**THE NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**20(1) Whether her department has made an assessment on regulatory measures on (a) national, (b) provincial and (c) local government levels’ regulatory environment that might impact negatively on small, medium and micro-sized enterprises and cooperatives; if not, in each case, why not; if so, what are the (i) names and (ii) details of all (aa) legislation and (bb) regulations assessed to date;**

**(2) whether her department has made an assessment to determine if the lack of gaining access to and procedures towards the (a) Small Enterprise Development Agency and (b) Small Enterprise Finance Agency by potential entrepreneurs are a contributing factor to the low success rate of small, medium and micro-sized enterprises to create sustainable jobs; if not, in each case, why not; if so, what were the outcomes of each assessment conducted in each case?”**

**NW23E**

**REPLY:**

1.1. The DSBD is conducting the national study on the regulatory and legislative protocols impeding small, micro and medium enterprises (SMMEs) and Co-operatives as one of the target for the 2016/17 financial year. The research will combine analysis of the existing laws, which should point to the potential for unintended consequences, with evidence on SME experience of implementation. For this reason, the approach to the studies has four main elements:

* + 1. To identify practical and viable ways to reduce the administrative burden of legislation and regulations on SMMEs and Co-operatives;
		2. Analysis of the existing laws and regulations themselves in order to identify the likely costs, benefits and risks for small enterprises and other stakeholders;
		3. An evaluation of remedial options, including at least one option that would not require changes to the law or regulation; and
		4. An engagement strategy including the relevant departments and agencies to implement the preferred option.

1.2 The Department intends to commence with the Provincial study to assess regulations affecting SMMEs and Co-operatives within the 2017/18 financial year.

1.3 The Department as part of the Local government Red Tape Reduction Programme has been conducting an assessment on the implementation of the National Red Tape Reduction Guidelines; this is currently being conducted in four municipalities in the Free State and KwaZulu-Natal. The assessment was based on the critical red tape issues as listed on the National Red Tape Guidelines including, but not limited to:

* + 1. Lengthy and inefficient supply chain management processes (which ultimately affects the 30-day payment system to SMMEs and Co-operatives and non-compliance with section 38 (1) (f) of the MFMA as aligned to the PFMA and Treasury Regulations 8.2.3);
		2. An assessment of existing municipal by-laws and which are relevant to SMMEs and Co-operatives. The municipalities need to review by-laws every five year period as per Municipal Systems Act (MSA) (No. 32 of 2000); and
		3. Assessment of business registrations and permits in order to identify red tape issues in relation to starting the business and also the compliance with all the requirements as set out within the Business Act No. 71 of 1992 and as amended No. 186 of 1993.

1.4 The department of Trade and Industry working with the National Small Business Council has in its work during 2008 to 2010 been more involved in regulatory environment related work. This was upon the 2007 Cabinet’s approval of the Regulatory Impact Assessment (RIA) Framework followed by guidelines for RIA, a tool used to analyze objectives of regulatory proposals and respective unintended consequences. Initially this focused on national and provincial regulatory regime. Regulatory and administrative bureaucracy /red tape areas that received attention in this period and pertinent to the small business sector have been; business registration, access to finance and access to markets. In the municipal ordinances and by-laws focus has been on trading licenses and business registration as well as street trading and trading hours. No recent studies have been done by the Department of Small Business Development, however, stakeholder engagements as recently held in the current process of the review of the Small Business Act have elicited input on regulatory impact areas that still need to be addressed.

2. The Department has not made an assessment of the possible impact that the lack of access to SEDA and SEFA by potential entrepreneurs may have on the success rate of small, medium and micro-sized enterprises to create sustainable jobs.

2.1 The DSBD has however conducted and concluded the 2014 Annual Review of SMMEs and Cooperatives in South Africa which assess the constraints and enablers for SMME and Cooperatives growth sector-wide and not just specifically on the role of SEDA and SEFA.

2.2 The 2014 Annual SMME Review which the Department is yet to publish shows that:

* + 1. South Africa boasts a wide range of public and private sector small business support institutions, presently estimated at around 214 in total, providing a variety of support services.
		2. While the comprehensiveness of the range of support services is generally acknowledged, these services tend to be fragmented or unintegrated and the quality of some of the services, particularly business advisory services, is continuously being questioned.
		3. The 2008-2014 period was characterised by considerably difficult external economic conditions, with generally subdued overall growth performance, high lending rates, falling business and consumer confidence resulting in slowing demand and weakened capacity utilisation in the private sector. These tough trading conditions undoubtedly have impacted the business prospects and performance of SMMEs.
		4. There has been an increase in the number of SMMEs and Cooperatives from 512 518 in 2007 to 1 155 854 in 2013, an overall growth rate of 14.4%.
		5. Bankruptcies, liquidations and insolvencies increased during the economic downturn from 2314 in 2007, to 4763 in 2008, 6078 in 2009; but have since dropped to 3189 in Q1 or 2013.
		6. Lack of skilled staff are the main challenges faced by all SMMEs, followed by lack of finance and burdensome regulations.

2.3 The Department’s application for its ‘Integrated Strategy for the Promotion of Entrepreneurship and Enterprise Development’ to be included in the National Evaluation Programme has been approved by DPME. The evaluation of the Integrated Strategy will enable the Department to assess the impact of the interventions outlined in the Strategy as well as the impact of the Institutions, (particularly SEDA) that were to implement these interventions and programmes.

2.4 The Department together with SEDA and SEFA has also embarked on the 2016 Annual Review of Small Business and Cooperatives in South Africa and may also use this study to focus on the accessibility and procedures of SEDA and SEFA by potential entrepreneurs to determine if this is a contributing factor to the low success rate of small, medium and micro-sized enterprises to create sustainable jobs.

2.(a) There is extensive literature on factors resulting in the low success rate of small enterprises. Seda continues to contribute to research work in this regard, especially through its annual contribution to the research focus on South Africa in the GEM report (Seda is one of the main funders). Findings in this report cite access to non-financial and financial business development support as well as access to markets as the key critical success factors for small businesses. The recommendations from these periodic reviews highlight the need for coordinated support and utilising other means toward better access to support, such as; co-location among development support agencies to increase their geographical coverage and pool resources for office presence in as many needy parts within a district municipality jurisdiction. Provision of infrastructure resources in municipality infrastructure plans as part of their Local Economic Development plans and exploring possibilities for partnership with the private sector as part of their Enterprise Support Initiatives to accommodate development support agencies.

SEDA currently proactively identifies partners to pool resources in order to expand its co-location points. As at the end of June 2016, SEDA has established a network of 55 branches, and 35 co-location points. In 2017, SEDA will conduct a study to identify underserviced areas in order to plan for new access points and support modalities. In 2016, SEDA has done a study on the township SMME environment as is currently piloting a model of how to assist rural & township enterprises in Hartwater (PhokwaneMunicipality), Phillipi, KwaNobuhle (Uitenhage) and Oakney (Matlosana municipality). SEDA is also looking for funding for cadet programmes in order to increase human resource capacity trained to service more clients.

2.(b) During the 2015/16 financial year, the Small Enterprise Finance Agency (SEFA) commissioned a study through an external market research organisation to:

* + 1. Review the products and services offered by the SEFA to determine whether they are aligned to the mandates of the DSBD and the sefa;
		2. Review the sefa products with respect to their effectiveness, efficiency and relevance, ensuring that they are aligned to the mandates of the DSBD and the SEFA;

A 360-degree approach was adopted to conduct the review which comprised of the following:

* + 1. Desktop research - This included an extensive literature review as well as an examination of relevant documents to assist in providing context to the review process;
		2. Interviews with SEFA’s key stakeholders were undertaken; and
		3. Surveys with beneficiaries and non-beneficiaries of the SEFA products and services were conducted to solicit their views. (Beneficiaries are described as 'Approved SMMEs and Cooperatives'. These are SMMEs and Cooperatives that were successful in their applications for funding from SEFA. The non-beneficiaries are those that were not successful in their applications for funding from SEFA.

The review focused on determining the extent to which the products and services are relevant (appropriate) and whether they are provided effectively and efficiently (i.e., whether or not the products have improved the sustainability and growth of the target beneficiaries).

The study results concluded that SEFA is reaching its target market and that its reach is extending well into rural, semi-urban and urban areas. Furthermore, the study found that SEFA products and services broadly address the needs of small businesses in a way that is consistent with policies and priorities of the government.

Seventy-three percent (73%) of the SMMEs and Co-operatives indicated that SEFA funding interventions enabled them to achieve their long-term objectives of profitability, growth, job creation and sustainability.

* + 1. Change in turnover – 87% of SMMEs and Co-operative Enterprises indicated that SEFA funding enabled a positive percentage change in their turnovers
		2. Change in employees – 92% of SMMEs and Co-operative Enterprises indicated that SEFA funding enabled a positive change in the number of employees
		3. Benefits derived from sefa funding - 94% of SMMEs indicated that overall, SEFA funding was beneficial to their businesses.

The table below indicates the audited results of SEFA funding intervention.

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| **Financial Year** | **2013** | **2014** | **2015** | **2016** | **Total** |
| Loan Financing Approved | R440m | R1,065b | R1,009b | R1,109b | R3,6 billion |
| Loan Financing Disbursed | R198 m | R822 m | R1,294 b | R1,168b | R3,4 billion |
| Enterprises Funded  | 28 362 | 46 407 | 68 724 | 54 833 | 193 320 |
| Jobs Facilitated | 9 853 | 46 402 | 60 169 | 75 670 | 202 876 |