22 February 202

**ANALYSIS ON THE STATE OF THE NATION ADDRESS (SONA) 2023[[1]](#footnote-2)**

**(Small Business Development)**

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# INTRODUCTION

The 2023 State of the Nation Address took place in the midst of a severe energy crisis with the country experiencing extreme levels of loadshedding. The media reports that loadshedding is having a devastating impact on small businesses in South Africa, affecting production and increasing costs, causing businesses to close, leading to job losses and negatively affecting the economic growth of the country.[[2]](#footnote-3)

In his speech the President made the following key announcements;

1. Government is declaring a state of national disaster with immediate effect. The aim is to mitigate the effects of loadshedding/energy crisis on, among others, SMMEs in affected sectors e.g. retail, food production and storage.
2. Government is concentrating on those issues that concern South Africans the most, namely,
3. Load shedding;
4. Unemployment.
5. Poverty and the rising cost of living.
6. Crime and corruption.

This paper outlines key announcements that have direct and indirect implications for the small medium and microenterprises (SMMEs) in the 2023 SONA. The aim is to highlight key SONA directives that will enable the Portfolio Committee on Small Business Development to exercise oversight on the Department of Small Business Development and its entities, the Small Enterprise Finance Agency (**sefa**) and the Small Enterprise Development Agency (SEDA) as well as the relevant stakeholders.

The 2022 State of the Nation Address (SONA) occurred on the backdrop of increased economic activity due to the easing of the COVID 19 restriction to level 1 lockdown. This is as close as the country has been to pre-COVID 19 normal. The unemployment situation however has become worse with the country reaching the highest unemployment levels since 2008.

# WHAT IS SONA 2022 SAYING ABOUT SMALL ENTERPRISES?

## **2.1 Loadshedding**

The President stated thatNational Treasury is working on adjustments to the bounce-back loan scheme to help small businesses invest in solar equipment, and to allow banks and development finance institutions to borrow directly from the scheme to facilitate the leasing of solar panels to their customers.

In January 2023, the Small Enterprise Finance Agency (sefa) reports that it conducted a research study on the impact of loadshedding on its funded clients, and the following were key findings:

* Most respondents indicated that they are highly reliant on electricity for their operations;
* About 71% of respondents indicated that they are negatively impacted by loadshedding;
* The majority of the respondents will require an alternative power source to continue with their operations.[[3]](#footnote-4)

The scheme would be used to help entrepreneurs get funding for solar power. According to Minister Ndabeni-Abrahams, “In order to support SMMEs during this energy instability phase, we will be rolling out a Power Purchase Package to assist SMMEs to deal with this challenge. We have designed packages to cater for all segments of our sector. In rolling out these packages, SMMEs need to capitalize on opportunities presented by this transformation of energy production.”

## **2.2 Job creation**

The President stated that Growth and the creation of jobs in our economy will be driven by small and medium-sized enterprises, cooperatives and informal businesses.

The objectives as set out in Chapter three of the National Development Plan state that

the unemployment rate should fall from 24.9 percent in June 2011 to 14 percent by 2020 and to 6 percent by 2030. This required the economy to create an additional 11 million jobs, from 13 million in 2011 to 24 million by 2030.[[4]](#footnote-5)SMMEs are expected to create 9.9 million or 90 per cent the new jobs over a period of 19 years. The NDP implores the country “to find ways to urgently reduce alarming levels of youth unemployment and to provide young people with broader opportunities.”[[5]](#footnote-6)

**i) Employment:** From 2011 when the employment levels when the number of people employed was at t 13 million, the country needed to create 579 thousand jobs per year to reach target.However, the South Africa was already on a slow growth trajectory when it was hit by the COVID 19 pandemic which led to job losses and an increase in unemployment.

According to Statistics South Africa, in Q3 of 2022 (July-September) the number of people in employment was at 15.8 million. In order to reach 24 million by 2030, the country needs to create 8.2 million jobs within 8 years to reach target. That means between Q3 2022 and Q3 2030 the economy needs to create over R1 million jobs a year to reach target.

**ii) SMMES Jobs:** The NDP envisages that SMMEs would create 90 per cent of all new jobs in the country. In Q3 2021 SMMEs created approximately 9.8 million. While Stats SA reports that in Q3 2021 there were 14.3 million people employed. All things equal, that implies that SMMES constituted approximately 68.5 per cent of total jobs over the same period in 2021. The difference between the current rate and 90% is a 21.5% gap that SMMEs need to close to achieve the set goal.

**iii) Unemployment:** According to the NDP, unemployment was expected to drop from 24.9 per cent in Q3 2011 to 14% in 2020. In the Q3 of 2022 the unemployment rate was at 32.9%.[[6]](#footnote-7)

To address the challenge of youth unemployment, the Employment Tax Incentive has been expanded to encourage businesses to hire more young people in large numbers.

In 2022, the President announced that “to encourage hiring by smaller businesses, it will be increasing the value and expanding the criteria for participation in the Employment Tax Incentive.”[[7]](#footnote-8)Subsequently, the Minister of Finance announced an increase in the ETI values which will become effective from 1 March 2022.

**Table 1: February 2022 ETI**

|  |  |  |
| --- | --- | --- |
| **Monthly Remuneration** | **First 12 Months** | **Second 12 Months** |
| R0 to R1 999,99 | 50% of Monthly Remuneration | 25,0% of Monthly Remuneration |
| R2 000 to R4 499,99 | R1 000,00 | R500 |
| R4 500 to R6 499,99 | R1 000 – (50% x (monthly remuneration – R4500)) | R500 – (25% x (monthly remuneration – R4 500)) |

|  |  |  |
| --- | --- | --- |
| **Monthly Remuneration**  **Table 1a: March 2022 ETI** | **First 12 Months** | **Second 12 Months** |
| R0 to R1 999,99 | 75% of Monthly Remuneration | 37,5% of Monthly Remuneration |
| R2 000 to R4 499,99 | R1 500,00 | R750 |
| R4 500 to R6 499,99 | R1 500 – (75% x (monthly remuneration – R4500)) | R750 – (37.5% x (monthly remuneration – R4 500)) |

**Source: SARS (2022)**

National Treasury reports that the benefits of the ETI are:

* It will reduce the employers cost of hiring young people through a cost-sharing mechanism with government, by allowing you to reduce the amount of Pay-As-You-Earn (PAYE) you pay while leaving the wage received by the employee unaffected. For example, employers who are registered for PAYE, and who employ a person for the full month of February 2022 and earns R2000, would get R1 000 off their monthly PAYE liability (provided that the employee is a qualifying employee based on all the other remaining requirements). From March 2022, that same employer would get R1500 as indicated in the Tables above.[[8]](#footnote-9)

## **2.3 Access to finance**

The President announced that;

The Small Enterprise Finance Agency – SEFA – we plan to provide R1.4 billion in financing to over 90,000 entrepreneurs.

According to the Minister of Small Business Development this amount is significant, however, it is nowhere near what is required to address the SMME credit gap which the International Finance Corporation estimates at upward of R350 billion.[[9]](#footnote-10)The need overwhelmingly outweighs the provision by a large margin as R1.4 billion constitutes only 0.4 per cent or less than one per cent of the credit gap. See Figure below.

R1.4 billion for over 90 000 = R15 555 per entrepreneur, on average.

Adapted from:[SONA 2023 FINAL Ndabeni Sona Debate.pdf](file:///C:\Users\nmbelekane\Desktop\SONA%202023%20FINAL%20%20Ndabeni%20Sona%20Debate.pdf)

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Furthermore, R1.4 billion for over 90 000 entrepreneurs means that **sefa** will provide on average R15 555.

**The SA SME FUND**

The President announced that government in partnership with the SA SME Fund is working to establish a R10 billion fund to support SMME growth. Government is looking at the possibility of providing R2.5 billion for the fund and for the balance of R7.5 billion to be raised from the private sector.

The SA SME Fund was established in 2016 as part of the CEO Initiative in conjunction with National Treasury and Corporate South Africa. According to the its 2021 Integrated Report, the SA SME Fund operates as a typical fund of funds in the private equity and venture capital industry with R1.4 billion of capital subscriptions.[[10]](#footnote-11)The Company’s objective is to invest in high-potential entrepreneurial enterprises in the Small Medium Enterprises (SME) Sector and to provide business and other forms of support to the SME sector and entrepreneurs funded by the Company.[[11]](#footnote-12)

Adrian Gore is the Chairperson its Board its Chief Executive Officer is Ketan Gordhan. The Fund’s shareholders include the Unemployment Fund and the Public Investment Corporation. It reports that more than 50 listed businesses and the PIC have committed approximately R1.4bn to the Fund, in support of the growth and strengthening of the SME sector in South Africa.[[12]](#footnote-13)

The Minister noted that announcement by the President of a possible R2.5 billion rands to be committed to the SME Fund to leverage a further R7.5bn of private sector support is a step in the right direction if matched with good investment on business development support.

**PostBank**

The President announced, the following;

i) Licensing of the PostBank will lay the foundation for the creation of a state bank that will provide financial services to SMMEs, youth- and women-owned businesses and underserved communities.

ii) As the National Assembly considers the Postbank Amendment Bill, the Postbank is reviewing its service offerings so that it can provide a viable and affordable alternative to the commercial banks.

According to the Minister of Communication and Digital Technologies, her Department is working with the Reserve Bank to finalise the corporatization, licensing and repurposing the Postbank not only as fully fledged State Bank.[[13]](#footnote-14)

South Africa is following the example of among others the State Bank of India (SBI), a Fortune 500 company, which has been operating for over 200 years. Its objective, among others is to to promote rural credit and stimulate savings by setting up local branches in rural and semi-urban areas. The concept of banking as mere repositories of the community's savings and lenders to creditworthy parties was soon to give way to the concept of purposeful banking subserving the growing and diversified financial needs of planned economic development.[[14]](#footnote-15)

The Postbank is expected will commence with the revamping of 100 post office branches to ready itself for its new role. In addition, to the repackaging of its product and service offering, the Postbank has commenced with the on-boarding of township businesses such as spaza shops to form part of its payment channels. This is part of the first steps to ensure that townships and small businesses are not stepchildren in the economy of this country due to financial exclusion.[[15]](#footnote-16)

## **2.4 Red Tape Reduction**

**Business Act No. 71 of 1991**

The President made the following announcement,

a) This year, we will finalise amendments to the Businesses Act to reduce regulatory impediments for SMMEs and co-operatives and make it easier for entrepreneurs to start businesses.

The democratic dispensation identified red tape challenges in the country as far back as 1995.[[16]](#footnote-17) Subsequently, in 2004 the South African Presidency commissioned a report ‘Counting the cost of Red Tape in South Africa’. This study revealed, among others that regulatory compliance costs of business amounted to R79 billion in 2004. Recently, National Treasury reported that “red tape is particularly burdensome to smaller businesses and may act as a disincentive to new business start-ups. Small businesses spend an aggregate 4 per cent of turnover on red tape and the smallest firms (those employing fewer than 21 people) are the worst affected.[[17]](#footnote-18)

In 2022 the President announced that government was reviewing the Business Act, alongside a broader review of legislation that affects SMMEs. He added that the purpose was to reduce the regulatory burden on informal business.” There are too many regulations in this country that are unduly complicated, costly and difficult to comply with, preventing companies from growing and creating jobs.”[[18]](#footnote-19)

In the NISED Master Plan, the DSBD notes that the environment in which small enterprises operate has become increasingly hostile to business, SMMEs carry a higher regulatory compliance cost burden than that of their larger counterparts. The Business Act Review and reform/amend the Business Act of 1991 to establish common practices for licencing and better governance at local and district authorities. The DSBD reports that it is expecting the process to take 2-5 years to conclude.

# KEY ISSUES RELEVANT TO SMALL BUSINESS DEVELOPMENT

The President announced that;

* Government is declaring **a state of national disaster** with immediate effect. The aim is to mitigate the effects of loadshedding/energy crisis on, among others, SMMEs in affected sectors e.g. retail, food production and storage.
* A key aspect of the National Strategic Plan is the economic empowerment of women. Therefore, Industrial Development Corporation (IDC) has earmarked **R9 billion to invest in women-led businesses**. **sefa** is a subsidiary of the IDC and therefore this amount should include SMMEs and cooperatives.[[19]](#footnote-20)
* Through the **Just Energy Transition Investment Plan, R1.5 trillion** will be invested over the next five years in new sectors such as renewable energy, green hydrogen and electric vehicles and fuel cells which create jobs and stimulate local economies the Eastern Cape, Western Cape and Mpumalanga. The Northern Cape has already attracted well over R100 billion in investments in renewable energy projects.[[20]](#footnote-21)
* Around 140,000 small-scale farmers have received input vouchers to buy seeds, fertiliser and equipment, providing a boost for food security and agricultural reform. This initiative has led to the cultivation of some 640,000 hectares of land. An impressive 68 per cent of these farmers are women. This year, we aim to **provide 250,000 more vouchers to small-scale farmers.[[21]](#footnote-22)**
* Minister Ndabeni-Abrahams The DSBD together with Department of Agriculture, Land Reform and Rural Development (DALRRD) provide financial and services:
* Comprehensive Agriculture Support Programme (CASP) to assist new entrant farmers with infrastructure;
* AgriBEE which is a fund aimed at supporting farmers and agripreneurs to acquire equity in existing; and the Blended Finance Scheme (BFS) which is a combination of loan (60%) and grant (40%).[[22]](#footnote-23)
* National Skills Fund will provide R800 million to develop skills in the digital and technology sector through an innovative model that links payment for training to employment outcomes.[[23]](#footnote-24)
* In response, Minister Ndabeni-Abrahams of DSBD announced;
* DSBD is partnering with the National Skills Fund to **train 14 000 entrepreneurs** and unemployed graduates wishing to venture into business. An amount of **R592 million** has been approved.[[24]](#footnote-25)

# RECOMMENDATIONS

a) PC could request a briefing by the DSBD and its entities as well as the SME Fund on the following;

* Implementation of the **R1.4 billion in light of the estimated R350 billion credit gap.**
* Partnership between government and the SA SME Fund in establishing the R10 billion fund. **R2.5 billion from government & R7.5 bn from the private** sector. (How is government going to raise the funds?)
* Implication of the **state of national disaster on SMMEs**.
* Urge the DSBD to fast-track the review Business Act given that the environment is becoming more hostile to SMME
* Request the DSBD and its entities as well as the SME Fund to provide quarterly briefings on progress being made on the Finalisation of the Business Act.

1. PC could request a briefing by the DSBD and National Treasury on the;

* The Bounce-back Loan Guarantee Scheme - facilitating the leasing of solar panels to small businesses to mitigate the impact of the energy crisis on SMMEs and cooperatives.

1. PC could request a joint briefing/ oversight with the PC on Communication and Digital Technologies on the following;

* Progress on the licensing of the PostBank to help the underserved enterprises and linkages between the Bank and the merger SEFA, SEDA CBDA merger.

1. PC could request a joint meeting with the Department of Agriculture, Land Reform and Rural Development (DALRRD) on;

* the success and challenges with regards to achieving the target of **providing 250,000 more vouchers to small-scale farmers.**

1. PC could hold a joint briefing with the PC on Higher Education and Training on the;

* **NSF and Training of 14 000 entrepreneurs** and unemployed graduates wishing to venture into business.

1. PC could request a joint briefing with the Department of Labour to discuss;

* The implementation and impact of expanding the criteria for participation in the **Employee Tax Incentive for SMMEs** with Departments of Small Business Development, Treasury and Labour.
* Regulators burden: Challenges faced by SMME with regards to labour regulations.

1. Draft – not yet edited [↑](#footnote-ref-2)
2. [Impact of load shedding on small growing businesses - TMMBS](https://tmmbs.co.za/impact-of-load-shedding-on-small-growing-businesses/) [↑](#footnote-ref-3)
3. South African Government (2023) Minister Stella Ndabeni-Abrahams on energy relief package for small businesses. Internet. Available from <https://www.gov.za/speeches/minister-ndabeni-abrahams-working-energy-relief-package-lessen-burden-loadshedding-small> Accessed on 19 January 2023. [↑](#footnote-ref-4)
4. [Executive Summary (www.gov.za)](https://www.gov.za/sites/default/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf) [↑](#footnote-ref-5)
5. Ibid [↑](#footnote-ref-6)
6. [Publication | Statistics South Africa (statssa.gov.za)](https://www.statssa.gov.za/?page_id=1854&PPN=P0211&SCH=73291) [↑](#footnote-ref-7)
7. SONA 2023 [↑](#footnote-ref-8)
8. [Employment Tax Incentive (ETI) | South African Revenue Service (sars.gov.za)](https://www.sars.gov.za/types-of-tax/pay-as-you-earn/employment-tax-incentive-eti/) [↑](#footnote-ref-9)
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10. [SA SME Fund puts up a billion to help small businesses (businesslive.co.za)](https://www.businesslive.co.za/fm/fm-fox/2022-04-14-sa-sme-fund-puts-up-a-billion-to-help-small-businesses/) [↑](#footnote-ref-11)
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12. [Shareholders - SA SME Fund](https://sasmefund.co.za/shareholders/) [↑](#footnote-ref-13)
13. [Minister Khumbudzo Ntshavheni: Debate on the State of the Nation Address | South African Government (www.gov.za)](https://www.gov.za/speeches/minister-khumbudzo-ntshavheni-debate-state-nation-address-16-feb-2023-0000) [↑](#footnote-ref-14)
14. [About Us - About Us (sbi.co.in)](https://sbi.co.in/web/about-us/about-us#:~:text=State%20Bank%20of%20India%20(SBI,Bank%20by%20Indians%20through%20generations.) [↑](#footnote-ref-15)
15. [Minister Khumbudzo Ntshavheni: Debate on the State of the Nation Address | South African Government (www.gov.za)](https://www.gov.za/speeches/minister-khumbudzo-ntshavheni-debate-state-nation-address-16-feb-2023-0000) [↑](#footnote-ref-16)
16. Department of Trade and Industry (1995) [↑](#footnote-ref-17)
17. [↑](#footnote-ref-18)
18. SONA 2022 [↑](#footnote-ref-19)
19. SONA 2023 [↑](#footnote-ref-20)
20. Ibid [↑](#footnote-ref-21)
21. Ibid [↑](#footnote-ref-22)
22. [SONA 2023 FINAL Ndabeni Sona Debate.pdf](file:///C:\Users\nmbelekane\Desktop\SONA%202023%20FINAL%20%20Ndabeni%20Sona%20Debate.pdf) [↑](#footnote-ref-23)
23. SONA 2023 [↑](#footnote-ref-24)
24. [SONA 2023 FINAL Ndabeni Sona Debate.pdf](file:///C:\Users\nmbelekane\Desktop\SONA%202023%20FINAL%20%20Ndabeni%20Sona%20Debate.pdf) [↑](#footnote-ref-25)