



# PORTFOLIO COMMITTEE ON SMALL BUSINESS DEVELOPMENT

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May 2<sup>nd</sup>, 2017

*For an Equitable Sharing of National Revenue*

# PRESENTATION OUTLINE

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1. Introduction to the Financial and Fiscal Commission
2. South Africa's economy: current issues
3. Departmental MTEF analysis
4. Emerging Issues and Related FFC's Submissions around Economic Development
5. Concluding Remarks

# ROLE AND FUNCTION OF THE FFC

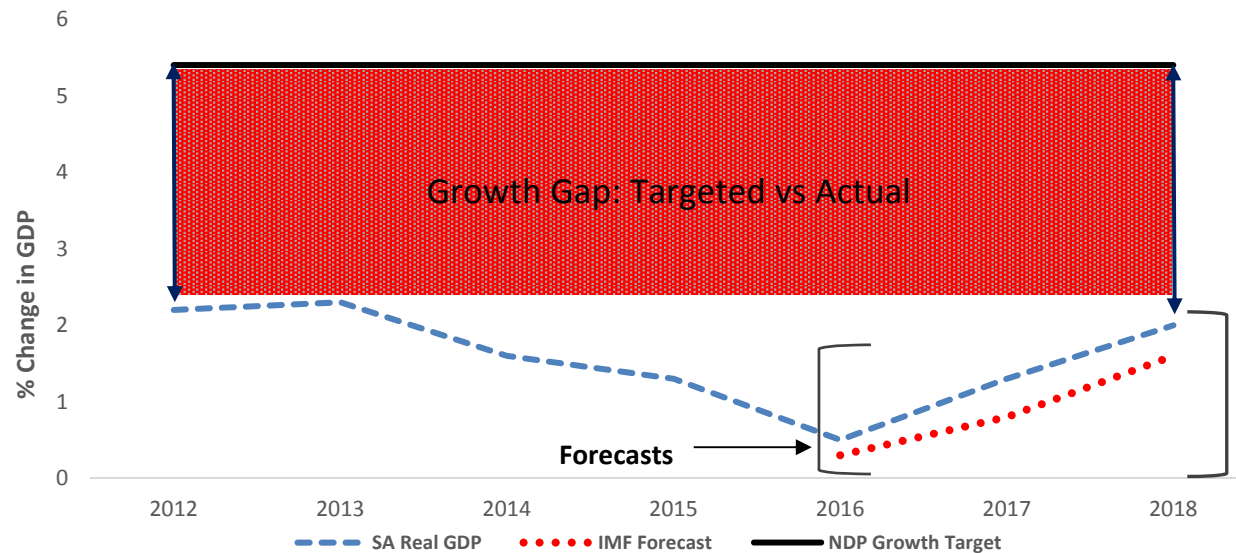
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- What?
  - Permanent statutory body established in terms of Section 220 of Constitution
  - Independent and subject only to Constitution and the law
  - Must function in terms of the FFC Act
- Mandate of Commission
  - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation
- Commission is concerned with Intergovernmental fiscal relations (IGFR)
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR



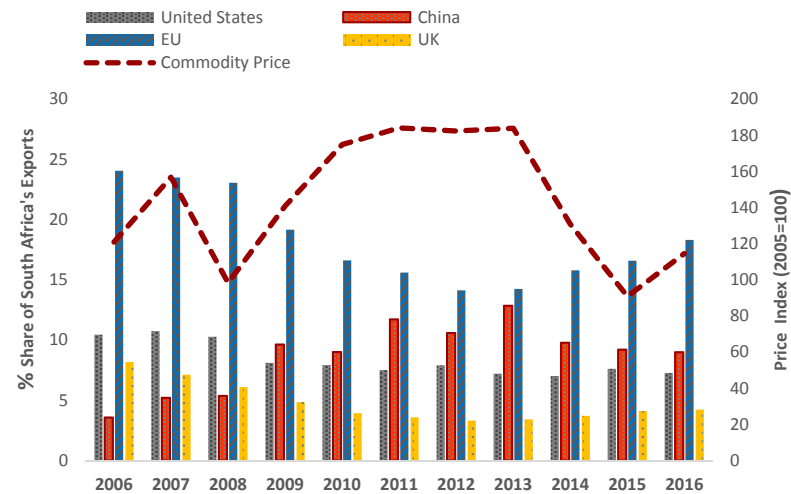
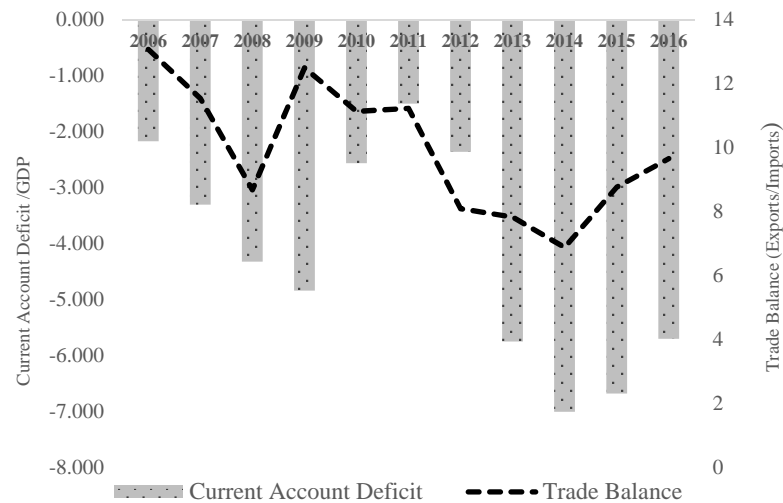
## 2. CURRENT ECONOMIC ISSUES

# 2017 ECONOMIC OUTLOOK: RESTORING GROWTH IN A SHIFTING LANDSCAPE



- Declining trend in economic growth (both globally and locally) appears to have run its course
  - Rather than downward revision, we have upward revision for 2017 and the medium-term
  - Implications for path of reduction in budget deficit
- Economic prospects boosted by changing global landscape
  - Strong recovery in the US; rebound in major economies of Western Europe spilling over to the EU; Chinese stimulus enhancing resource/commodity linked investments.
- Growth however remains below needed targets for addressing unemployment and inequality.

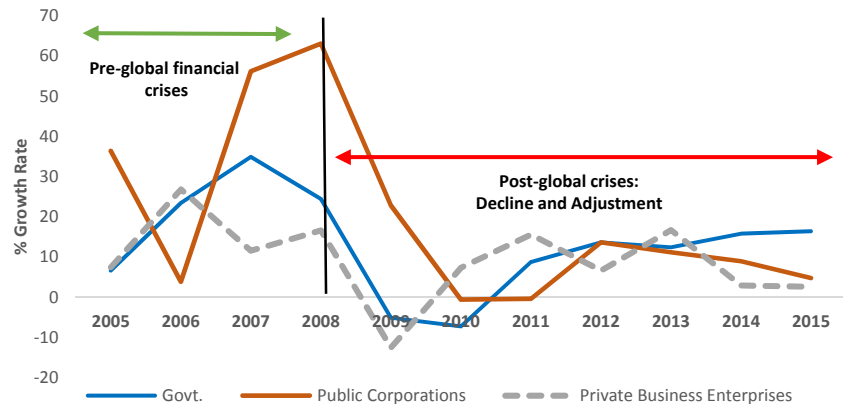
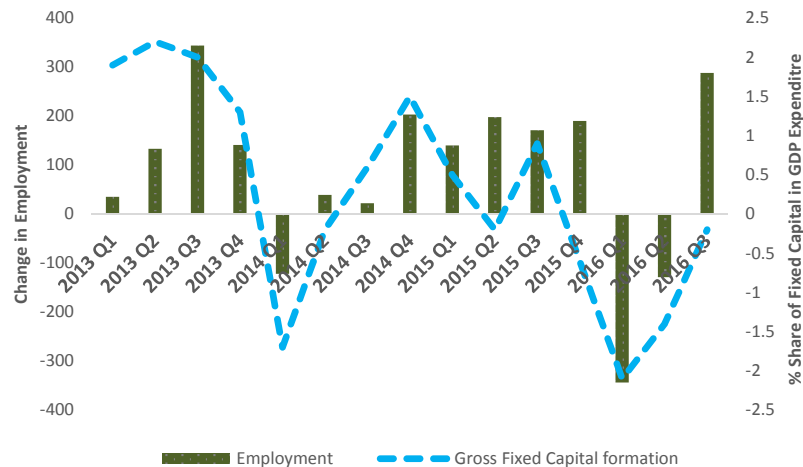
# TEMPERING OPTIMISM: VULNERABILITIES WITHIN EXTERNAL SPACE



- Trade balance showing signs of improvement in line with moderate commodity price increases prices
- Need to acknowledge **downside** risks
  - Policy direction of new US administration: increased protectionist pressures
  - Uncertainty around outcomes of negotiations over Brexit; sentiments against global integration and political dynamics in key EU states
  - Sustainability of Chinese stimulus given vulnerabilities of Chinese SoEs and nascent credit bubble.

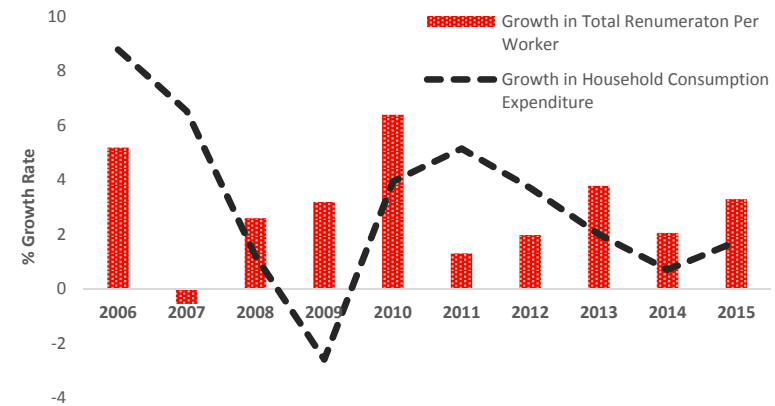
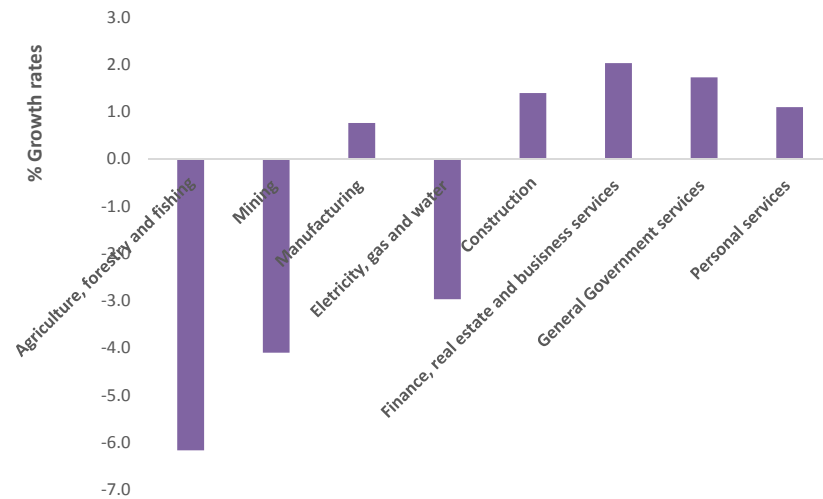
*Presentation to the Portfolio Committee on Small Business  
Development*

# SHIFTING DOMESTIC LANDSCAPE : SLOWING INVESTMENT, RISING UNEMPLOYMENT



- Worrisome trend of weakening investment growth working in tandem with low employment levels
  - Weakness pronounced within private sector (investment growth in 2015 = 2.6% compared to 26% in 2006)
  - Net effect of changes within labour market was an increase in number of unemployed by 587 000

# SLOWING SECTORAL GROWTH IMPACTING HOUSEHOLDS



- Employment dynamics driven by sectoral dynamics
  - Sharp contraction in agricultural sector; rebound expected on back of good rainfall but lag in recovery to 2012 levels. Drought also impacted water and electricity sectors
  - Mixed fortunes for mining and manufacturing sectors which account for one-fifth of GDP
- Sluggish growth and weak labour market has adversely affected wage growth and household consumption expenditure
  - Household consumption growth slowed to 2% in post-2008 period
  - Weakness exacerbated by low levels of investor confidence and pressures on disposable incomes from high levels of indebtedness.



# IMPLICATIONS/CHALLENGES OF ECONOMIC OUTLOOK FOR SMALL BUSINESS DEVELOPMENT

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- Impact of economic slowdown presents a number of challenges
  - **Decreased revenues** as consumers become concerned about job stability and become cautious with expenditures
  - Adverse impact on **long-term viability** as low profit stream creates difficulty to qualify for loans to finance crucial capital outlays and repay creditors
  - **Reductions in workforce** that can exacerbate already high levels of unemployment.
- Such outcomes are especially concerning for policymakers given
  - NDP target that 90% of employment opportunities be created by SMMEs by 2030 and SMME's pivotal role in future growth prospects
  - Current dynamics where SMMEs account for **60%** of employment and already high first-year failure rate (**70%**) among new SMME start-ups.



### 3. DEPARTMENTAL MTEF ANALYSIS

# THE NDP ON THE ROLE OF SMALL BUSINESS DEVELOPMENT

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- The National Development Plan (NDP) identifies the important role that small, medium and micro enterprises (SMMEs) and cooperatives play in inclusive economic growth and employment.
- The NDP further articulates the benefits of increased coordination and support, incubation, and reduced costs of regulatory compliance for small enterprises to achieving a transformed and inclusive economy.

# BACKGROUND TO DSBD EXPENDITURE PROGRAMMES

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- **Three main programmes:**
  - Administration
  - Small Medium and Micro Enterprises and Cooperatives Policy and Research
  - Small Medium and Micro Enterprises and Cooperatives Programme Design and Support
- **Core function:**
  - Promote the development of small businesses and cooperatives that contribute to inclusive economic growth and job creation

# KEY 2016 MTEF SPENDING POLICY PRIORITIES

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- Over the medium term, the department will focus on:
  - Increasing the number of small enterprises that the department supports. An estimated 2033 black SMMEs will be supported by the programme while 600 small enterprises will be supported by the Small Enterprise Development Agency.
  - Reviewing the strategy for SMME development and entrepreneurship developing and supporting cooperatives
  - Developing the markets for small enterprises
  - Supporting incubators for small enterprises
  - Strengthening departmental operational capacity.

# STRATEGIC PLAN FOR 2016/17- 2020-21

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The DSBD strategic plan for the next five years focuses on:

- ❑ Facilitating the development and growth of small businesses and co-operatives
- ❑ Facilitating radical economic transformation through increased participation of small businesses and co-operatives in the mainstream economy
- ❑ Advocating for a conducive regulatory environment for small businesses and co-operatives
- ❑ Facilitating partnerships with all spheres of government as well as the private sector to ensure mutual cooperation that will benefit small businesses and co-operatives

# ENCOURAGING THE GROWTH OF SMALL BUSINESS

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- ❑ The National Treasury and the DSBS are working with the private sector to explore establishing a small business innovation fund.
- ❑ DSBS is working with municipalities to cut red tape and improve infrastructure for township and rural enterprises. DSBS will also help small firms set up cooperatives, and gain access to local and international markets.
- ❑ SARS is working to reduce red tape. It has rolled out small business desks, designed a mobile tool to help small firms register at their own premises, and implemented a single registration process, avoiding the need to reregister for different taxes.

# RECENT DEVELOPMENTS IN DSBS EXPENDITURE

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Over the medium term, the department plans to:

- ❑ Evaluate the strategy for the development of small enterprises and entrepreneurship - **R91.6 million (2 percent)** of medium term budget
- ❑ Increase its support for small enterprises - **R2.3 billion (50.3 percent)** of the medium term budget
- ❑ Develop and provide incentives to cooperatives - **R25.6 million** of medium term budget
- ❑ Support incubators for small enterprises - **R193.5 million of** medium term budget.

Total department allocation will increase at an annual rate of 7.1 percent, from R1.2 billion in 2016/17 to R1.6 billion by 2019/20.

- Increase above inflation and higher than most other departments,
- Budget allocations now aligned to strategic objectives



# PROGRAMME SPENDING AND MTEF BUDGET (1)

R million	Medium Term Expenditure Estimate				Average Growth Rate %	Average Growth Rate %
	2016/2017	2017/2018	2018/2019	2019/2020	2013/14-2016/17	2016/17-2019/20
Administration	108.6	127.6	128.8	137.2	100.6%	8.1%
Small Medium and Micro Enterprises and Cooperatives Policy and Research	21.7	22	24.3	25.7	17%	5.8%
Small Medium and Micro Enterprises and Cooperatives Programme Design and Support	1077.2	1300.2	1376.8	1455.3	2.1%	10.6%
<b>Total</b>	<b>1207.4</b>	<b>1449.8</b>	<b>1529.9</b>	<b>1618.3</b>	<b>5.1%</b>	<b>10.3%</b>
Change to 2016 Budget estimate		9.7	10.1	10.8		

- The department's spending increased from R1.207 billion in 2016/17 to R1.450 billion in 2017/18 and is projected to increase to R1.618 billion in 2019/20.
- The administration programme recorded the highest average growth rate (100.6%) between 2013/14-2016/17. Its growth decreased substantially to (8.1%) between 2016/17-2019/20. The small medium and micro enterprises and cooperatives policy and research programme records the highest average growth rate (17%) between 2013/14-2016/17. Its growth also decreased significantly to (5.8%) in between 2016/17-2019/20.

# SPENDING BY ECONOMIC CLASSIFICATION

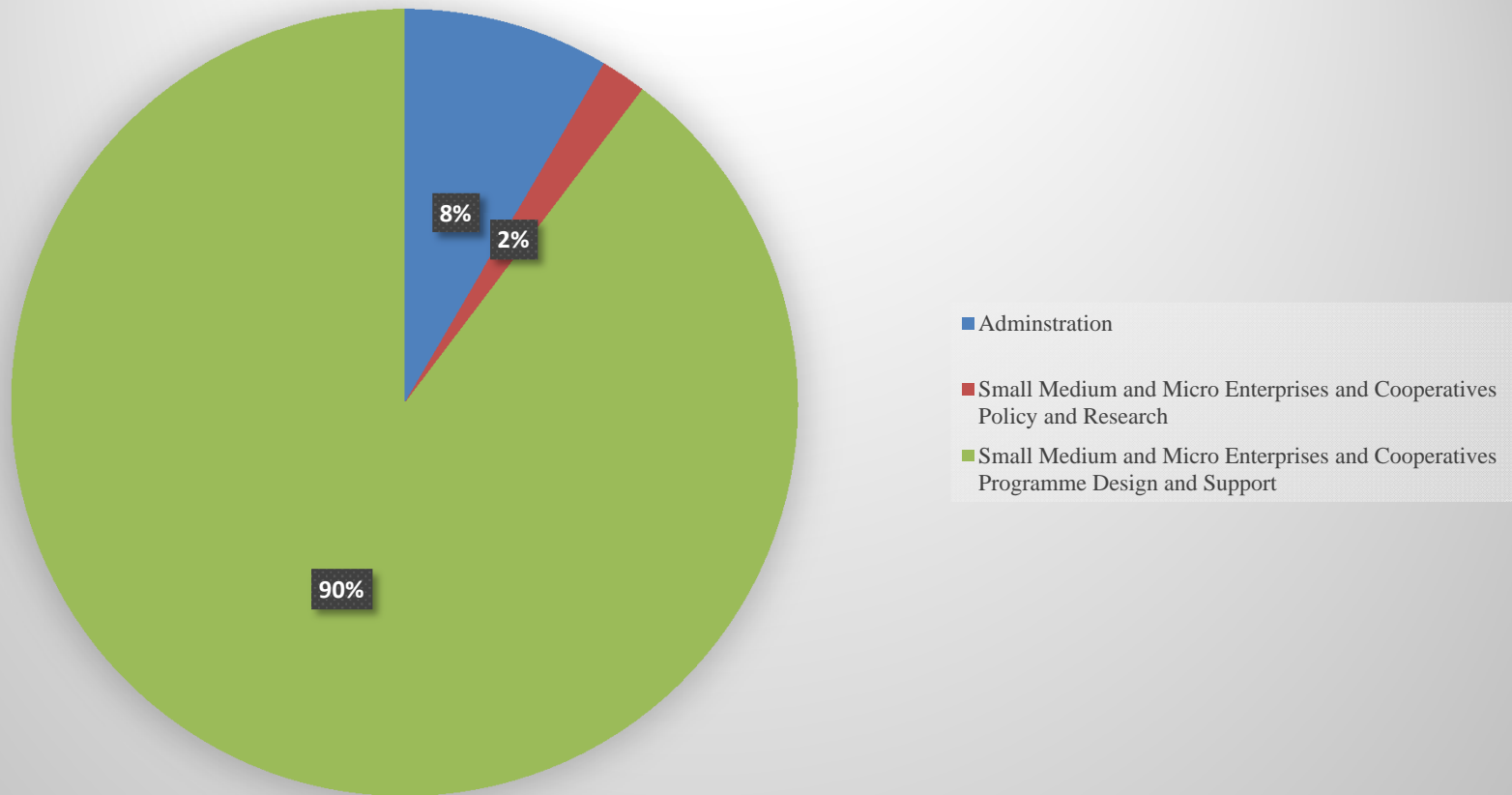
R million	Medium Term Expenditure Estimate				Average Growth Rate %	Average Growth Rate %
	2016/17	2017/2018	2018/2019	2019/2020	2013/14-2016-17	2016/17-2019/20
Compensation of Employees	114.7	137.5	141.4	152.3	27.5%	9.9%
Goods and Services	78.8	79.5	85.4	89.9	35.4%	4.5%
Transfers and subsidies	1009.8	1230.3	1300.5	1373.3	2%	10.8%
Payments for capital assets	4.2	2.6	2.6	2.7	59.4%	-13.3%
<b>Total</b>	1207.4	1449.8	1529.9	1618.3	5.1%	10.3%

The Compensation of employees is the main cost driver over the medium term, accounting for 63 per cent of the total expenditure, excluding transfers to the entities over which the department has oversight.

The Small Medium and Micro Enterprises and Cooperatives Programme Design and Support programme consumes on average, 88 per cent of total allocated funds.

# SPENDING BY PROGRAMME

Share per programme, 2016/17-2018/19

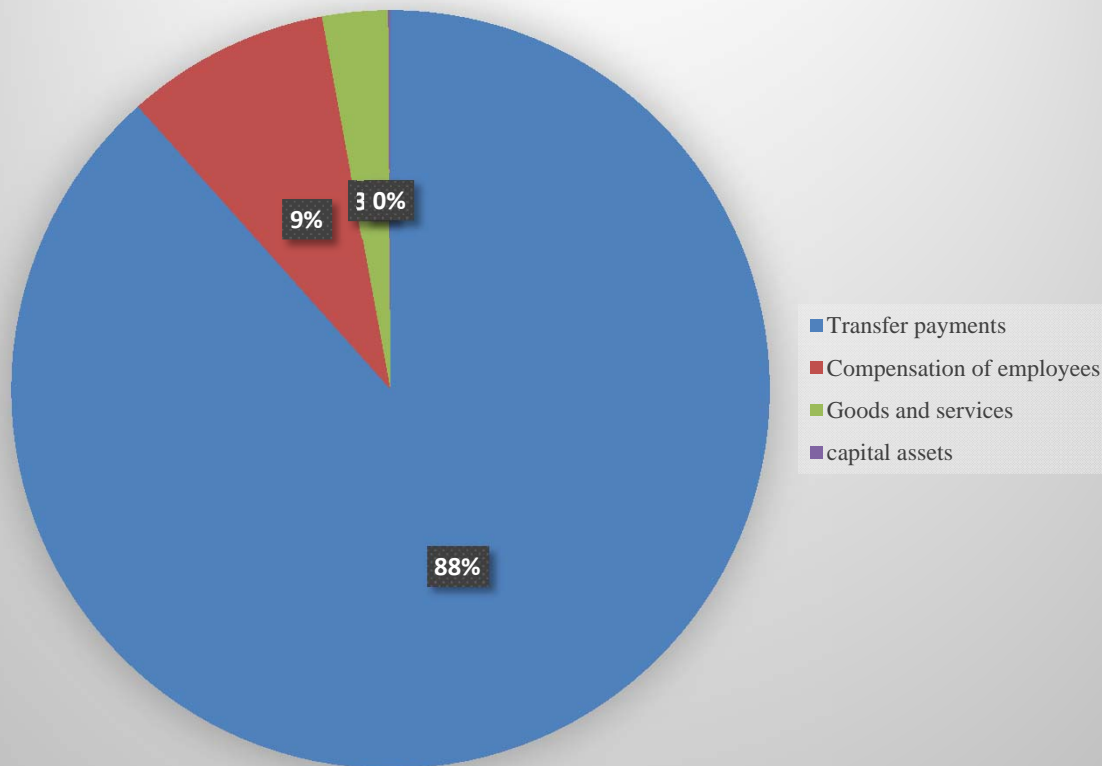


# DSBD PERFORMANCE INDICATORS

Programme	Number of Performance Indicators	Achieved	Not Achieved
Administration	14	11 (78.8%)	3 (21.4%)
Policy and Research	10	10 (100%)	-
Programme Design and Support	14	12 (85.7%)	2 (14.3%)
Total	38	26 (87.8%)	5 (12.2%)

# DSBD FINANCIAL PERFORMANCE

**Financial Performance by economic classification, 2015/16**



The department spent R304.3 million vs projection of R379.7 million translating into R75.4 million (19.86%) under expenditure.

The under expenditure was due to:

- non-processing of transfers
- late interface of office accommodation

# DSBD STRATEGIC AND OPERATIONAL RISKS

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## Staff Capacity Constraints:

- ❑ The department is severely under-staffed, and operating under severe human resource constraints.
- ❑ There is a need to improve on reporting and monitoring of performance. There is a lack of reporting on performance against targets as well as performance evidence.
- ❑ The Auditor General report 2015/16 noted that non compliance with legislation required attention was a direct result of the department being not adequately resourced to perform appropriate reviews. Irregular expenditure of R1,8 million was incurred due to non-compliance with SCM prescripts relating to procurement made without following competitive bidding processes. This was due to key vacancies at the SCM unit.

# SEDA PROGRAMME SPENDING AND MTEF BUDGET

R million	Medium Term Expenditure Estimate				Average Growth Rate %	Average Growth Rate %
	2016/2017	2017/2018	2018/2019	2019/2020	2013/14-2016/17	2016/17-2019/20
Enhance competitiveness and capabilities of small enterprises	162 754	198 940	211 283	199 472	0.3%	7.0%
Ensure equitable access to business support services	157 284	174 625	184007	178 588	2.3%	4.3%
Strengthen the organisation to deliver its mandate	246 491	225 625	220 562	283 999	11.6%	4.8%
Assist SMME's with technology	203 121	158 336	167 519	176 900	14.4%	-4.5%
<b>Total</b>	<b>769 650</b>	<b>757 526</b>	<b>783 371</b>	<b>838 959</b>	<b>7.4%</b>	<b>2.9%</b>

SEDA's spending decreased from R767 million in 2016/17 to R758 million in 2016/17 and is projected to increase to R839 million in 2019/20.

Compensation of employees remains a significant driver of expenditure, representing 40.2 per cent of total expenditure.

# SEDA PERFORMANCE INDICATORS

Programme 1	Number of Performance Indicators	Achieved	Not Achieved
Enterprise Development	13	10 (75%)	3 (25%)
SEDA Technology	5	3 (60%)	2 (40%)
Corporate Services	1	1 (100%)	0
Finance	1	1 (100%)	0
Total	20	15 (75%)	5 (25%)

SEDA underperformed on the following indicators:

## **Enterprise Development**

- Number of clients supported through the supplier development programme
- Number of clients supported through the Gazelles programme
- Number of clients trained on national and international standards

## **Seda Technology Programme**

- Number of clients incubated
- Number of incubators supported



# CONCLUSION

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- Current (internal and external) economic dynamics will deepen the Department's role and mandate in promoting the development of SMMEs that contribute to inclusive growth
  - Regulatory environment to enhance entrepreneurial response to exchange rate levels with opportunities for expanding exports and substituting imports.
  - Active monitoring of programs intended to enhance innovation by small businesses as well as incubate entrepreneurship. Weak capacity around monitoring constrains policymakers in learning key lessons that could be applied to the implementation and design of frameworks to mitigate against high failure rate of SMMEs.
- Imperative to increase the coordinating role of Department
  - Range of intergovernmental programs aimed at promoting small business development
  - Energy, Mineral Resources and Communications all have specific programs aimed at ensuring value chain and procurement processes incorporate the development of small businesses.



THANK YOU.

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