



# DEPARTMENT OF SMALL BUSINESS DEVELOPMENT AND ITS ENTITIES

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PORTFOLIO COMMITTEE ON SMALL BUSINESS  
DEVELOPMENT BRIEFING

8 OCTOBER 2019

# 1. BACKGROUND

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- The FFC is a permanent statutory body established in terms of Section 220 of Constitution. The Commission is concerned with financial and fiscal matters, particularly Intergovernmental fiscal relations (IGFR); legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective; regulations associated with legislation that may amend or extend such legislation.
- The mandate of Commission is to make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation.
- This submission is in response to the invitation by the Portfolio Committee on Small Business Development on the overall financial performance of the department and its entities for the 2018/19 fiscal year.



## 2. SMALL BUSINESS DEVELOPMENT

# SMALL AND MEDIUM ENTERPRISES (SMEs)

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## **1. Economic backbone of virtually every economy in the world.**

It represents more than 95 percent of registered firms worldwide, accounts for more than 50 percent of jobs, and contribute more than 35 percent of Gross Domestic Product (GDP) in many emerging markets.

## **2. SMEs as an engine to economic growth**

SMEs' GDP contribution actually increases as economies develop. SMEs in the developed world contributing well over 50 percent of GDP.

## **3. SMEs creates jobs**

Most of the new jobs are created by SMEs, they help diversify a country's economic base through innovation.

# SMALL AND MEDIUM ENTERPRISES (SMEs)

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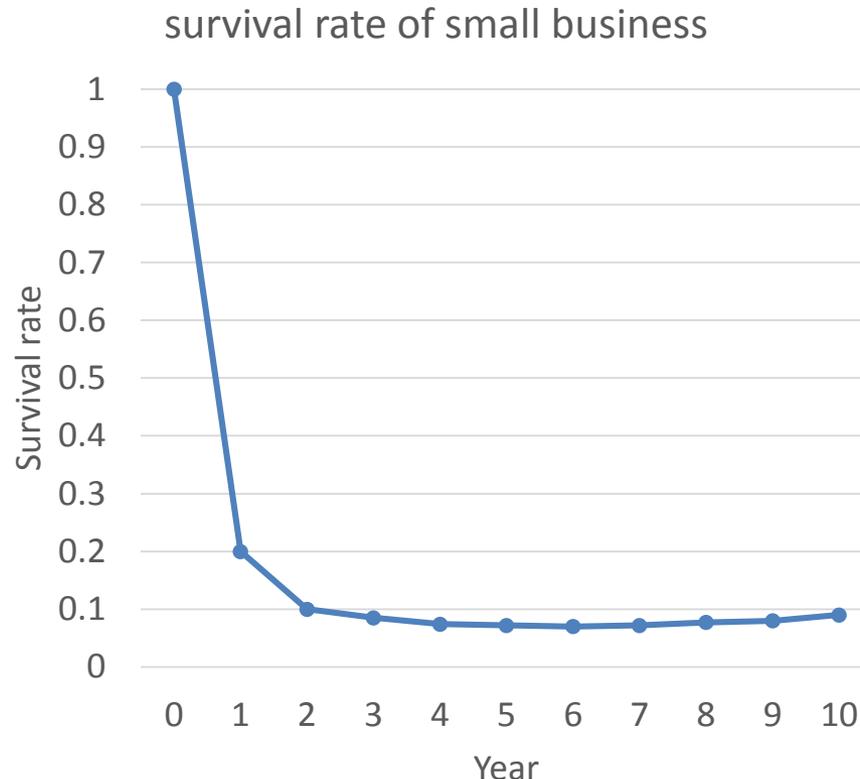
## **4. SMEs are growth-inclusive**

They help deliver goods and services to the bottom of the social pyramid; a powerful force for integrating women and youth into the economic mainstream.

## **5. SMEs funding can improve market competition, thereby growth enhancing**

Market forces will allow productive SMEs to expand and become large firms; distressed but productive SMEs to restructure; and unproductive SMEs to exit, thereby achieving economic growth through market competition.

# SMALL AND MEDIUM ENTERPRISES (SMEs)

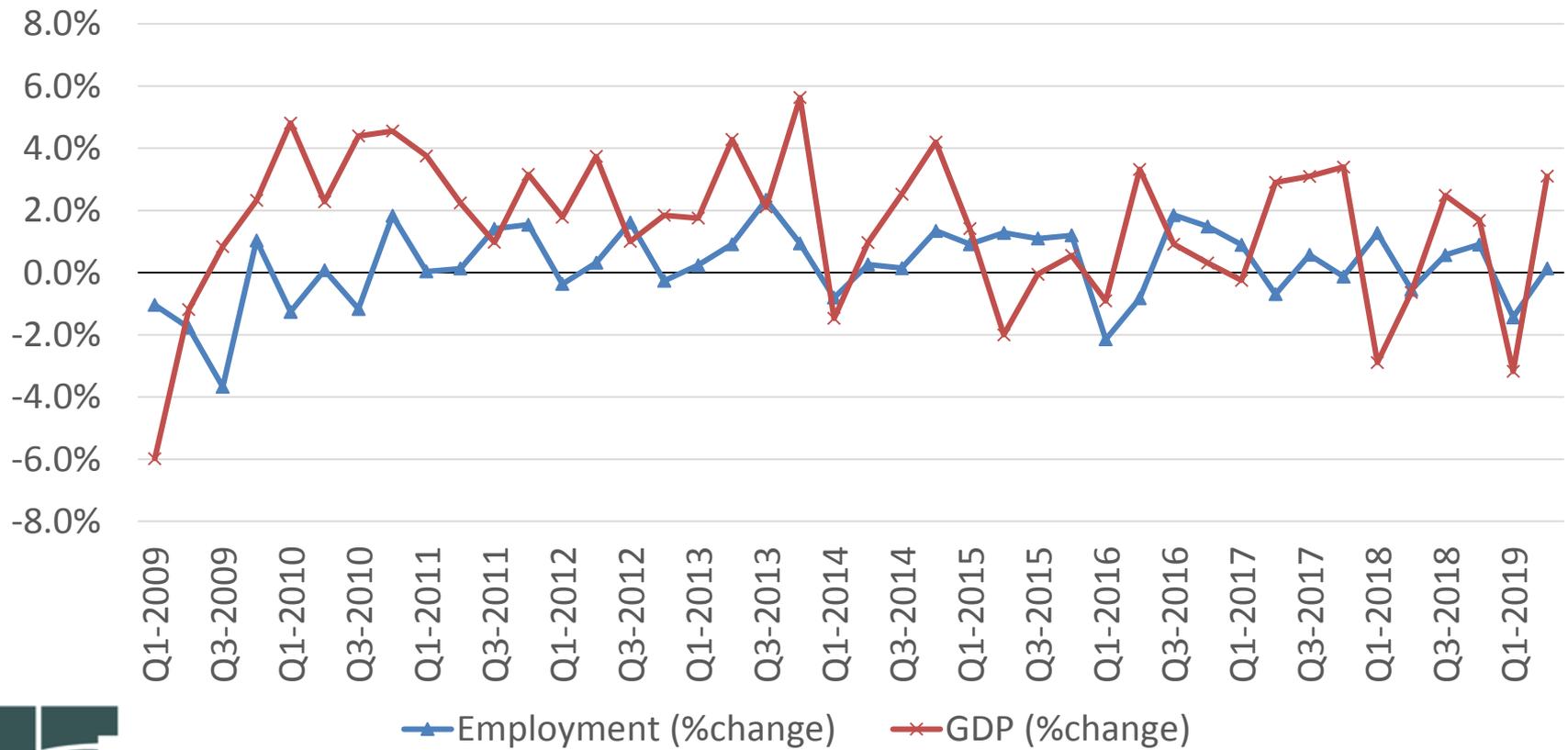


South Africa has one of the lowest creation rates of successful SMMEs.

- Around 70 to 80 per cent of SMMEs fail in the first year and only about half of the survivors last for the next five years (DSBD 2016).
- SMMEs have only a 37 per cent chance of surviving the first four years and only a 9 per cent chance of surviving the first ten (DSBD 2016).

# ECONOMIC-EMPLOYMENT GROWTH DYNAMICS

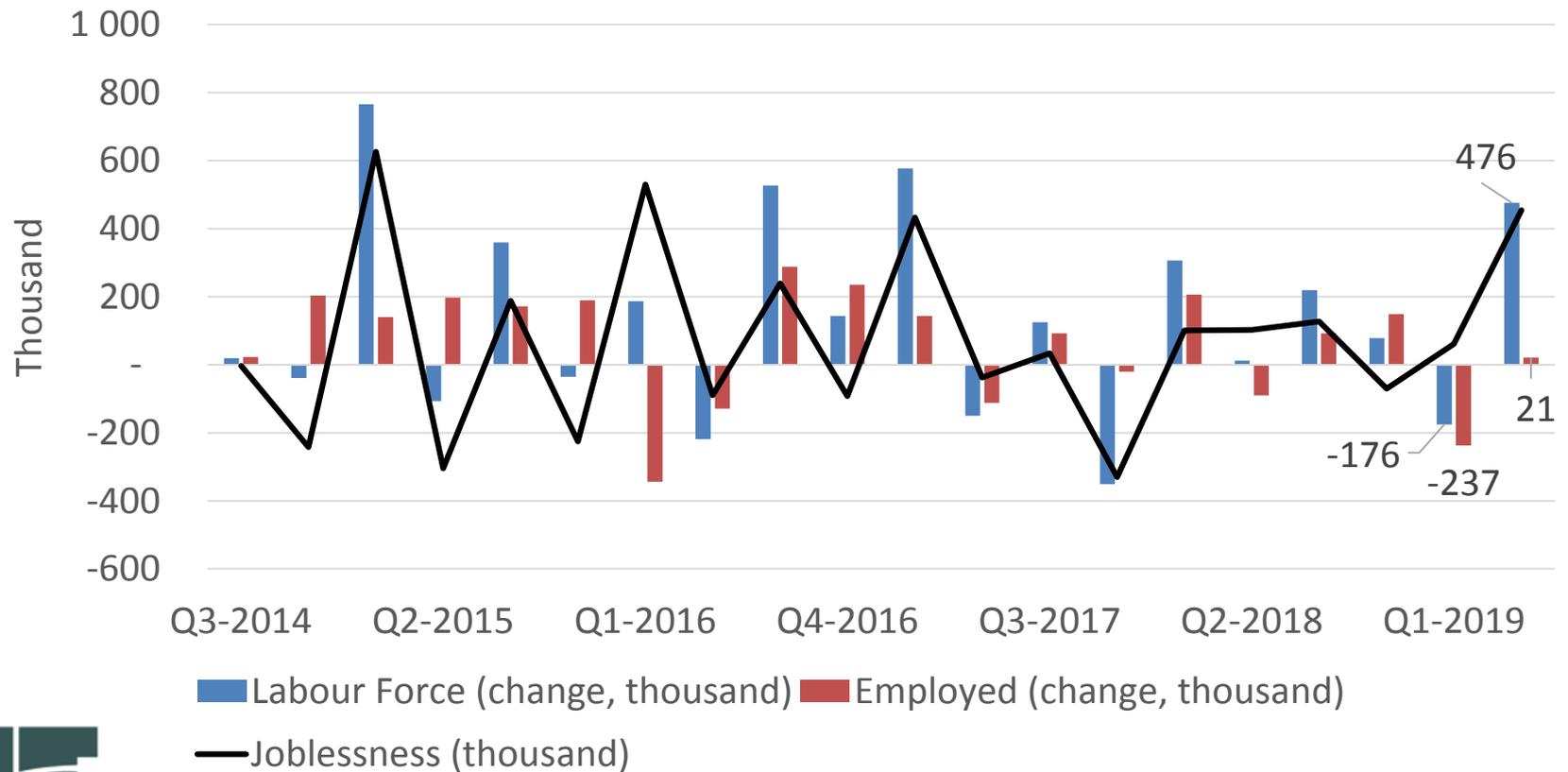
Employment and Economic Growth Rates



Source: Quarterly Labour Force Survey, Statistics South Africa (2019)

# JOBLESSNESS

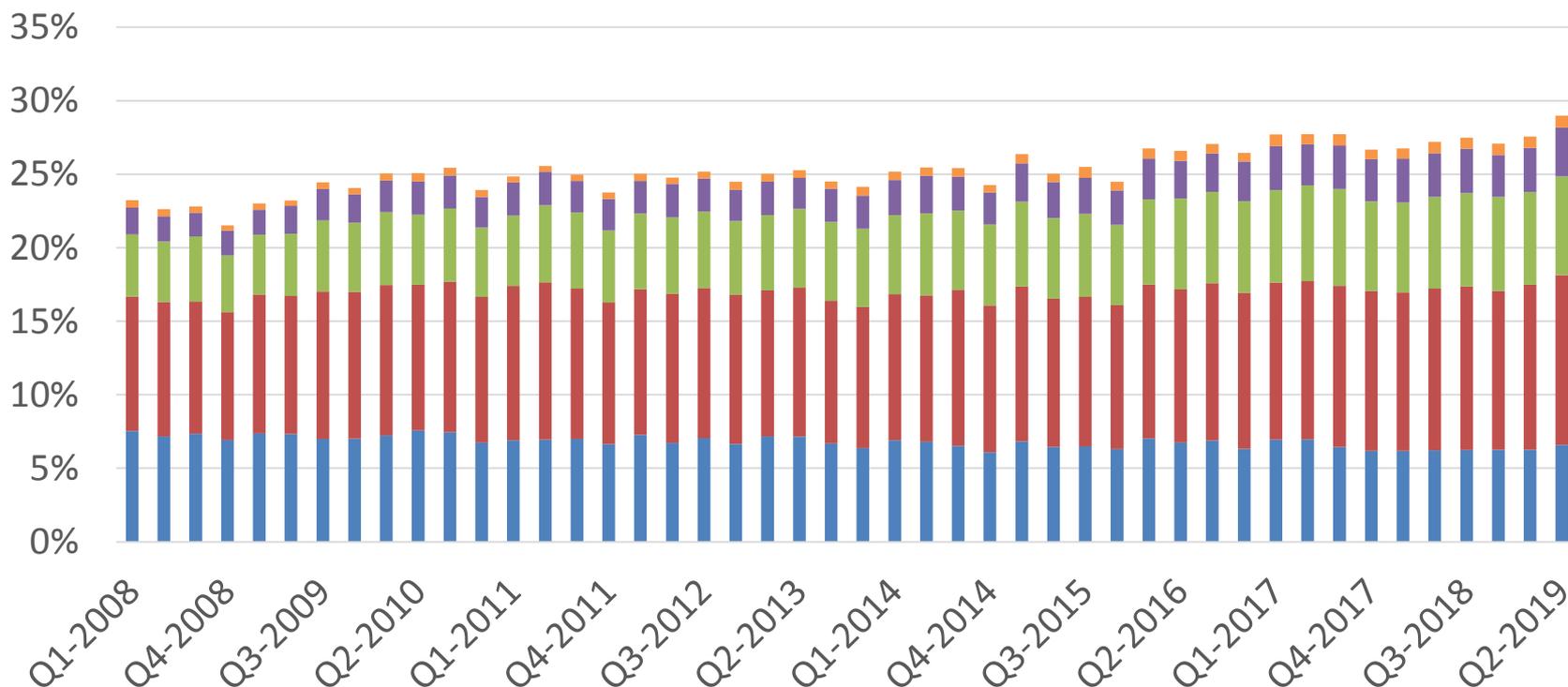
Joblessness = Labour force change – Employment change



Source: Quarterly Labour Force Survey, Statistics South Africa (2019)

# UNEMPLOYMENT RATE (OFFICIAL) COMPOSITION BY AGE GROUP

Unemployment rate (official) composition by age group



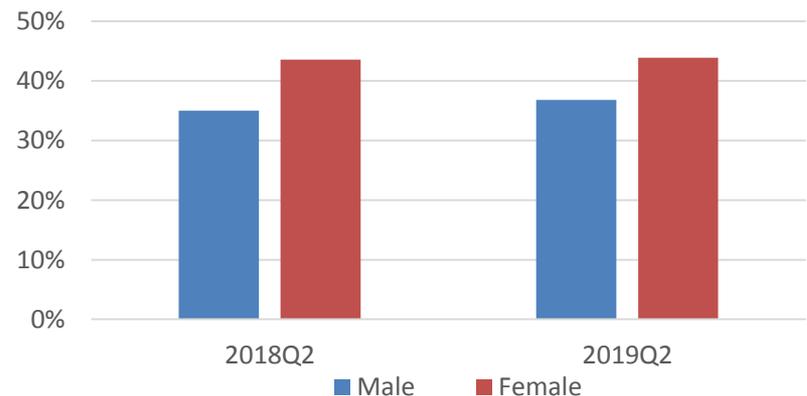
# YOUTH NOT IN EMPLOYMENT, EDUCATION AND TRAINING

- The percentage of young persons aged 15–24 years who were Not in Employment, Education or Training (NEET) increased from 31.6 percent in the second quarter of 2018 to 32.3 percent in the second quarter of 2019.
- Similarly, people aged 15–34 years disassociated from the labour market entirely (or NEET) increased by 1.0 percentage point from 39.3 percent to 40.3 percent in the second quarter of 2019.
- More than four in every ten young females are not in employment, education, or training.

NEET rates for youth aged 15-24 years by gender



NEET rates for youth aged 15-34 years by gender



# ENTREPRENEURIAL BEHAVIOUR AND ATTITUDES: SOUTH AFRICA'S RANKING (BRICS)

Indicators	South Africa
Perceived opportunities	2
Perceived capabilities	3
<b>Fear of failure rate</b>	<b>5</b>
Entrepreneurial intentions	4
Total early-stage Entrepreneurial Activity (TEA)	3
<b>Established Business Ownership</b>	<b>5</b>
<b>Entrepreneurial Employee Activity</b>	<b>5</b>
<b>Motivational Index</b>	<b>1</b>
Female/Male TEA	3
Female/Male Opportunity-Driven TEA	4
<b>High Job Creation Expectation</b>	<b>1</b>
Innovation	3
Business Services Sector	4
High Status to Successful Entrepreneurs	2
Entrepreneurship as a Good Career Choice	2

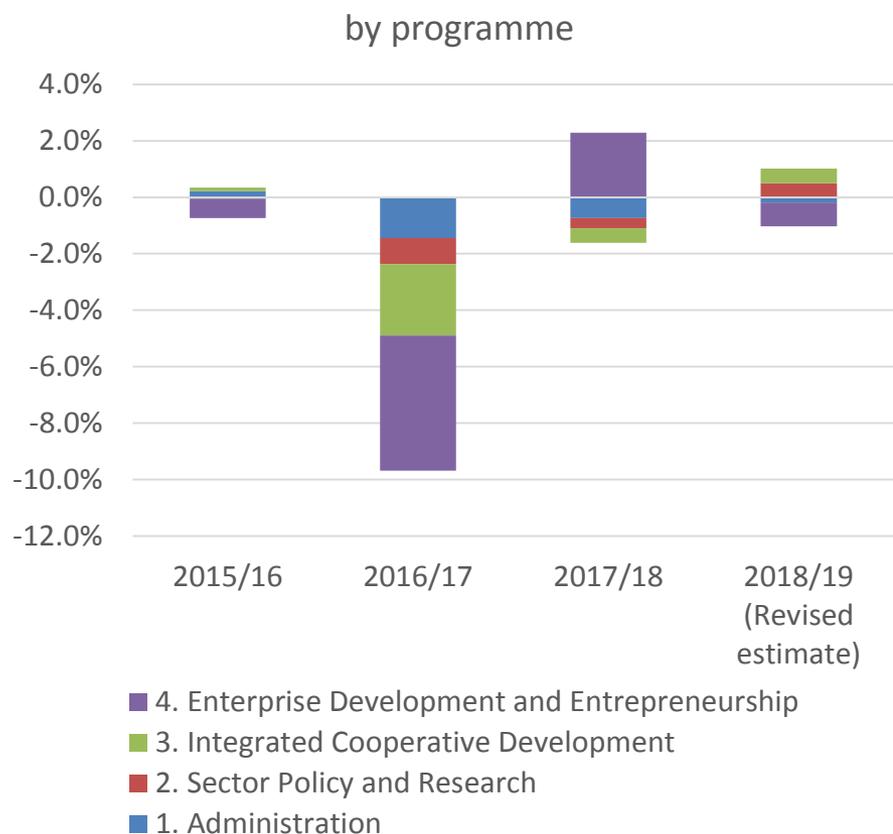
- Data suggests that South Africa has quite a **motivated, fearless, optimistic entrepreneurial spirit** for small business development.
- However, actual outcomes of business ownership and employee involvement in entrepreneurial activity are amongst the **lowest**, and **mediocre in innovation**.

Source: Adult Population Survey (APS), Global Entrepreneurship Monitor (2019)



## 3. DEPARTMENTAL MTEF ANALYSIS

# DEPARTMENTAL BUDGET ANALYSIS: OVER/(UNDER) EXPENDITURE AS A PROPORTION OF THE BUDGET BY PROGRAMME



**Programme 1: Administration**  
leadership, management and support services.

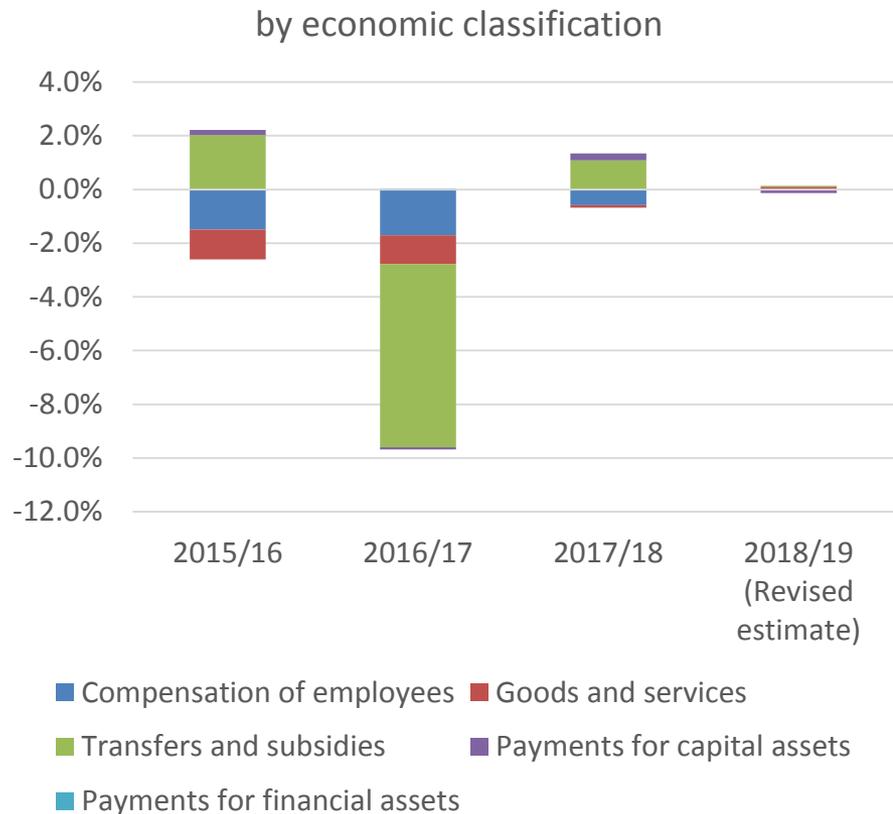
**Programme 2: Sector Policy And Research**  
Policies and legislation, conduct research, intergovernmental relations, development and growth of sustainable small, medium and micro enterprises, employment and economic growth.

**Programme 3: Integrated Cooperative Development**  
Maintain a sound ecosystem that enhances creation of jobs and contribute to growth.

**Programme 4: Enterprise Development and Entrepreneurship**  
Create an enabling ecosystem that enhances entrepreneurship, growth and sustainability of small, medium and micro enterprises.

Source: ENE, National Treasury (2019)  
Note: roughly R1.5 billion budget

# DEPARTMENTAL BUDGET ANALYSIS: OVER/(UNDER) EXPENDITURE AS A PROPORTION OF THE BUDGET BY ECONOMIC CLASSIFICATION



The department had seemingly **maintained its expenditure trend between 2015/16 – 2017/18 at R1.2 billion budget** per year.

The sudden underspending in transfers and subsidies' budget in **2016/17** was driven by the **8.3 per cent underspending for public corporation and private enterprises.**

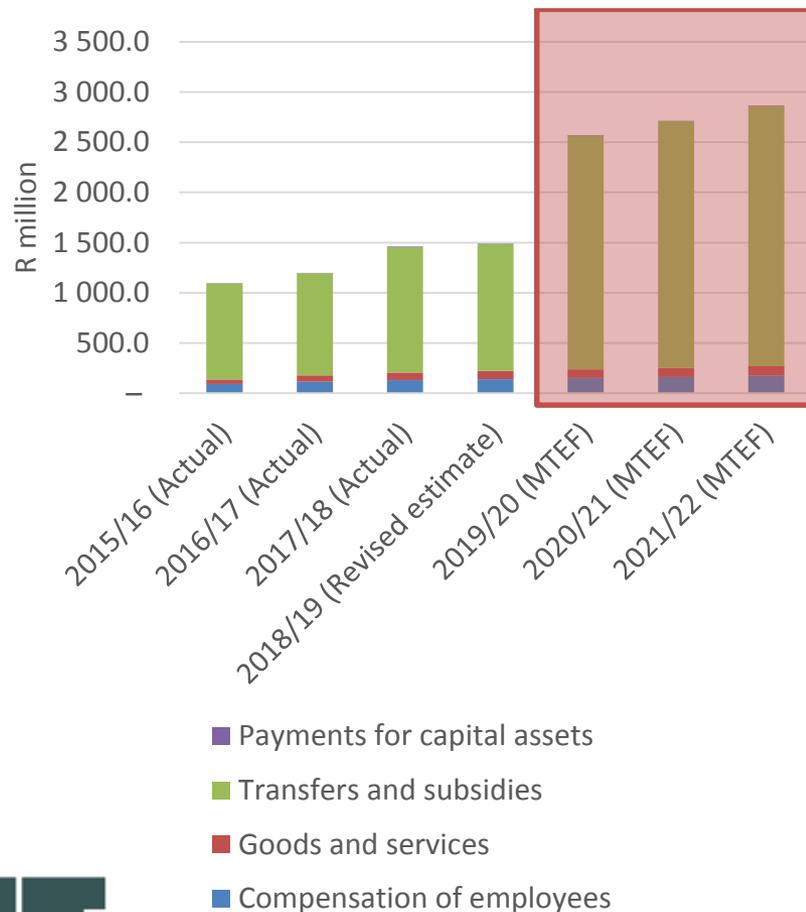
It is worth noting that **over 80 per cent** of the department's budget (in 2017/18) has been for **transfers and subsidies:** to Departmental agencies and accounts (56.4 per cent); and Public corporations and private enterprises (28.3 per cent); +- R850 million to SEDA (68.6 per cent).

This leaves less than 10 per cent of the budget for current payments and activities of the department.



Source: ENE, National Treasury (2019)

# DEPARTMENTAL BUDGET ANALYSIS: OVER/(UNDER) EXPENDITURE AS A PROPORTION OF THE BUDGET BY ECONOMIC CLASSIFICATION



Over the 2019 MTEF, the department shall receive approximately **R1 billion each year** for Small Enterprise Finance Agency: Small business and innovation fund. R2.28 billion budget per year.

Due to the increase in transfers and subsidies then, **90.6 per cent** of the department's budget (in 2019/20) is for **transfers and subsidies**: to Departmental agencies and accounts at **72.7 per cent**; and Public corporations and private enterprises at **17.9 per cent**. (+- R850 million for SEDA, +- R1 billion for SEFA.)

This leaves less than **6 per cent** of the budget for current payments and activities of the department: Compensation of employees and Goods and services.

Source: ENE, National Treasury (2019)

# PERSONNEL

	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Count</b>	<b>Actual number of posts</b>	<b>Revised number of posts</b>	<b>Medium-term estimate</b>		
1 – 6	51	46	46	45	44
7 – 10	72	68	72	73	72
11 – 12	50	52	54	54	54
13 – 16	40	45	43	43	43
<b>Total</b>	<b>213</b>	<b>211</b>	<b>215</b>	<b>215</b>	<b>213</b>
<b>R million</b>	<b>Actual cost</b>	<b>Revised cost</b>	<b>Medium-term estimate</b>		
1 – 6	11.2	11.1	12.0	12.8	13.5
7 – 10	22.4	31.6	36.0	39.2	41.4
11 – 12	46.0	44.4	49.1	52.6	56.3
13 – 16	49.5	53.6	54.8	58.7	62.7
<b>Total</b>	<b>129.0</b>	<b>140.6</b>	<b>151.8</b>	<b>163.3</b>	<b>173.9</b>

- The department's actual number of personnel posts in 2017/18 was 213 posts compared to the 226 posts funded. This is projected to remain **relatively constant** over the 2019 MTEF.
- However, **personnel budget cost** is projected to increase **by R45 million** from 2017/18 (R129 million) to 2021/22 (R174 million), growing at an annual average rate of **7.8 per cent (above inflation)**, despite the relative constant in number of posts in staff, suggesting a concentration of staffing cost rather than employment headcount.

Source: Budget Review, National Treasury (2019)

# DEPARTMENTAL PERFORMANCE

## Performance indicators:

- Value of **funding disbursed** to cooperatives through incentive scheme: +- R85 million per year.
- Number of **cooperatives supported** per year: +- 350 cooperatives but declining
- Number of **black-owned small, medium and micro enterprises assisted** per year: +- 700-800.
- Number of **informal business infrastructure funded** and financially assisted per year: 6-15 infrastructure and upward of 2 000 beneficiaries received financial assistance.
- **Incubators established:** function migrated to Small Enterprise Development Agency from 2019/20.

## Concerns:

- 1) **90 per cent of the budget dedicated to transfers** and exporting functions – transferring agent department?
- 2) **Poor viability and sustainability of the supported cooperatives (see slide 6).**
- 3) Need to focus on **impacts and efficiencies of economic growth and employment creation.**



## 4. ENTITIES

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## 1. Small Enterprise Development Agency (SEDA)

To implement government's small business strategy, design and implement a national delivery standard and network of support agencies for small enterprise development as per National Small Business Amendment Act (2004).

### Performance Indicators

- Number of new jobs created by supported clients: +-3 500 per year.
- Number of diagnostic assessments per year: +-11 000 assessments.
- Training of enterprises, interventions conducted, clients supported, informal businesses supported etc.

### Concerns

- Performance indicators open to **spurious interpretations** (e.g. how many of the new jobs are actually old jobs retained through support?)
- **Viability and sustainability** of the **supported cooperatives**, with questionable impacts
- Unqualified business planners, red tape, ineffective and inefficient incubators.

# 4. ENTITIES (CONT.)

## 2. Small Enterprise Finance Agency (SEFA)

To be the leading catalyst for the development of sustainable SMMEs and Co-operatives through the provision of funding.

### Performance Indicators

- SEFA disbursements: e.g. R1.3 billion achieved out of the R645 million target due to revolving loan facilities. Loan approvals under-performed (R446 million out of the R770 million target), meaning that most of the beneficiaries are on the **old books**.
- Finance amounts to SMMEs and cooperatives of previously disadvantaged groups (52%), women (138%), youth (101%), black-owned (192%), Township businesses (27%), Priority Provinces (153%).

### Concerns

- Revolving financing requirements by existing beneficiaries increased, meaning that businesses are struggling to maintain operations. Performance indicators open to **spurious interpretations**.
- Funding via **financial intermediaries**, creating an **elongated funding-to-business** channel to impact on small business development.

# 5. RECOMMENDATIONS: SMALL BUSINESS DEVELOPMENT

The enabling systems and services for small business enterprises needs to be strengthened.

- A business friendly system of **affordable, sustainable line of credit** also needs to be enabled since small businesses buy most inputs on credit.

Recommend that consideration be given to a three-tiered platform of support towards small business development:

- **Aggregator platform:** to provide integrated solutions to two or more key needs of the client i.e. inputs, knowledge, finance, upstream and downstream buyers. This platform will improve the smallholder farmer' access to and integration with the market.
- **Digital Platform:** to provide digital solutions for clients' informational needs. This platform will enhance supply chain visibility and efficiency for agribusinesses
- **Innovative Financial services:** Innovative payment, credit and insurance solutions (e.g. blended finance).

**N.B. Returns on intermediaries' loans and its policies to businesses need monitoring and evaluation for long-term sustainability of the end-beneficiaries (e.g. subsistence farmers)**

## 5. RECOMMENDATIONS: IMPROVING INTERGOVERNMENTAL OBJECTIVES

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There is a growing emphasis and recognition that sub-national authorities have to play a more significant role in **local, small business development and job creation**

- Focus should be on **promoting a fair and competitive environment** for small business development to thrive in the local markets of **public goods and services**. (e.g. cleaning and security)
- There is a need to have **synergy across three spheres of government** in promoting small business development. **A portion of the provincial and local funding** should be dedicated towards actual, productive, sustainable local business development.
- Enhance integrity in the procurement processes.
- **Consolidate** and **monitor** small business development initiatives and financing through **contract management, disclosure of interests, performance management** and **evaluations of employment and production outcomes**.

# 6. REFLECTIONS ON NATIONAL TREASURY ECONOMIC STRATEGY

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The FFC notes that...

- **Reducing anti-competitive practices and barriers to entry** can facilitate SMMEs' development and create a healthy environment of market competition, leading to **inclusive growth** and **economic transformation**.

The **FFC supports** that...

- SMMEs should be supported through **public procurement**, the establishment of a 'One-Stop Shop' with a commitment to **reduce excessive regulation and rigidities**.
- Reconsider the Red Tape Impact Assessment Bill, but with a broader view of its **underlying meaning and purpose**.
- It is worth considering full or partial **exemptions for SMMEs** from certain kinds of labour regulation (e.g. the extension of bargaining council agreements) and other barriers to competition.
- **Consolidating existing funds for SMME** with a clearly defined mandate and associated performance metrics.

## 6. REFLECTIONS ON NATIONAL TREASURY ECONOMIC STRATEGY (CONT.)

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Furthermore, the FFC recommends that the Committee on Small Business Development...

1. Together with the Portfolio Committees on Trade and Industry, Employment and Labour, Rural Development etc. jointly contemplate the economic strategy from a **value-chain-of-an-industry** perspective to ensure a driven, inclusive economic growth path.
2. **Consider the potential of the Fourth Industrial Revolution (e.g. technology and information sharing)** for small business development.
3. Together with the other Committees, **address and focus investments on public infrastructure**, install consequence management in the legislation to eliminate inefficiencies, project delays and inadequate maintenance.
4. **Ensure good financial governance.**



FINANCIAL  
AND FISCAL  
COMMISSION

THANK YOU