**1. REPORT OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, SMALL BUSINESS DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR ON THE ADJUSTED BUDGET VOTE 36: SMALL BUSINESS DEVELOPMENT, AND ON SMALL ENTERPRISE FINANCE AGENCY AND SMALL ENTERPRISE DEVELOPMENT AGENCY, DATED 21 JULY 2020**

**1. Background**

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour* having considered the 2020/21 *Supplementary Adjustments Budget of the Department of Small Business Development* jointly with the Portfolio Committee on Small Business Development, on a meeting held virtually on 15 July 2020, reports as follows:

**2. Introduction**

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and the revised *2020/21 APP of Budget Vote 36: Department of Small Business Development.* The Committee held a joint meeting with the Portfolio Committee on Small Business Development on the 15 July 2020, to engage the Department on its revised spending plan priorities. This engagement follows the tabling of the *Supplementary Adjustments Budget* by the *Minister of Finance* on the 24 June 2020.

Various reports from organisations such as the World Bank, OECD, South Africa Reserve Bank including South Africa National Treasury indicate that South Africa entered the COVID-phase after 10 years the country’s economy has grown below its potential. Gross government debt has continued to rise as a result of weak economic growth, high levels of expenditure and repeated funding support to state owned companies. It was further reported that the rating downgrades would increase the cost of government borrowing. The currency weakness remains a concern.

Unemployment, inequality and poverty are the country’s major risk with the potential to create social instability. Low business sentiment, policy uncertainty around land reform and low investment are cited by some of the global development contributors to the low growth rate of the economy.

The Committee expressed that for the country’s growth and jobs’ objectives, would require growth and expansion of small enterprises including Cooperatives. Further both domestic and international investment would be highly needed to avert the current economic and health crisis exacerbated by the *COVID-19 pandemic*.

The Committee highlighted that for the country to attract investment it should build solid investment environment to ‘*Ease of Doing Business’,* and improve production capacity and capability. Both public and private sector financing to SMMEs should be a top priority in order to reset the economy.

The Committee noted government interventions including private sector measures adopted to support SMMEs. The Reserve Bank has reduced the repurchase rate to 3.75 per cent providing relief to indebted households and businesses; banks have provided R30 billion supporting customers to ease the impact of the COVID-19. In addition, the government has undertaken to spend R500 billion fiscal relief package to provide significant support to households and businesses.

The Committee recognise many challenges faced by SMMEs and Cooperatives such as lack access to finance, managerial skills, inadequate infrastructure support, and regulatory burden. The COVID-19 has weakened deeper the SMMEs. Hence, the Committee emphasised that government in partnership with development finance institutions including other financial institutions such as commercial banks should focus on saving existing productive and commercial capabilities of SMMEs and Cooperatives. Including saving the current jobs.

The Committee recognised the depth of the crisis presented by the COVID-19 pandemic in relation to the operations of SMMEs, and the deeper problem of the unemployment that would have to be tackled. The Committee emphasised that preservation of jobs, and support to many businesses should be at the centre of government agenda. Financing of SMMEs and Cooperatives in response to COVID-19 should have a broader focus, whilst also attempting to address historical injustices.

The Committee noted in the *2020/21 Main Budget Report* that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the *COVID-19* pandemic. Further, the Committee recognised that the *COVID-19* had an effect to the departmental spending plan priorities. According to the *2020/21 Supplementary Budget Review,* the overall adjustments to the spending plans of government departments was guided by:

* Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
* Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
* Suspending allocations to programmes with a history of poor performance and/or slow spending;
* Redirecting funds towards the COVID-19 response within functions, or towards government’s fiscal relief package;

Over the medium term period, a significant feature of the spending plans would respond more appropriately to *COVID-19* interventions, given its enormous impact on SMMEs and Cooperatives. Growth need to be inclusive. So over the medium term government is set to also focus on channeling resources lift rural and township economies. This is one of the policy areas that the Committee will focus on, over the medium term.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R R67 million in funds initially appropriated to the Department. In the *2020 Main Budget* the Department was approximately appropriated R2,4 billion. However, the Department as a policy response to the COVID-19 has established *COVID 19 Emergency Fund* with the aim to support SMMEs, the fund is administered by the *State Enterprise Finance Agency* (SEFA). In the Supplementary Budget, the *COVID 19 Emergency Fund* anticipated to disburse approximately R1.15 billion to small enterprise to minimise the impact of the *COVID-19* to businesses’ operations.

**3. Impact of COVID-19 on Departmental Spending**

The aim of the Department is to promote the development of small business that contributes towards an all-inclusive economic development and growth. Further it is stated that the Department is tasked with the responsibility of leading an integrated approach to the promotion and development of small business and cooperatives by focussing on economic and legislative drivers that stimulate entrepreneurship to contribute towards radical economic transformation. It expected that the realisation of this mandate will lead to increased employment, poverty reduction and reduce inequality.

The core functional policy priorities of the Department are constituted around crucial policy functional areas namely; *Functional Policy Programme 2: Sector Policy and Research, Functional Policy Programme 3*: *Integrated Cooperative Development, Functional Policy Programme 3*: *Integrated Cooperative Development. Programme 1: Administration* is primary providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

As the result of changes necessitated by the COVID-19, the Department revised the spending plan priorities to meet the new demand. The spending priorities are framed as follows:

* Develop and introduce the COVID-19 pandemic outbreak intervention measures dedicated towards assisting informal and micro businesses;
* Finalise and implement the Township Entrepreneurship Fund;
* Support government effort to ease business environment to SMMEs and Co-operatives to operate, and further promote sustainability and growth of SMMEs and Co-operatives by designing and implementing Business Viability Facility;
* Finalise amendments to the *National Small Enterprise Act* to deal mainly with the establishment of the *SME Ombuds Office*, regulations/licensing of businesses owned by foreign nationals and unfair business to business practices;
* Finalise and implement the localisation programme on SMMEs and Co-operatives;
* Sustain SMMEs and Co-operatives by linking them to markets through e-commerce platform
* Re-align the budget structure with overall organisational structure, and planning documents;
* Finance the business case for the new single *Small Business Support Entity*, that will involve a merger of the *State Enterprise Development Agency* (SEDA), *State Enterprise Finance Agency* (SEFA) and the *National Empowerment Fund* (NEF).

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the COVID-19 pandemic. Further, resources were also shifted towards government policy objective to stabilise public finances.

**Table 1: Summary of Revised Budget: Small Business Development**



**Source: National Treasury, Supplementary Budget, 2020**

In the current financial year, the Department as part of the government wide downward revision exercise on spending plan priorities is expected to forgo R67 million. Of which in terms of economic composition, the Department is anticipated to forgo R28 million on *Goods and Services*, R39 million on *Transfers and Subsidies*. The Functional Policy Programmes, Programme 1: *Functional Policy Programmes 1: Administration* is expected to forgo R6,4 million, of which all of it was derived from *Goods and Services.*

The policy area in relation with *Sector Policy and Research* is anticipated to forgo R8,1 million, all the funds were derived from *Goods and Services* spending item. In the current financial year, the Department will develop the *Localisation Programme on SMMEs and Co-operatives* to support growth and development of SMMEs and Cooperatives.

With regard to the *Functional Policy Programme 3*: *Integrated Cooperative Development,* the Department is expected to forgo R30 million, of which R6,5 million is on *Goods and Services*, and R23,5 million is on *Transfers and Subsidies*. The funds were initially budgeted to be allocated as part of the *Cooperatives Incentive Schemes* directed to private institutions.

In relation with the policy area on *Enterprise Development and Entrepreneurship*, the Department is expected to forgo R22,5 million, of which R7 million is on *Goods and Services*, R15,5 million is on *Transfer and Subsidies.* However, the Department was re-allocated R1,15 billion as policy response to COVID-19 pandemic.

The funds were originated within the funds directed for *Transfers and Subsidies* spending item. The affected programmes were: *National Gazelles Programme (*R30 million), which is administered by the *State Enterprise Development Agency*-SEDA, R270 million from the *Black Business Supplier Development Programme*, R70 million from *National Informal Business Upliftment Scheme* and R800 million from the *Township Entrepreneurship Fund* administered by the *State Enterprise Finance Agency*-SEFA.

As already stated elsewhere in this report, the R1,15 billion originated funds will be used to support small enterprises as a policy response to the *COVID-19*. The funds contribute to the government efforts to saving existing productive and commercial capabilities of SMMEs and Cooperatives. Including saving the current jobs.

In partnership with its entities-SEDA and SEFA, the Department will implement as the policy response to COVID-19 the *SMME Debt Relief Fund, Business Growth and Resilience Facility* to support SMMEs to navigate the current uncertain situation. Further, SEFA has also offered payment holidays to its clients, amounting to R R170.6 million. The interventions also cover township and rural enterprises. The Department submitted that it is working on post-lockdown interventions to ensure that businesses are assisted to upgrade their business processes and get appropriate financial support to operate in a ‘new normal operating environment’.

Over a 5-year period, the Department through SEFA is expecting to disburse approximately R9,7 billion to SMMEs and Cooperatives. Financing 812,183 SMMEs and Cooperatives, and creating close to 1 million jobs. In the current financial year, approximately R2 billion is expected to be allocated to SMMEs and Cooperatives, which will finance close to 106 883 SMMEs and Cooperatives and creating close to 164 210 jobs.

Over the medium term, the Department submitted that its resources partnering with its development finance agencies will also respond to the need to recalibrate rural and township economies. However, the Committee noted that various reports state that public business support programmes are relatively fragmented, and do not appear to have a significant impact on creating new small businesses including Cooperatives. This is the issue that the Department needs to tackle. Further, in the recent past report of the Financial and Fiscal Commission flagged the utilisation of financial intermediaries (wholesale lending) as one of the cost drivers that increasing the cost of capital for struggling small enterprises.

**4. Issues Arising from Committee deliberations**

1. The Committee noted that the slow-down of economic activities exacerbated by the COVID-19 pandemic would have an effect on public and private financing. SMMEs, and Cooperatives would be hit hardest. Jobs of many South African will disappear, particular the vulnerable category made up of women, youth, disabled, rural communities.
2. The Department and its agencies stressed that over the medium term, their programmes have also have focus on the vulnerable people. Resources will also be channelled to boost township and rural economies.
3. Further, the Department indicated that funds, and non-financial support programmes will pay particular attention to the informal sector. It has a programme to formalising the informal business sector. This is one of the policy areas that the Committee highlighted as pivotal to ensure that the economy becomes more inclusive.
4. The Committee also pointed out that there is a need for the Department and its agencies to align their functional activities with other departments, in this case with the *Department of Employment and Labour* to support growth and expansion of the *Supported Employment Enterprises* (SEE). Growth and expansion of the SEEs is an essential contribution to social cohesion.
5. Some of the Members raised concerns about the negative effects of the ban of alcohol to the liquor industry. The Committee agreed that a balance approach on health and economic considerations should be found, however the more anything else the current crisis is the health crisis. Lives must be prioritised. The ban of alcohol is seen as the temporary measure to ease the burden on hospitalisation, and to ensure resources are directed as much as possible to fight *COVID-19 pandemic*.
6. The Department indicated that evidence at the disposal of government shows that since the start of Level 3 restrictions as part of the *Government Risk Adjustment Strategy* to manage the *COVID-19* pandemic and opening the economy, trauma units in hospitals were burdened with cases related to alcohol consumption.
7. Further the Department stressed that government interest is to see as many businesses operating, and the economy activities resuming in many industries to reset the economy, and boost jobs.
8. The Committee emphasised that the *COVID policy responses* should focus on respond more appropriately to *COVID-19* interventions, given its enormous impact on the economy and employment. The focus must ensure that many businesses are preserved, and the current productive capacity is not eroded, and jobs are protected. Further, the Committee emphasised the importance of the *Broad-Based Black Economic Empowerment (B-BBEE) initiative’s contribution to an inclusive growth agenda.*
9. The Department indicated that government will strengthen partnership formed with the private sector to scale up support to SMMEs and Cooperatives. Further, development finance institutions would play a crucial role. Funding will be extended to rural and township communities.
10. Further, commercial banks would be engaged to ensure that businesses are supported.
11. Further, the Department emphasised that government official will be fully held accountable for their inaction or commission. Performance management measures will be implemented across departmental divisions, including its agencies.
12. The Committee urged the Department to ensure that its services reach as many people particular rural communities. Many businesses complain about inadequate communication and marketing of services that the department and its agencies are offering.
13. The high cost of capital experienced by many SMMEs and Cooperatives should be addressed prioritised, the Committee emphasised. This is not expected from development finance institutions such as SEFA.
14. Further, the Committee urged the Department to leverage private sector finance to improve the impact of the business development support programme to ensure that small businesses contribute towards the economy, and job creation. The Committee called for stronger measuring tools to evaluate performance of SMMEs.
15. The role of sub-national governments in providing business development support to SMMEs including Cooperatives including informal businesses was emphasised, with particular emphasis on municipalities.

**5. Recommendations**

The Committee observes that the slowdown in economic activity has had a significant impact on both public and private sector finances. Development partnership initiatives would be pivotal to tackled the challenges faced by SMMEs and Cooperatives. Financing and funding would be required in both the public and private sectors to reset the economy, and boost jobs.

Given the huge impact of *COVID-19* on the economy, businesses and jobs, the *COVID-19 policy responses* should take into cognisance that the focus is to ensure that many businesses are preserved, and the current productive capacity is not eroded, and jobs are protected. This does not mean that the Broad-Based Black Economic Empowerment (B-BBEE) initiative’s contribution to an inclusive growth agenda becomes less important.

Following the engagements with the Department, the Committee proposed the following recommendations to the Minister:

1. The *COVID-19* pandemic would certainly put pressure on the current departmental budget. The uncertainty caused by the pandemic would require focused support to SMMEs and Cooperatives. Over the 2021 medium term, both financial and non-financial support to the small businesses would be required. The Committee urged the Department to engage National Treasury to consider allocating additional resources in order the Department to upscale policy responses necessitated by the COVID-19 pandemic. This recommendation takes into cognisance the current public finance position.
2. The Department over the current medium term, should finalise the *Small Enterprise Master Plan* including the *Small Enterprise Amendment Bill*.
3. In preparation for the 2021 medium term, the Department must finalise the macro-organisational structure, and formulate the budget structure that is aligned with the strategic plan. The Department of Public Service and Administration, National Treasury, and the Department of Monitoring and Evaluation should provide support to the Department to develop the macro-organisational structure including the strategic plan in accordance with their legislative and policy mandates.
4. Organisational health and capability should be one of the key priorities that the Department should prioritise. In preparation of the 2021 medium term period, the Department would need to fill critical posts to realise the government, and departmental policy outcomes. This should form part of the broader re-engineering of the Department, and to repurpose the Department to meet the needs of the small enterprise industry.
5. Further, in preparation for the 2021 medium term, the Department must fast track the process of merging SEFA, SEDA and NEF to form a focused, single and coherent *SMME Development Agency.* Themerger process of SEDA, SEFA and NEF should be prioritised. The Presidency and National Treasury should provide necessary resources to support the merger of the mentioned development entities.

Report to be considered.