio Economic Impact Assessment System (SEIAS) certification and gazetted for public comments in December 2020;
* Alternatively, as per the revised business case shared with the Committee at the beginning of the financial year 2022/23 concerning the establishment of the Office of the Small Enterprise Ombud Service, the Department should go ahead establish the office as a Juristic Person within the Department, and in the medium term as a Public Entity i.e. Schedule 3A. The Committee reserves its right to accept or reject the Department strategic plan and annual performance plan (2023/24) should it not comply with any of the directive set forth hereinabove.

7.3 In the meantime and in case of further delays by the Department in executing the Committee resolutions, the Committee will explore a Committee bill (Section 75 bill) in order to implement its own resolution for the establishment of the Small Enterprise Ombudsman. The Committee is in agreement that the Small Enterprise Service Ombuds bill, draft bill amending the National Small Enterprise Act (1996) and draft Public Procurement bill specifically the section that deals with dispute resolution should be considered key constituents of the planned bill.

7.4 During the course of the financial year (2022/23) the Department revised its own timelines in as far as the referral of the Business Amendment bill to Parliament is concerned. The project plan was shared with the Committee. It is on this basis that the Committee was prevented from pursuing its resolution to produce a Committee Bill. In terms of the project plan shared and agreed to by the Committee, the Department shall table the draft bill to Parliament on or before April 2023. Despite the fact that the project plan is not a statutory document to hold the executive to account, the Committee will scrutinise strategic plan and annual performance plan (2023/24) to ensure that this target is fully incorporated and correctly reflected on the Department’s plans.

7.5 The SMME and Co-operatives Funding Policy must be accelerated and concluded before 31 March 2023. This target has been on the successive annual performance plans of the Department since the financial year 2020/21. It will not be in the interest of good governance if the Committee accepts or considers the annual performance plan (2023/24) with this target still incomplete or pending approval by Cabinet.

7.6 Co-operatives enterprises are struggling to access financial assistance from Sefa or the Department. It is reported in the annual reports that there was no co-operative funded by Sefa in the previous financial year. Whereas the Department fell short of its expenditure target on co-operatives by more than R70 million. The Department's catalytic and supportive role in the development of co-operatives is invisible*.* The Committee would like to reiterate its previous recommendation to the Department to reinvent the Co-operatives Development Support Programme (CDSP) to include performance linked incentive scheme for co-operatives.

7.7 The Department should develop a turnaround plan on co-operatives. The plan must be incorporated into the third quarterly report (2022/23) for consideration and discussion with the Committee.

7.8 As stated before the utilisation of financial intermediaries by Sefa was raised sharply by members of the Committee and flagged by the Financial and Fiscal Commission (FFC) in 2019 as increasing the cost of capital for struggling small enterprises. The Portfolio Committee recommendation is that Sefa should consider insourcing all its lending activities, alternatively, consider giving priority to financial institutions registered, licensed and regulated by reputable agencies of the state e.g. Prudential Authority, Financial Sector Conduct Authority, Financial Intelligence Centre and National Credit Regulator. As the Co-operatives Banks Development Agency prepares to join the Department, from the policy point of view, it is important for the Department to proactively envisage potential role of Co-operatives Banking Institutions in distribution or channelling of resources to SMMEs and Co-operatives.

7.9 The skewness in the distribution of funds and resources as observed in all annual reports in favour of Gauteng, KwaZulu Natal and Western Cape (provinces with big metros) at the exclusion of other struggling regions and/or provinces like Northern Cape, Eastern Cape, Free State, Mpumalanga and North West requires urgent intervention. Historical inequities exist between provinces as well as among districts within each province. Remedial measures should include, amongst others, equitable allocation of resources per provinces and districts. Such distribution should be reported on the quarterly and annual reports of the Department and agencies.

7.10 The Committee is calling on Seda and Sefa to re-examine the degree to which their services are integrated and interdependent. The Committee does not concur with the notion that funding applications and business plans developed by Seda maybe declined willy-nilly and without recourse or corrective measures by Sefa. In future, all Seda and Sefa quarterly reports must incorporate a column – re: status of all applications submitted and received by both agencies respectively.

7.11 There are areas of underspending in the Department occasioned by vacant posts i.e. compensation of employees, goods and services as well as capital assets. The Department of Public Service and Administration has approved DSBD organisational structure. The Committee is calling on the Department to act swiftly in filling vacant posts particularly at senior management level. The Committee will track progress through monitoring quarterly reports of the Department.

7.12 A high staff turnover at Seda and Sefa is posing a risk to service delivery environment. The Committee is of the viewpoint that 20-month extension granted by Cabinet was indicative and not cast in stone. There is a lot that can be achieved within a reasonable period of time to ensure that entities are stabilised. The Committee wishes to invite the Department and entities to conduct an analysis and develop a mitigating strategy for consideration by the Committee before 31 January 2023.

7.13 The Committee is on record and wishes to reiterate its initial recommendation when the merger was first introduced that consolidation of the three agencies, should if possible, be assumed separately from regular operations of the entities as all three of them are governed by different legislations that may take longer to process. The Minister should ensure that proper coordination between the entities and National Treasury is monitored to guarantee that the mandate of the Portfolio is achieved.

7.14 The Portfolio Committee noted Auditor General remarks with respect to absence of good planning, in-year performance management, monitoring and reporting. Committee is calling on the Seda to act speedily in dealing and implementing AG recommendations. In line with AG recommendation to the Committee, the Committee will ensure that all Seda quarterly reports provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the agency.

7.15 In spite of numerous road shows, marketing and awareness campaigns, as well as expansion of co-locations to remote and underprivileged regions, remonstration and grumbling on the ground have not abated. The Department should monitor the extent to which annual performance plans and quarterly reports incorporate output indicators that 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.

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.