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PARLIAMENT
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REPUBLIC OF SOUTH AFRICA

**ANNOUNCEMENTS,
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 COMMITTEE REPORTS**

MONDAY, 29 JULY 2024

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COMMITTEE REPORTS

National Council of Provinces

1. REPORT OF THE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT, AND TRADE ON BUDGET VOTE 36, STRATEGIC PLAN, 2024/2025 ANNUAL PERFORMANCE PLAN OF THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT, DATED 29 JULY 2024

Report of the *Select Committee on Economic Development and Trade* (Committee) on Budget Vote and Annual Performance Plan 2024/25 of the *Department of Small Business Development* – Budget Vote No 36, dated 24 July 2024.

The Committee having considered Budget Vote: 36 and Annual Performance Plan 2024/2025 of the *Department of Small Business Development* (the Department) and its entities, the Small Enterprise Finance Agency (SEFA) and the Small Enterprise Development Agency (SEDA), reports that the committee met with the department on 17 July 2024, wherein the Department outlined the *Budget and Spending Plans*.

The Committee notes the 2024/25 financial year priorities of the Department which include the National Integrated Small Enterprise Development (NISED) Strategic Framework. This includes the National Informal Business Strategy and the Cooperatives Strategy. Other priorities include policy and legislation to create an enabling environment for Small Medium and Micro Enterprises (SMME's) and Cooperatives within which to operate. This includes the SMME and Cooperatives Funding Policy, the Red Tape Reduction Programme, and the Township and Rural Entrepreneurship (TREP) Programme as well as the Small Enterprise Manufacturing Support Programme.

The Committee further notes that over the medium term, the Department will focus on enabling greater access to financial and non-financial support for SMME's cooperatives, startups, and township and rural enterprises. This is to expose SMME's and cooperatives to global market opportunities; refurbishing or

building approved business infrastructure and supporting informal business through the informal and microenterprise development programme.

Over the 2024 medium term, the Department is expected to spend R7.6 billion, increasing at an average annual rate of 1.7 per cent from R2.5 billion in 2023/24 to R2.7 billion in 2026/27. Transfers to entities to support SMME's account for an estimated 80.4 per cent (R6.1 billion) over the 2024 medium term period. Of this amount R4.1 billion will go to the Small Enterprise Development Agency (SEDA) and the remainder to the Small Enterprise Finance Agency (SEFA).

The cost breakdown of the four functional policy programmes of the Department is reflected in Table 1 below:

Table 1: Expenditure trends and estimates

Programmes												
1. Administration												
2. Sector Policy and Research												
3. Integrated Cooperatives and Micro Enterprise Development												
4. Enterprise Development, Innovation and Entrepreneurship												
Programme	Audited outcome				Adjusted appropriation	Average growth rate (%)	Average: Expenditure/ Total (%)	Medium-term expenditure estimate			Average growth rate (%)	Average: Expenditure/ Total (%)
	2020/21	2021/22	2022/23	2023/24				2024/25	2025/26	2026/27		
R million	2020/21	2021/22	2022/23	2023/24	2020/21	2023/24	2024/25	2025/26	2026/27	2023/24 - 2026/27	2023/24 - 2026/27	2023/24 - 2026/27
Programme 1	112.2	112.5	122.5	159.9	12.5%	5.1%	169.6	176.8	184.9	5.0%	6.8%	
Programme 2	10.3	22.8	20.9	51.5	71.0%	1.1%	60.9	67.4	70.0	10.8%	2.5%	
Programme 3	52.1	81.2	113.7	201.6	57.0%	4.5%	202.4	208.3	216.8	2.4%	8.2%	
Programme 4	2 074.7	2 396.7	2 256.9	2 116.3	0.7%	89.3%	2 003.7	2 091.7	2 190.1	1.1%	82.6%	
Total	2 249.2	2 613.2	2 513.9	2 529.3	4.0%	100.0%	2 436.5	2 544.3	2 661.8	1.7%	100.0%	
Change to 2023							(253.8)	(266.4)	(277.6)			
Budget estimate												
Economic classification												
Current payments	183.7	212.4	236.0	349.9	24.0%	9.9%	397.3	414.7	432.3	7.3%	15.7%	
Compensation of employees	135.0	138.4	144.4	203.4	14.7%	6.3%	251.6	262.8	274.7	10.5%	9.8%	
Goods and services ¹	48.7	73.9	91.6	146.5	44.4%	3.6%	145.8	151.9	157.5	2.4%	5.9%	
<i>of which:</i>												
Advertising	0.2	0.5	0.5	6.7	216.6%	0.1%	7.4	7.5	7.7	4.4%	0.3%	
Consultants: Business and advisory services	0.3	1.0	7.1	10.3	209.5%	0.2%	13.9	16.5	17.2	18.9%	0.6%	
Inventory: Other supplies	–	17.3	29.7	50.0	0.0%	1.0%	37.3	36.7	37.0	-9.5%	1.6%	
Operating leases	22.9	11.9	9.5	11.7	-20.0%	0.6%	12.5	13.7	14.4	7.0%	0.5%	
Travel and subsistence	8.1	17.2	22.0	42.6	73.6%	0.9%	41.2	41.4	42.4	-0.2%	1.6%	
Venues and facilities	0.1	3.6	1.6	2.4	214.6%	0.1%	8.1	8.6	10.1	62.4%	0.3%	
Transfers and subsidies ¹	2 061.6	2 397.6	2 271.0	2 172.6	1.8%	89.9%	2 034.0	2 124.2	2 223.9	0.8%	84.1%	
Departmental agencies and accounts	824.5	842.0	915.8	1 404.8	19.4%	40.2%	1 316.1	1 353.4	1 394.3	-0.2%	53.8%	
Higher education institutions	–	–	–	–	0.0%	0.0%	–	–	–	0.0%	0.0%	
Public corporations and private enterprises	1 235.4	1 549.0	1 345.5	759.1	-15.0%	49.4%	717.9	770.9	829.6	3.0%	30.3%	
Non-profit institutions	1.2	5.4	8.6	8.0	86.3%	0.2%	0.0	0.0	0.0	-95.0%	0.1%	
Households	0.6	1.2	1.1	0.7	7.6%	0.0%	–	–	–	-100.0%	0.0%	
Payments for capital assets	3.9	3.3	6.9	6.8	20.2%	0.2%	5.2	5.4	5.6	-6.0%	0.2%	
Machinery and equipment	3.9	3.2	6.9	6.8	20.2%	0.2%	5.2	5.4	5.6	-6.0%	0.2%	
Total	2 249.2	2 613.2	2 513.9	2 529.3	4.0%	100.0%	2 436.5	2 544.3	2 661.8	1.7%	100.0%	

Source: 2024 National Treasury Estimates of National Expenditure

The Department reported that work in provinces would be facilitated by the SEDA and SEFA, through the following programmes: *Township, Rural and Informal Business and Sector and Market Development*. For this, SEDA is anticipated to spend over R4 billion over the 2024 medium term. In respect of SEDA, the Department reported a funding shortfall of R214 million for the 2024/25 financial year and a shortfall of R783.1 million over the medium term. In addition, the Department reported that its baseline allocation is continuing to decline whereas the targets are increasing on an annual basis. The Department highlighted that the increase relating to targets is due to increased demand to service the SMMEs. The Department anticipate that this will result in SEDA struggling to meet the demand and targets.

In respect of SEFA, the Department reports that over the medium term, the entity has budgeted for a cost-to-income ratio of 87 per cent in 2024/25 financial year, 80 per cent in 2025/26 financial year, and 76 per cent in 2026/27 financial year. Further, the Department highlighted that the budgeted income generation by SEFA (including the MTEF grant) is sufficient to cover the operating costs (excluding impairments, grants and IDC finance charges). It was also indicated that over the MTEF period, SEFA has budgeted to have positive cash flow balances throughout.

Issues arising from engagement:

1. Committee Members welcomed the annual performance plan and congratulated the Department on achieving its targets in terms of the participation of women. However, Members queried the extent to which big business had been brought in to assist women, persons with disabilities and youth groups. Members further queried the measuring tools in place to determine the impact of programmes and the extent to which SMME's and cooperatives have graduated to self-sufficiency.
2. Members noted that to date the Small Enterprise Finance Agency (SEFA) had disbursed approximately R11 billion in funding to SMME's and cooperatives and queried the effectiveness

of the funding and support provided and whether there had been return on investment and the success rate of these enterprises.

3. Members queried the extent to which the Department through its entities had investigated the root causes of poor performance and non-sustainability of SMME's and cooperatives and the extent to which the root causes could be mitigated against.
4. Members further raised concern that a serious impediment to the financial sustainability of SMME's were government and state owned entities' failure to pay on time and queried the extent to which and regulations and legislation has been drafted to protect SMME's and cooperatives from late payments.
5. In responding to queries relating to reducing late payments to SMME's it was reported that one of the key principles of the National Small Enterprise Amendment Bill passed in the Sixth Term of Parliament was the creation of the Office of Ombudsman. The Office of the Ombudsman will facilitate an enabling environment. One of the key objectives of the Office of the Ombudsman is to adjudicate and dispose of complaints in a manner which is procedurally fair, economical and expeditious. This should also be in reference to what is equitable in all circumstances with due regard to existing contractual relationships or any other legal relationship.
6. In responding to Members queries regarding the success rate of SMME's and cooperatives funded by SEFA and their viability, the Department reported a 66 per cent success rate. It was noted that varying forms of assistance which included blended finance of which a portion is grant funding, payment holidays and loan funding, would go a long way to building the resilience of these emerging enterprises. These enterprises were further supported through the work of the Small Enterprise Development Agency (SEDA) hubs and incubators that provided after care support to enable these enterprises to develop viable business plans and enter the capital market.
7. Members queried the extent of regulation of the SMME to ensure that whilst foreigners are allowed to trade, whether they are subjected to the same regulations and by-laws that govern the local SMME industry.

8. In responding to queries regarding the regulation of foreign owned SMME's the Department submitted that the Constitution allows foreigners to trade in South Africa but only if they have a business visa and have invested R5 million in the country. Student, tourist and working visas do not give foreigners the right to trade. The Department reported that it was working closely with the Department of Home Affairs as well as local government to ensure the compliance of by-law provisions. The Department acknowledged that legal loopholes did exist however measures were underway to close those gaps.
9. Members sought clarity on municipalities where the Department and its entities had assisted with red tape reduction.
10. Members sought a breakdown of the total amount of financial and non-financial support given to SMME's.
11. Members further sought a list of beneficiaries who had received financial assistance through the Department and its entities with specific details relating to company name, amount allocated, contact details and addresses.
12. In responding to queries relating to the vacancy rate, the Department submitted that it had a compensation of employees' budget of R252 million for the 2024/25 financial year increasing to R274.7 million in the 2026/27 financial year. This budget was supposed to fund 357 committed posts however due to the 7.5 per cent cost of living adjustment the budget can only accommodate 318 posts which is 39 posts less than provided for on the approved structure.

Recommendations

The global and domestic economies are fragile, and the South African economy is trapped in a low growth point. Compounded with Covid-19 pandemic it impacted on small enterprises, and it appears that the target set in the *National Development Plan* (NDP) relating SMMEs will not be realised, unless

government in partnership with the private sector set bold measures designed to improve the support and growth of SMMEs.

1. Growth and support of SMMEs and Cooperatives remains high on the government policy agenda. Further, closing the financing gap experienced by SMMEs and Cooperatives, particular in provinces and regions that are lagging behind in terms of economic development, should be prioritised. The Committee reiterate that the Minister should continue to engage the *Minister of Finance* to consider allocating additional resources over the 2024 medium term to the Department to scale-up funding and financing to bolster growth and expansion of SMMEs and Cooperatives across the country and closing the rural and urban financing gap.
2. Over the 2024 medium term, the Minister should establish capacity and capability within the Department to support and promote initiatives to *Ease of Doing Business* across the country. Further, it should formulate an action plan in collaboration with other spheres of government's agencies responsible for supporting SMMEs and Cooperative to accelerate nation-wide *Ease of Doing Business* Initiative.

Report to be considered