2. Report of the Portfolio Committee on Small Business Development on Budget Vote 36: Small Business Development for the 2023/24 financial year, dated 10 May 2023

1. INTRODUCTION

The Portfolio Committee on Small Business Development (the Portfolio Committee) having considered Annual Performance Plans (APPs) and budget allocations of the Department of Small Business Development (the Department), alternatively (DSBD), and its entities, the Small Enterprise Finance Agency (Sefa) and Small Enterprise Development Agency (Seda), reports as follows:

1.1 Background

The South African Constitution (Act No. 108 of 1996) bestow to Parliament a crucial responsibility of monitoring the financial and non-financial performance of government departments, agencies and other public bodies. According to section 27 of the Public Finance Management Act (No. 1 of 1999), the Minister of Finance presents a detailed outline of the State's Budget to the National Assembly at the start of every year, immediately after the President's State of the Nation Address (SONA), to the great anticipation and excitement of South Africans. The budget details how much money will or should be spent on during that fiscal year. Following that, different government departments present their budget votes to Parliament, outlining how they plan to balance their funding with the demands of service delivery as outlined by the President in the State of the Nation Address.

In terms of section 10(1)(c) of the Money Bills Amendment Procedures and Related Matters Act (No. 9 of 2009), respective Ministers have a responsibility to submit Strategic Plans and Annual Performance Plans (APPs) for their corresponding Departments, public entities, or institutions for consideration and adoption by the relevant Portfolio Committees. Both the strategic plans and APPs must be submitted within the allotted time frame since they contain information or data that the appropriate Portfolio Committee needs for its budget appraisal process. Strategic plans identify strategically significant, outcome-oriented goals and objectives that can be used as a benchmark by Parliament to assess the medium-term performance of public institutions. While annual performance plans outline the performance metrics and goals the institution hopes to achieve during the following financial year.

The yearly budgets, on the one hand, indicate the resources given to an institution for service delivery, but more importantly, they establish illustrative future budgets throughout the Medium Term Expenditure Framework (MTEF) period and show the resource envelope for the upcoming year. The budget includes the current fiscal year and the two years after it. The Department and entities have complied with this responsibility. They have presented their APPs and budget vote before Parliament, which amongst others, postulated how the Department aim to reconcile its resources with the service delivery imperatives. The discussion, adoption, and oversight of the State's budget are therefore some of the primary statutory duties of Parliament. The Portfolio Committee is accordingly tasked with reviewing and reporting on the Department of Small Business Development budget (Vote No. 36).

1.2 Purpose of the Budget Vote

The budget is a political and financial tool that the government employs to make sure that its policy programs are implemented through the distribution of financial resources to the various parts of the government, specifically to projects and programs. It exhibits a public spending strategy focused on outcomes. It is further described as a technique the government employs to assess how well its primary policy goals are being funded. Additionally, it is used to determine whether the macroeconomic projections included in the Budget and the corresponding budget votes satisfy the requirements of governmental policies and support the government's five-year plan. In line with its mandate, with budget vote 36, the goal of the Department is to encourage the growth of small, micro, medium and co-operative businesses to contribute to inclusive growth and job creation. The Department of Small Business Development, Small Enterprise Development Agency, and Small Enterprise Finance Agency provided briefings to the Portfolio Committee on 18 and 19 April 2023 in accordance with the National Assembly's request to discuss their annual performance plans and budgets.

1.3 Objectives of the Report

The objectives of the report are as follows: -

1.3.1 To describe and analyse the budget of the Department of Small Business Development, vote 36, over the 2023/24 financial year;

1.3.2 To provide a forecast of revenues while guaranteeing effective public expenditure management;

1.3.3 Link budget decisions with the Department and agency’s performance;

1.3.4 To give account of the deliberations and consideration that members of the Committee went through, which are essentially the unpacking and examining of the Department annual performance plan and its associated budget vote in relation to the strategic plan;

1.3.5 To make recommendations concerning the endorsement, adjustment or rejection of budget vote 36 and any other recommendations regarding the implementation of the Department strategic plan;

1.3.6 To record general and specific observations and make appropriate recommendations.

1.4 The Portfolio Committee Process

The above described exercise underscores the importance of the budget and strategic plan processes in the schedule of Parliament as well as the necessity for departments to submit these on time to guarantee that Parliament is given the information necessary for its oversight function. The annual performance plan of the Department for 2023/24, which includes the entities Sefa and Seda for corresponding financial years, were tabled to Parliament by the Minister of Small Business Development on 14 April 2023. Before the referral of these instruments by the National Assembly - the Portfolio Committee had already scheduled two extended briefing sessions, first with Sefa on Tuesday, 18 April 2023, and the second with the Department and Seda on Wednesday, 25 April 2023, largely to give them an opportunity to present their annual performance plans and budget for the upcoming financial year.

The Department of Small Business Development and its entities' prior performance was taken into account during the engagements. Due to erstwhile commitments, Minister Stella Ndabeni-Abrahams was unable to attend both sessions. The delegation was led by the Director General Mr. Lindokuhle Mkhumane, as well as the Accounting Authorities and Chief Executive Officers from the agencies. The briefing sessions were held virtually. The leadership from the Department and agencies actively participated in the Committee's deliberations on budget vote 36, providing the context in which the Department and its entities annual performance plans had been created and presented. In light of the current economic conditions, which are best described as challenging the Committee was briefed that the budget was carefully considered in relation to the Department's strategic plan and government priorities as outlined in the National Development Plan (NDP), Medium Term Strategic Framework (MTSF), Economic and Reconstruction Recovery Plan (ERRP), and State of the Nation Address.

2. OVERVIEW OF THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

2.1 Aim and Purpose of the Department

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

2.2 Mandate of the Department

The Department of Small Business Development is responsible for leading and coordinating an integrated approach to the promotion and development of entrepreneurship, small businesses, and co-operatives; and ensuring an enabling legislative and policy environment to support their growth and sustainability. The accomplishment of this mission will change the economy, boost employment, and lessen inequality and poverty. The Department's mission is governed by the following policy and legislative framework-:

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

2.3 Vision of the Department

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

2.4 Mission of the Department

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

2.5 Values

The values and principles that underpin the DSBDs pursuit of its vision and mission are shared across the three entities, and are predicated on the principles of Batho-Pele as follows: -

- Innovation;
- Integrity;
- Professionalism;
- Customer-centric;
- Commitment and;
- Caring organisation.

2.6 Programme Structure (2023/24)

The Committee is satisfied that DSBD formulated the 2023/24 APP in accord with the objectives of the NDP, ERRP and the updated 2020/25 Strategic Plan, which is in keeping with the aims of the Sixth Administration. The current APP, which is reviewed annually, takes into account changes in the economic and social performance environment that is having an impact on how the DSBD's mandate is carried out. The structure of the Department during the current financial year consist of the following four programmes -

Table 1: Programme Structure

NO.	PROGRAMME NAME	SUB-PROGRAMMES
Programme 1	**ADMINISTRATION**	○ Ministry; ○ Departmental Management (Office of the DG); ○ Corporate Management; ○ Financial Management;
Programme 2	**SECTOR AND MARKET DEVELOPMENT**	○ Sector and Market Development Management; ○ Business Information; ○ Ease of Doing Business; ○ Access to Market Support;
Programme 3	**DEVELOPMENT FINANCE**	○ Development Finance Management; ○ Model Funding Collaboration; ○ Blended Finance; ○ Business Viability;
Programme 4	**ENTERPRISE DEVELOPMENT**	○ Enterprise Development Management; ○ Enterprise and Supplier Development; ○ SMME Competiveness;

Source: DSBD Annual Performance Plan (2023/24)

3. POLICY AND LEGISLATIVE PRIORITIES FOR 2023/24

3.1 National Development Plan

The implementation of the National Development Plan (NDP) is one of the key government imperatives under the current administration and is aligned with the Africa Agenda and the global Sustainable Development Goals (SDGs). The NDP is the blueprint for tackling South Africa's challenges and serves as a long-term vision for the country. The plan direct our focus on the overall objectives, for support 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 mandated to execute chapters three (3) and six (6) of the NDP, which cover the economy, employment, and inclusive growth in rural areas. According to the NDP, by 2030, 9.9 million new jobs are to be created by small enterprises.

3.2 The Medium Term Strategic Framework

The Medium Terms Strategic Framework 2019-2024 is the implementation plan and monitoring framework for achieving the NDP 2030 priorities for the sixth administration of government. The Department reported to the Committee that due to the Covid-19 pandemic in 2020, which caught the entire globe by surprise and had a terrible impact on the economy, health, and social aspects of South Africans, it greatly hampered the implementation of the 2019–24 MTSF. In order to address the pandemic's effects, the government was bound to reprioritise its resources and plans. On October 15, 2020, Mr. Cyril Ramaphosa, President of the Republic, announced the ERRP as one of these initiatives. Due to the significant changes in the environment in which the country must operate, the MTSF had to be revised. Otherwise, implementation would not have been possible.

The five-year NDP implementation roadmap contains short, medium and long-term goals and interventions. Planning for development is viewed as a tool for achieving national development objectives by the South African government. With respect to the seven (7) priorities identified in the Medium Term Strategic Framework, the Department has a primary/lead role in relation to Priority 2: Economic Transformation and Job Creation and their related sub-outcomes and interventions which are as follows -

- Upscale and expand support to small businesses;
- Creating more jobs;

- Inclusive economic growth;
- Re-industrialisation of the economy and emergence of globally competitive sectors;
- Increased access to and uptake of Information and Communication Technology (ICT);
- Competitive and accessible markets through reduced share of dominant firms in priority sectors; and
- Mainstreaming of youth, women, and persons with disabilities with minimum 40 percent target for women, 30 percent for youth and 7 percent for persons with disabilities in the SMMEs and Co-operatives Sector.

3.3 State of the Nation Address

The President made a few statements during the state of the nation address that must be carried out right away by the Department in coordination with other sister Departments and State Owned Entities (SOEs). He reaffirmed that our economy and social structure are under an existential threat from the energy crisis. He said that the National Treasury was modifying the bounce-back loan program to assist small businesses in purchasing solar equipment and to enable banks and development finance organisations to borrow directly from the program to make it easier for them to lease solar panels to their clients. Small businesses in the renewable energy sector have a great chance to provide energy to people in rural and township areas. The President assured the nation that one of the potent reforms the government has embarked upon was to allow private developers to generate electricity. All of these measures will result in a massive increase in power to the grid over the next 12 to 18 months, and beyond.

In terms of tackling small business funding gap in excess of R300 billion, the President announced that through the Small Enterprise Finance Agency – the government was planning to provide R1.4 billion in financing to over 90 000 entrepreneurs. Also, in partnership with the SA SME Fund, the government is working to establish a R10 billion fund to support SMME growth. The plan is for the government to provide seed funding of R2.5 billion and for the balance of R7.5 billion to be raised from the private sector. Furthermore, the licensing of the Post Bank 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. The Department has taken note of these pronouncements and added some deliverables to its annual performance plan particularly the scaling up of measures to deal with negative impacts of load shedding on the sector.

3.4 The Economic Reconstruction and Recovery Plan

The world will take years to recover from the Covid-19 pandemic. The pace of economic recovery is massively divergent across developing, middle-income to wealthy nations. South Africa has not been insulated as raptures caused by Covid-19 pandemic continue to expose major fault lines and inequities. It is in this context that South African government has crafted a strategic blueprint for economic recovery, the Economic Reconstruction and Recovery Plan (ERRP). In order to create a new economy and realise South Africa's full potential, the Economic Reconstruction and Recovery Plan was created. The plan's overarching objective is to build an inclusive, resilient, and sustainable economy. As a result, the 2023/24 APP is presented within the context of promoting the ERRP's implementation. In this context, the Department has determined that the following interventions should be prioritised –

- Aggressive infrastructure investment;
- Employment-orientated strategic localisation, reindustrialisation and export promotion;
- Energy security;
- Support for tourism recovery and growth. • Gender equality and economic inclusion of women and youth;
- Green economy interventions;
- Mass public employment interventions;
- Strengthening food security and;
- Macro-economic interventions.

3.5 Planned Legislative and Policy Initiatives

The Department has not been able to submit a new bill or amendment for consideration by Parliament since the proclamation in 2014. It had committed to review and submit amendments to the National Small Enterprise Act (1996), the Business Act (1991), and finalise the definition of SMMEs during the preceding fiscal years. However, this undertaking has not materialised. In the current APP, there are commitments to refer the same to Parliament towards the end of the 2023/24 financial year. The National Integrated Small Enterprise Development Strategic Framework's final version was released on February 17, 2023, in the Gazette. So is the SMME and Funding policy which was recently published in the Government Gazette to elicit additional feedback from the general public and guarantee support from ecosystem partners. The DSBD and its agencies, in collaboration with major corporations and local governments, are championing the 'buy local' campaign through the Localisation Policy Framework.

4. OVERVIEW OF THE 2023/24 BUDGET ALLOCATIONS AND PROGRAMME PERFORMANCE PLANS

The Department will concentrate on supporting SMMEs and co-operatives in the medium term. This includes expanding SMMEs, co-operatives, start-ups, township and rural enterprise access to financial and non-financial support, creating infrastructure to expose SMMEs and co-operatives to international market opportunities and establishing an adjudicator's office to regulate licensing and business practices in the sector. Over the medium term, it is projected that 87 percent (or R6.9 billion) of the Department's budget will be transferred to entities to execute this and other functions. As illustrated in table 2 below the total spending is estimated to rise from R2.6 billion in 2023/24 to R2.8 billion in 2025/26 at an average yearly rate of 3.5 percent. Through Seda, which will receive R2.7 billion over the next two years, the Department will primarily promote SMMEs and co-operatives.

The Department hopes to assist 30 000 young entrepreneurs by offering them opportunities for self-employment through the young entrepreneur's program at a projected cost of R94 million over the medium term. This will allow a new generation of job creators to contribute to economic transformation. Through internally administered incentives like the craft customised sector program in the Development Finance program and the product markets program in the Sector and Market Development program, SMMEs will receive additional support totalling R280 million over the upcoming period. Over the course of the MTEF, the Department hopes to connect 750 SMMEs and co-operatives with opportunities on the global market, with a focus on businesses managed by women, young people, and people with disabilities. The Sector and Market Development program has R95 million set aside for this purpose over the medium term.

Table 2: Overview of 2023/24 MTEF Budget Estimates

PROGRAMME	MTEF		
	2022/23 (R'000)	2023/24 (R'000)	2024/25 (R'000)
ADMINISTRATION	138.4	149.0	155.6
SECTOR AND MARKET DEVELOPMENT	163.8	177.3	184.3
DEVELOPMENT FINANCE	1 349.6	1 391.6	1 452.2
ENTERPRISE DEVELOPMENT	922.9	972.3	1 018.6
TOTAL	**2 574.8**	**2 690.3**	**2 810.6**

Source: National Treasury Estimates of National Expenditure (2023/24)

4.1 Programme 1: Administration

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

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

Table 3: Programme 1 - Administration

PROGRAMME 1: ADMINISTRATION	2023/24	2024/25	2025/26	TOTAL MTEF
SUB-PROGRAMMES	R'000	R'000	R'000	R'000
Ministry	29 226	29 561	30 875	89 662
Departmental Management	34 636	39 962	41 731	116 329
Corporate Services	46 439	49 212	51 403	147 054
Financial Management	28 132	30 238	31 580	89 950
TOTAL	**138 433**	**148 973**	**155 589**	**442 995**

Source: DSBD Annual Performance Plan 2023/24

The Administration program aims to provide support services to the Department's many programs, with a focus on enhancing governance and compliance, as well as streamlining and integrating business operations and system results. Supporting initiatives to lower vacancy rates will receive special attention in order to ensure that there are enough employees to deliver effective and efficient services to the general public. Over the next two years, R443 million will be allocated to Program 1, divided into four sub-programmes: Ministry will receive R90 million, Departmental Management will be allocated R116 million, Corporate Services has R90 million and Financial Management is apportioned R133 million. An accomplishment of this program during the preceding fiscal year was receiving an unqualified audit opinion. There is no doubt that it will aim to outperform the previous year's audit.

4.2 Programme 2: Sector and Market Development

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

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

Table 4: Programme 2 - Sector and Market Development

SECTOR AND MARKET DEVELOPMENT	2023/24	2024/25	2025/26	TOTAL MTEF
SUB-PROGRAMMES	R'000	R'000	R'000	R'000
Sector and Market Development Management	5 719	5 868	6 111	17 698
Business Intelligence & Knowledge Management	23 754	25 094	26 211	75 059
Ease of Doing Business	6 192	7 423	7 799	21 414
Access to market support	128 116	138 942	144 136	411 194
TOTAL	163 781	177 327	184 257	525 365

Source: DSBD Annual Performance Plan 2023/24

The program is split up into four programme with a combined allocation of R525.4 million – further subdivided into Sector and Market Development Management receives R18 million, Business Intelligence and Knowledge Management receives R75 million, Ease of Doing Business receives R24 million while Access to Market Support receives R407. The Department will intensify the programme implementation in order to fulfill its mandate of facilitating and expanding SMMEs' access to markets through business intelligence, product development support, and value chain integration. The Department plans to expand the supplier development program during the 2023/24 fiscal year by engaging the Department of Trade, Industry and Competition on their B–BBEE policy and its Codes of Good Practice. The goal of this engagement is to work on the amendment of the Localisation Policy so that DSBD may oversee the Enterprise and Supplier Development and keep track of the private sector's adherence to its commitments. This would guarantee that large corporations support the growth of SMMEs and co-operatives by including the sector in their supply and value chains and focusing in particular on township and rural companies.

This off-course is a standing recommendations of the Portfolio Committee following its observation that the revised BBBEE code is placing a great deal of focus on Enterprise and Supplier Development (ESD), and there is a growing number of private incubators and accelerators, many of which are being established in response to ESD and BBBEE solely for compliance purposes, and therefore add little value to the entire small enterprise ecosystem. The Committee is on record that current instruments to compel the private sector from playing the part e.g. transformation charters are non-binding instruments and not enforceable.

4.2.3 Programme 3: Development Finance

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

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

Table 5: Programme 3 - Development Finance

DEVELOPMENT FINANCE	2023/24	2024/25	2025/26	TOTAL MTEF
SUB-PROGRAMMES	**R'000**	**R'000**	**R'000**	**R'000**
Development Finance Management	2 384	2 392	2 498	7 274
Business Viability	4 320	6 775	7 076	18 171
Blended Finance	1 322 208	1 361 825	1 421 125	4 105 158
Model Funding collaboration	20 724	20 627	21 546	62 897
TOTAL	**1 349 636**	**1 391 619**	**1 452 245**	**4 193 500**

Source: DSBD Annual Performance Plan 2023/24

Over the medium term, R4.1 billion is budgeted for Program 3. There are four sub-programmes under it, each with the following funding allotments: R7.3 million for Development Finance Management, R18.2 million for Model Funding Collaboration, R4.1 billion for Blended Finance Support, and R63 million for Business Viability. This program is in responsible for key interventions aimed unlocking access to finance for SMMEs and co-operatives. The Department has succeeded in finalising the SMMEs and Co-operatives Funding Policy as of the 2022/03 fiscal year. The Department will make sure that the SMMEs and Co-operatives Funding Policy implementation plan reported on output is strengthen during the 2023/24 financial year to enhance the development financing towards SMMEs and Co-operatives.

The Department will step up the Township and Rural Entrepreneurship Programme (TREP) implementation over the MTEF. TREP is DSBD flagship programme that is meant to stimulate and facilitate the development of sustainable and competitive enterprises in the township and rural areas, targeting the designated groups. Through the SBD Portfolio, TREP hopes to provide financial and/or non-financial assistance to 30 000 township and rural firms during the current financial year. The Department and agencies also aim to hasten the carrying out of the Informal and Micro Enterprise Development Programme (IMEDP), yet another intervention to support small enterprises that are underserved in our communities. The IMEDP provides qualifying informal and micro businesses with basic equipment and tools. The Department intends to support 1 333 businesses in 2023/24 financial year and over 3 999 informal and micro enterprises during the MTEF period.

4.2.4 Programme 4: Enterprise Development

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

- Enterprise Development Management – to provide leadership to the branch, exercise oversight in the execution of programmes by the implementing agencies and coordinate the provision of an entrepreneurship development and support service infrastructure;
- Enterprise and Supplier Development – to drive the transformation of the economy through the formulation of policy instruments and advocacy work aimed at the inclusion of SMME’s in the mainstream economy and;

- SMME Competitiveness – to work with Municipalities through their integrated Development Plans to develop, enhance and implement enterprise development programmes toward improved Local Economic Development (LED).

Table 6: Programme 4 - Enterprise Development

ENTERPRISE DEVELOPMENT	2023/24	2024/25	2025/26	TOTAL MTEF
SUB-PROGRAMMES	R'000	R'000	R'000	R'000
Enterprise Development Management	2 354	2 361	2 466	7 181
Enterprise and Supplier Development	885 164	928 869	973 156	2 787 189
SMME Competitiveness	35 411	41 115	42 932	119 458
TOTAL	922 929	972 345	1 018 554	2 913 828

Source: DSBD Annual Performance Plan 2023/24

In order to justify the delivery of an integrated, targeted, and effective support interventions aimed at promoting entrepreneurship as well as providing financial and non-financial support for qualifying small enterprises, using the life cycle approach, the NISED Strategic Framework was developed and approved in the 2022/23 financial year. In the 202/24 fiscal year, the Department will report on the implementation of the National Integrated Small Enterprise Development (NISED) Strategic Framework. The Department wants to support 30 municipalities in implementing the Red-Tape Reduction Awareness Programme in order to increase the efforts being made to lessen the regulatory burdens placed on small businesses.

Plans are outlined in the updated MTSF, ERRP priorities, and NASP interventions to establish a favourable environment that enables national priority sectors to support industrialisation and localisation, which will enhance export, employment, and the participation of women, youth, and PWD-owned SMMEs. With a budget of R2.9 billion, Programme Four contains three sub-programmes: R119.5 million is allocated to SMME Competitiveness, R2.8 for Enterprise and Supplier Development, and R7.2 million for Enterprise Development Management. The Department has unveiled five game-changing initiatives that will rebalance the ecosystem for small businesses. During the year under review, the Department will report on regulatory barriers to SMMEs and co-operatives growth that need to be addressed. This will be achieved through a collaborative effort between the red tape reduction team in the Presidency.

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

Seda and Sefa are the two agencies that report to the Department. However, the Cabinet decided to combine them, together with Co-operative Banks Development Agency (CBDA), into a single organisation in August 2021. Initially, the merger was supposed to take effect on April 1, 2022. However, on April 6, 2022, Cabinet authorised a 20-month extension for the three businesses' merger. The budget votes 36 and 39 will continue to be used to distribute budgets to entities throughout the course of the current financial year. In terms of the Department's estimates, the National Small Enterprise Act, where such incorporation will be effected, is likely to be referred to Parliament in December 2023.

5.1 Small Enterprise Finance Agency

The Small Enterprise Finance Agency (Sefa) was established in April 2012 following a merger of South African Micro-Finance Apex Fund (SAMAF), Khula Enterprise Finance and Industrial Development Corporation's small business activities. It is corporatised as an entity in terms of the Companies Act of 2008 and Section 3(d) of the Industrial Development Corporation (IDC) Act (1940) which seeks "to foster the development of small and medium enterprises and co-operatives". It is thus a wholly owned subsidiary of IDC. In terms of the Public Finance Management Act, Sefa is a schedule 2 entity (in line with the parent entity IDC) and still receive its budget allocation via vote 39.

5.1.1 Sefa's Vision, Mission, Values and Strategic Objectives

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

Table 7: Sefa Mission, Values and Strategic Objectives

Vision	To be the leading catalyst for the development of sustainable small, micro, medium and co-operative enterprises through finance.
Mission	To provide simple access to finance, efficiently and sustainably, for SMMEs and co-operatives throughout South Africa by - ▪ Offering innovative funding facilities and credit guarantees; ▪ Promoting client sustainability through post-investment support and capacity building;

	▪ Promoting financial inclusion and wealth creation through partnerships and innovative product development; ▪ Leveraging strategic assets to ensure sustainability and broadening support to beneficiaries
Values	Sefa's values and guiding principles to deepen institutional culture and organisational cohesion are: - ▪ Kuyasheshwa: We act with speed and urgency; ▪ Passion for development: Solution-driven attitude, commitment to serve; ▪ Integrity: Dealing with clients and stakeholders in an honest and ethical manner; ▪ Transparency: Ensuring compliance with the best practice on the dissemination and sharing of information with all stakeholders; ▪ Innovation: Continuously looking for better ways to serve our customers.
Strategic Objectives	▪ Ensure Sefa's is a high impact, high-performance DFI that is responsive to the government's microeconomic policies and specifically the DSBD MTEF plan; ▪ Align Sefa's organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy; ▪ Develop the Sefa brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models; ▪ Improve Sefa sustainability, operational effectiveness, efficiency and service delivery by streamlining business processes and deploying technology solutions.

Source: Sefa Corporate Plan 2021/2025

5.1.2 Legislative and Policy Mandate

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

Table 8: Guiding Legislations

Policies and legislation that guides Sefa Operations		
Foundational Policies	**Sector-Based Policies**	**Legislation**
The National Strategy on the Development and Promotion of Small Business in South Africa (1995)	Co-operatives Development Policy (2004)	National Small Business Act (1996; revised 2004)
Integrated Small Business Development Strategy (2004 – 2014)	Integrated Strategy on the Development and Promotion of Cooperatives (2012)	National Credit Act
The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005)	National Informal Business Upliftment Strategy (2013)	Industrial Development Act
	Youth Enterprise Development Strategy 2013-2023 (2014)	Financial Intelligence Centre Act (FICA)
		Consumer Protection Act, 2008
		Companies Act of 2011
		Co-operatives Act (No. 14 of 2005)
		Short Term Insurance Act
		Promotion of Access to Information Act, 2000
		Public Finance Management Act (1999 as amended)

Source: Sefa Corporate Annual Performance Plan 2023/24

5.1.3 Sefa Budget Consideration

Sefa has a mandate to vitalise the growth of sustainable SMMEs and co-operatives through the provision of financial assistance. Over the medium term, Sefa will continue to provide affordable and developmental credit facility to support government wide objective of promoting financial inclusion, paying special attention to businesses owned by young people, women, persons with disabilities, and residents of townships and rural areas. The agency plans to disburse more than R5.3 billion to SMMEs and co-operatives over the period ahead. It also intends to digitise systems for back office business processes like finance and procurement, human capital and facilities, governance, risk and compliance in order to increase operational efficiency in this area. Core lending processes which include originating loans, performing due diligence, processing approvals, and disbursements will also be a target for enhancement.

Over the MTEF period, the digitisation drive is anticipated to cost R48 million. Spending is anticipated to rise from R1.1 billion in 2022/23 to R1.2 billion in 2025/26 at an average annual rate of 4 percent. Spending on goods and services is projected to make up roughly 72 percent (R2.6 billion) of overall expenditures to satisfy the agency's medium-term goals. Due to the realisation of deferred grant income as part of the implementation of the economic recovery programs, revenue is anticipated to grow at an average annual rate of 11 percent from R826 million in 2022/23 to R1.1 billion in 2025/26. Over the medium term, it is expected that transfers from the Department will generate 57 percent (or R1.8 billion) of the agency's revenue. Interest on loans and client advances, lending fees, and rental income make up the company's remaining income.

5.1.4 Priorities and Focus Areas for 2023/24 and MTEF

Broadening access to finance through direct and wholesale lending products and services, is one of Sefa's major metrics and annual objectives for the 2023/24 period. Small and medium-sized businesses (SMMEs) and co-operatives engaged in all facets of the economy can obtain loans directly from Sefa. The costs of the amenities range from R50,000 to R15,000,000. Sefa also extends its reach in providing capital to small businesses across South Africa through wholesale lending, providing facilities (debt/equity) to intermediaries, joint venture, partnerships (Specialised Funds), and other co-operative relationships - loans to intermediates of up to R150 million, while loans to end users of up to R5 million are made through intermediaries. As shown in the accompanying table below, such will be accomplished through building a sustainable loan book, improving performance on key indicators, improving the cost structure, enhancing organisational capabilities, as well as building Sefa brand and visibility.

Table 9: Priority Areas for 2023/24 and MTEF

Build a Sustainable Loan Book	a) Expansion of credit, e.g., microfinance. b) Investment and building of sustainable Black-owned financial intermediary base. c) Focus on building clients' sustainability (PIM and business support services). d) Decreasing impairments. e) Crowding-in the private sector resources. f) NISED response, finalise SMME and Co-operatives Funding Policy and Strategy.

	g) Centralise large deal due diligence function. h) Rethink Moratorium – replace with service interest only and strengthen client reporting. i) Explore Treasury offer for funding to support solar and gas in hospitality sector. j) Implement loan programmes that are responsive to government policies and programmes.
Improving performance on key development indicators	a) Introduce targeted loan programmes to promote financial inclusion, and strengthen focus on enterprises owned by youth, women, PWDs, and those based in townships. b) Strengthen capacity of microfinance division, and address dependence on just two microfinance intermediaries.
Improve the cost structure	a) Drive cost efficiency (funding model, right-sizing, etc.). b) Fast-track systems development and digitisation. c) Implement the Turnaround Strategy for the Property Portfolio - design products to leverage the portfolio to respond to infrastructure requirements of SMMEs. d) Implement profit and loss statements by division.
Enhancing organisational capabilities across sefa value chain	a) Establish a project management office to drive organisational projects, including merger considerations. b) Establish a Treasury function in the merged entity, to better manage capital raising and funds received. c) Conclude the organisational review process and optimise the functioning of Sefa. d) Establish KCG as a fully operating subsidiary of Sefa.
Building the sefa brand and increasing sefa visibility	a) Increase investment in marketing and client outreach. b) Strengthen collaboration with key participants (public and private sector, and donors) in the SMME ecosystem – for different parts of the value chain. c) Strengthen Sefa sectoral research and knowledge management capabilities – utilise the body of knowledge to strengthen programme design and implementation.

Source: Sefa Corporate Annual Performance Plan 2023/24

5.2 Small Enterprise Development Agency

Small Enterprise Development Agency is an entity of the Department of Small Business Development whose mandate include, inter alia, developing, nurturing, supporting and promoting small business ventures throughout the country, whilst ensuring their growth and sustainability in a harmonised fashion with various stakeholders. The Minister of Small Business Development is the executive authority of the agency and as such exercise oversight role over the agency. Seda was conceptualised in 2004, through amendment of the National Small Enterprise Act, amendment Act 29 of 2004, which essentially made provision for the incorporation of the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre and any other designated institutions into a single Small Enterprise Development Agency under then Department of Trade and Industry (**the dti**). It is a schedule 3A national public entity in terms of the Public Finance Management Act (PFMA), Act 1 of 1999, as amended, and incorporated as a company in terms of the Companies Act, 2008.

5.2.1 Seda Vision, Mission and Values

Table 10: Seda's Vision, Mission, Values

Vision	To make a difference in SMMEs' lives everyday
Mission	To promote entrepreneurship and facilitate the development of small enterprises by providing customised business support services that result in business growth and sustainability in collaboration with other role players in the ecosystem
Values	❖ **Nurture** - We create a nurturing environment by partnering with our clients and employees and in the way in which we care and support them ❖ **Innovation** - We foster innovative ideas and solutions in order to deliver exceptional customer service ❖ **Customer Centricity** - We place customer service excellence at the centre of everything we do ❖ **Responsible Conduct** - We behave with integrity in all our actions, always acting in the best interest of Seda and its stakeholders

Source: Seda Annual Performance Plan 2023/24

5.2.2 Seda Budget Consideration

Seda budget is currently 896 million, down from R1.1 billion in the fiscal years 2021/2022. From 2024/25 onward, as illustrated in table 11 below, a little improvement in the agency's budget is predicted. This decrease is due to the baseline reductions made in 2022/23 to support flood relief efforts in KwaZulu Natal, Eastern Cape, and some regions of North West provinces. The R94 million reduction in Seda's MTEF allocation from 2023/24 to 2025/26 will have a significant effect on service delivery. The majority of fixed costs, such as office leasing, software licensing, and other goods and services, rise at rates that are typically higher than the rate of inflation, while the amounts allotted for spending only gradually rise at rates that are lower. Due to the overall budget's cap, this causes a reduction in the amount available for programs and initiatives. Reduced funding from partner organisations has also affected Seda. As a service organisation, Seda must set aside adequate funds for employee pay in order to prevent staff losses brought on by the high rate of layoffs. The delivery network's core employees are the primary beneficiaries of the existing allocation for employee remuneration.

These budget cuts regrettably occur while small businesses are still working to recover from the Covid-19 outbreak, which left many of them in disarray. Other small businesses in Gauteng and KwaZulu Natal in particular were left distraught by civil unrest in 2021 and yet now must deal with impacts of load shedding. Businesses are the ones who are affected by power outages the most, especially smaller, emerging firms that lack the resources to deal with power outages. Small businesses are currently dealing with the effects of load shedding in addition to trying to recover from the pandemic and floods in KwaZulu Natal, Eastern and some parts of the country. Small enterprises which employ the vast majority of South Africa's people and suffer greatly from three to four hours without electricity, are the backbone of the country's economy. It may, therefore, imply that government should pursue expansionary fiscal policy by increasing spending on small enterprises.

The agency will continue to support localisation, viability, and business competitiveness over the medium term with an emphasis on the growth of township, rural, and informal enterprises. Over the period ahead it will facilitate the establishment of 250 focused business incubators. This will be funded by allocations amounting to R503 million over the medium term and complemented by private sector funding. Throughout the MTEF period, the agency aims to support 9 000 SMMEs and co-operatives in becoming competitive in local markets and to create 15,000 jobs for the ecosystem of SMMEs.

Table 11: Budget Summary (MTEF 2021 - 2025)

Income R'000 (Historical and projected financial years)	2021/22	2022/23	2023/24	2024/25	2025/26
	Audited	**Budget**			
SEDA- DSBD Budget from MTEF	666.1	678.8	683.1	713.8	745.7
STP-DSBD from MTEF Budget	156.5	159.4	160.5	167.7	175.2
Seda - DSBD Specific Projects	3.7	81.3	31.3	-	-
STP - Capacity Building	15.9	16.2	16.3	17.0	17.8
External earnings	40.6	1.8	-	-	-
Other income	19.4	10.0	5.0	5.0	5.0
TOTAL INCOME	**902.2**	**947.5**	**896.1**	**903.4**	**943.7**
Expenditure R'000	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Compensation of employees	376.7	375.5	397.7	417.6	438.4
Programmes and Projects	773.6	554.8	468.7	454.9	473.1
Depreciation	13.2	15.8	14.9	15.5	16.1
Sub-total	1,163.5	946.1	881.3	888.0	927.6
Capital expenditure	21.6	1.4	14.9	15.5	16.1
TOTAL EXPENDITURE	**1,185.1**	**947.5**	**896.1**	**903.4**	**943.7**

Source: SEDA Annual Performance Plan (2023/24)

5.2.3 Seda Programme Summary

Seda's budget allocation is provided by the Department of Small Business Development on an annual basis to implement the four programmes, namely, enterprise development programme, technology programme, impact and sustainability programme and administration.

5.2.3.1 Programme 1: Enterprise Development

The purpose of programme one is to provide needs based and growth-oriented business support to small enterprises and co-operatives through a network of Seda branches and sub units in the National Office. SMMEs and co-operatives are supported with business related information, advice, consultancy, training, and mentoring services including business specific interventions to access markets. Township and rural-based enterprises are prioritised to ensure that they are competitive and contribute meaningfully to the South African economy. The programme emphasises the value of localisation, economic recovery, business viability, and providing structured support to township and rural-based firms in order to support the objectives of the sixth administration. The provision of support to informal businesses is essential for the rehabilitation of the economy since well-supported informal businesses can make significant contributions to economic expansion. Township and rural enterprises need to be equipped and supported to be innovative and competitive. All Seda-sponsored initiatives will take into account the needs of women, young people, and enterprises run by individuals with disabilities.

Table 12: Programme 1 Enterprise Development

ALIGNMENT TO BUDGET					
		2022/23	**2023/24**	**2022/23 R'**	**2023/24 R'**
1.	Number of people attended entrepreneurship awareness sessions	20,000	20,000	30,000,000	30,000,000
2.	Number of township and rural based businesses supported with non-financial support	16,000	18,000	139,420,000	162,900,000
3.	Number of SMMEs and Co-operatives supported to participate in local markets	2,000	2,500	20,000,000	25,000,000
4.	Number of SMMEs and Co-operatives supported with business development	-	2,000	-	8,000,000
5.	Number of SMMEs and Co-operatives supported with international markets	1,000	500	15,000,000	7,500,00
6.	Number of SMMEs and Co-operatives supported through trade missions	-	500	-	25,000,000
7.	Number of SMMEs and Co-operatives supported in priority sectors with non-financial business development	100	50	5,000,000	2,500,000
8.	Number of SMMEs and Co-operatives supported with training, mentorship and coaching	20,000	20,500	40,000,000	41,000,000
TOTAL				**249,420,000**	**301,900,000**

Source: Seda Annual Performance Plan (2023/24)

5.2.3.2 Programme 2: Technology

The objective of the programme is to support SMMEs and Co-operatives by providing them with necessary skills and tools to enhance their business production capacity and sustainability. Under this programme, Seda provides incubation services which includes access to infrastructure, technical and business development support for SMMEs in sector specific areas for a defined period. It also assists with Technology Transfer Assistance (TTA) where tailor-made support interventions such as grant to purchase equipment, machinery and associated working capital are provided. Gender mainstreaming will also be highlighted in all outputs being measured.

Table 13: Programme 2 Technology Programme

ALIGNMENT TO BUDGET					
		2022/23	**2023/24**	**2022/23 R'**	**2023/24 R'**
1.	Number of SMMEs and Co-operatives assisted through incubation programme	2500	1800	169,000,000	103,740,000
2.	Number of SMMEs and Co-operatives assisted through Technological Transfer Assistance programme	70	50	19,500,000	10,000,000
TOTAL				**188,500,000**	**113,740,000**

Source: Seda Annual Performance Plan (2023/24)

5.2.3.3 Programme 3: Impact and Sustainability Programme

The purpose of Programme 3 is to monitor and measure business impact of post interventions by Seda. The key indicators include jobs created, jobs sustained and turnover improvement. The programme will support SMMEs and Co-operatives by providing necessary skills and tools to enhance their business production capacity and sustainability. The support includes the provision of incentives for quality and compliance standards, product testing and certification. Quality interventions like product testing, product certification and the implementation of quality management system will be prioritised to ensure that SMMEs are competitive and are able to attract and maintain new clients. productivity is also a key feature in this section as it goes hand in hand with improved production quality.

Interventions like efficiency studies, elimination of waste and production capacity increases will be prioritised. Business impact indicators focusing on turnover change and job creation will be monitored in this programme. the envisaged and the reported achievement will be for changes for businesses based in township, rural areas and urban areas. this information will be tracked and monitored in all quarters the contributing factors will be noted and necessary interventions will be implemented to respond to those contributing factors. There is one outcome in this programme: Increased growth and sustainability of SMMEs and Cooperatives.

Table 14: Programme 3 Impact and Sustainability Programme

ALIGNMENT TO BUDGET					
		2022/23	**2023/24**	**Costing per unit R'**	**2023/24 R'**
1.	Numbers of jobs created by SMMEs and Co-operatives through non-financial support interventions	4,000	4,500	In-house	-
2.	Number of jobs sustained by SMMEs and C-operatives supported through non-financial support interventions	6,000	8,000	In-house	-
3.	Number of SMMEs and C-operatives supported with quality improvement interventions	2,500	1,000	37,500	37,500,000
4.	Number of SMMEs and C-operatives supported with productivity improvement interventions	2,000	1,000	50,000	50,000,00
5.	Number SMMEs and C-operatives whose turnover has increased by a minimum of 5 percent per annum	630	700	In-house	-
TOTAL					**87,500,000**

Source: Seda Annual Performance Plan (2023/24)

5.2.3.4 Programme 4: Administration

To provide strategic leadership and capacitating the organisation to deliver on its mission. This includes monitoring customer, stakeholder and employees' level of satisfaction and introducing initiatives to improve the organisations level of innovation and agility. The programme also amplifies the need to collaborate with other partners in the ecosystem to increase service access. All of the output metrics are set up to show if the outcome aim of creating an exceptional, flexible, and customer-focused organisation will be realised over the course of the strategic period. Annual outputs will be examined to see if the expected outcomes are being achieved, and adjustments will be made as needed.

Table 15: Programme 4 Administration

ALIGNMENT TO BUDGET					
		2022/23	**2023/24**	**Cost per unit R'**	**2023/24 R'**
1.	Percentage of innovative ideas implemented	35%	40%	In-house	-
2.	Number of priority systems digitised	2	1	In-house	3,000,000
3.	Percentage of Seda brand awareness	-	65%	2,000,000	2,000,000
4.	Percentage of stakeholder satisfaction	80%	85%	In-house	-
5.	Percentage of customer satisfaction	80%	85%	In-house	-

6.	Percentage of employee satisfaction	50%	55%	In-house	-
7.	Percentage of staff who performed above performance evaluation	60%	65%	In-house	-
8.	Percentage of vacancy rate	10%	10%	In-house	-
9.	Percentage of implementation of Ecosystem Development Plan	40%	70%	6,300,000	6,300,000
TOTAL					**11,300,000**

Source: Seda Annual Performance Plan (2023/24)

6. OBSERVATIONS

As the Sixth Administration and Parliament drawing ever to a close, and the MTSF 2019-2024 approaches full circle, it is imperative to reflect on the Department and agencies accomplishments and inadequacies during this term in order to locate the crucial interventions required to guarantee continuity and sustainability of the sector beyond this term. Having reflected on the Annual Performance Plans and budgets for 2023/24 of the Department, Seda and Sefa, the Portfolio Committee hereby registers the following observations and recommendations for consideration by the Department: -

6.1 The Committee observes a minor increase in the entire DSBD budget from R2.5 billion to R2.6 billion, with spending expected to rise from R2.6 billion in 2023/24 to R2.8 billion in 2025/26. Programme one receives R138 million, Programme two receives R163 million, Programme three receives R1.3 billion, and Programme four receives R922 million, the majority of which will be transferred to the Small Enterprise Development Agency for enterprise development and incubation support work. However, given the Department's mandate to support hundreds of thousands of small businesses, it is one of the important frontline Departments mentioned by the Minister of Finance in his February budget speech that requires an increase beyond existing baselines.

6.2 The Committee welcomes successful consultation between the Ministers of Small Business Development and Public Service and Administration which resulted in the Department’s structure being approved by the Executive Authority in September 2022. The Committee is confident that this development will bring much-needed stability following years of operating under a start-up structure which was essentially a root cause of high vacancy rate at senior managerial level.

6.3 A supportive and well-oiled financial infrastructure is essential in the medium to long-term to encourage sustainable, viable, and significant improvements in access to

SMME and co-operatives finance. In that context, the Committee welcomes the gazetting of the SMME and Co-operatives funding policy for public comments.

6.4 The Committee welcomes the Department's recognition that there is a credit gap for SMMEs and Co-operatives in South Africa that exceeds R350 billion, with start-ups and small enterprises receiving the least amount of credit or grants. The Committee applauds a suggested cocktail of actions that would improve credit information systems, derisk lending to marginalised enterprises by rethinking collateral types, providing credit guarantees for SMMEs, and other means. Offering pre-investment support to make financial submissions more bankable and post-investment support through continuous business development support to ensure business sustainability are complementary approaches to reduce lending risk and boost take-up.

6.5 The Committee supports the Department's efforts to engage the DTIC on its B-BBEE policy and Codes of Good Practice. This is in part to raise awareness of the localisation policy in order to enhance the supplier development program during the 2023/24 financial year. The engagement's objective would help improve localisation policy so that DSBD can oversee the ESD component and monitor the private sector's adherence to its promises. This will ensure that big businesses promote the expansion of SMMEs by incorporating SMMEs into their supply and value chains and putting a special emphasis on township and rural businesses.

6.6 At the start of its term in 2019, the Committee had noted and advised that special attention should be paid to ESD and other BBBEE codes of good practice, which are now employed as a checkbox exercise and bring little value to the ecosystem of small businesses. In order to harness the good intentions of ESD and ensure that it is carried out, the Department of Small Business Development must strengthen internal capacity to drive this programme.

6.7 The Committee is taking note of the Department's continued failure to refer bills to Parliament despite many assurances to do so in the past. Since 2017, completing and referring the National Small Enterprise Act (1996) to Parliament has been a commitment expressed in all of the Department's annual performance goals. But this has not happened. During the consideration of the Department’s annual report (BRRR) the Committee had, in light of a variety of challenges hampering the sector and hundreds of complaints from small business owners before it, recommended a segmented approach to the finalisation of the act as done by then Department if Trade and Industry in 2003 and 2004.

6.8 The Committee also takes note of the Departments' unsuccessful attempt to carry out what it described as a “revised business case regarding the establishment of the Office of the Small Enterprise Ombud Service” that was shared with the Committee at the beginning of the fiscal year 2022/23. As an alternative to the Small Enterprise Ombuds office, the Department had promised to 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 had given the Department's effort its full backing.

6.9 The Committee further observes that the Department "intends to introduce the Business Amendment Bill to Parliament by the end of the 2023/24 financial year," as stated in the most recent APP. This is despite undertaking by the Department in 2022/23 APP to introduce the Bill during quarter one of 2023/24 financial year. In addition, a firm commitment to submit the Business Amendment Bill to Parliament during the first quarter of the 2023/24 financial year was further discussed in a meeting between the Committee Secretariat and Department representatives. This Commitment was backed up by a thorough project plan that was shared with the Committee members. The assurance was in response to the Committee resolution to pursue a Committee Bill to modernise the Business Act. No explanation is provided as to why the dates have been changed at this time.

6.10 The Committee is worried that the simmering conflict between local and foreign-owned businesses calls for clear-cut policy. In this regard, there have been two Ad hoc Committees in Parliament, both of which have identified a lax regulatory environment. The Committee observes that there is no legislation or policy to safeguard or reinforce actions meant to provide effective protection to township and rural enterprises. While comparable regulatory instruments exist in other countries.

6.11 The Department committed to starting the process of establishing the Small Business Advisory Body in its annual performance plan for 2022/23. The Committee has consistently made this recommendation this since the fifth administration because it firmly believes that the Department needs an experienced, independent and external opinion on issues relating to small business development. Therefore, it supported this effort. Regrettably, there has not been any action taken to fulfil this obligation. Instead, same commitment is contained in the current APP without any explicit time frames for when the Advisory Body appointment process will be started.

6.12 The Committee has observed that whenever the Department and agencies give performance highlights pertaining to co-operatives and informal traders, they commonly group or aggregate beneficiaries under the heading of SMME and Co-operatives. Such reporting practice conceals the unequal distribution of resources among SMMEs, co-operatives and informal traders. Also, provincial aggregation, rather than regions or district municipalities, does not offer a clear picture of how resources are divided fairly throughout the regions.

6.13 The Committee is concerned about the Department's and entities' budget cuts, with Seda's budget in particular likely to decrease by R95 million during the year under review. Seda spending is anticipated to decline at an average annual rate of 2.2 percent from R1 billion in 2022/23 to R944 million in 2025/26, according to estimates from the National Treasury. This decline is primarily attributable to the high baseline in 2022/23 due to the receipt of relief funding for the floods in KwaZulu Natal. Unlike Sefa, Seda derives its revenue exclusively from the government. Its mandate does not allow it to embark on profit generating activities. Whilst it is understood that these reductions are provisional measures owing to hangover effects of the pandemic and current energy crisis, they are however, being carried out in spite of the onerous responsibility entrusted to the Department to turn around the curve of unemployment ignite economic activity.

6.14 During the consideration of Seda annual report the Committee noted Seda's outcome of an unqualified audit with findings on the reporting on predetermined objectives. According to the Auditor General the audit outcome had regressed to an adverse opinion with findings due to the extent to which the majority of performance indicators were not measurable and reliable. The Committee is aware that the uncertainty surrounding the merging of CBDA and Sefa into Seda is likely to be the cause of staff unhappiness, ineptitude, and high employee turnover.

6.15 The Committee is concerned that while cooperation between Seda and Sefa appears to exist on paper, the contrary is actually true in practice. The Committee is aware that Sefa continues to deny funding requests and business plans developed by Seda, without providing any remedy or corrective action. Additionally, some programs, such as the Informal Traders Support Programme, are implemented at the national level, with insufficient information being cascaded down to the provinces to conduct monitoring and evaluation of those projects, as the Committee learned during its oversight of the North West province.

6.16 The Committee takes note of the fact that Sefa's operating model, as stated in Sefa's corporate performance report, offers financing and business support to SMMEs and co-operatives both directly through its regional office network and indirectly through collaborations with intermediary financial institutions like retail finance intermediaries (RFIs), microfinance institutions (MFIs), joint venture funds (JVs), subsidiaries, and co-operative financial institutions (CFIs). Once again, as the Committee learnt during its oversight visit to North West, there is little being done to monitor the transformation agenda of MFIs and RFIs, the rate of interest they charge to small businesses to determine if it is compliant with the National Credit Act, the type of projects that intermediaries finance, how much support co-ops and informal traders receive, and whether such projects adhere to Sefa and DSBD's mandate of financial inclusion.

7. RECOMMENDATIONS

The following recommendations are to be taken into consideration by the Minister of Small Business Development, who is asked to report back to the Committee no later than the end of the 2023/24 financial year.

7.1 South African economy needs a serious growth injection. Small businesses have been identified as a crucial sector that needs real assistance from the government and major corporations. Cuts to the budget are not an option. The Department needs an open dialogue with the Ministry of Finance ahead of the budget review in October that will be presented alongside the Medium Term Budget Policy Statement in order to petition National Treasury for additional funding to address the numerous challenges brought on by the pandemic and the ongoing energy crisis.

7.2 The national fiscus is shrinking as a result of a smaller tax base and numerous businesses ceasing operations. DSBD and/or the government still have a number of weapons at their disposal, including interventions like the loan guarantee program. According to estimates, the loan-guarantee provision in nations like Germany amounts to almost 30 percent of the GDP of the nation. The Department, National Treasury and South African Reserve Bank must collectively formulate methods to entice commercial banks to participate in the loan guarantee program.

7.3 The Department is urged to expand its strategic alliances with the corporate sector and vigorously pursue outside funding alternatives particularly for startups by, whenever possible, providing an enabling environment. Over and above credit guarantees, the Department and Sefa should explore alternative and innovative financial models such as invoice discounting, cession of contracts and income in order to unlock the balance sheets of commercial banks. Due to severe budgetary restrictions, the Department and Sefa are unable to support millions of small enterprises. The Committee will keep an eye on the Department and agency quarterly reports to ensure that this suggestion is being followed through.

7.4 The Committee supports the proposed initiatives to lessen the negative effects of load shedding on the small business sector. The Committee urges the Department to expedite these interventions so they can be announced on or before June 30, 2023.

7.5 Since its creation, the Portfolio Committee on Small Business Development has had to deal with the issue of business registration and licensing. Two Parliamentary Adhoc Committees that looked into xenophobic attacks in 2008 and 2015 came to the conclusion that small business regulation in the nation, such as the granting of trading permits and business licenses to foreigners, is a significant source of conflict and needs to be addressed through policy. It is a common practice around the world to not grant permits and licenses to immigrants in fields that should be reserved for South Africans. As promised in the Department's annual performance plan (2021/22), the Department must urgently finalise the Business Amendment Bill and refer the same to Parliament as soon as possible.

7.6 As earlier recommended, Section 2 of the National Small Business Amendment Act No 26 of 2003 requires the Minister to appoint members of the Advisory Board. The Committee is requesting that the Department start this process right away in order to finish it by the end of the second quarter of the 2023/24 fiscal year. Alternatively, the Department is required to inform the Committee and give justifications for why this specific commitment is not being carried out as pledged in the successive 2022/23 and 2023/24 annual performance plans.

7.7 To prevent future and unfavorable virements and suspensions, the Department must examines how well it spends its base budget and swiftly identify idle reserves. The primary causes and drivers of such virements are frequently poor expenditure on programs as well as products and services, which are typically an indication of vacancies.

7.8 Sefa needs to monitor MFIs and RFIs more closely in order to make sure that they are in line with the government's mandate of making finance accessible to all. The Committee will now scrutinise Sefa's quarterly reports to determine if MFIs and RFIs operations are closely monitored. MFIs and RFIs products and services should not be in competition with Sefa. They also should not work against government objectives of making developmental credit accessible cheaply.

7.9 The Committee is once more requesting that Seda and Sefa reevaluate how interconnected and interdependent their services are. The Committee disagrees with the idea that funding applications and business plans created by Seda could be arbitrarily rejected without appeal or corrective action from Sefa. Future Seda and Sefa quarterly reports should include a column describing the current status of all applications sent to and received by the two organisations, respectively.

7.10 To support the President's aspirations to eliminate red tape, the Committee is once again calling for the establishment of a Parliamentary Ad hoc Committee or creation of the executive structure that will interface with the red tape reduction team at the Presidency under the guidance and leadership of Mr Nkosi.

Report to be considered.