



KEYNOTE ADDRESS BY THE MINISTER FOR SMALL BUSINESS DEVELOPMENT, MS STELLA NDABENI-ABRAHAMS (MP), ON THE OCCASION OF THE SMALL ENTERPRISE AND CO-OPERATIVES POLICY DIALOGUE | 04 AUGUST 2022 (MBOMBELA, KHAYALAMI)

Deputy Minister Dlamini
 Mr Mdluli representative of the MP provincial government
 Chairpersons and board members of our agencies
 Directors-General, Heads of Departments and officials of the various Departments,
 Representatives of the organised business formations, Cooperatives movement, and other partner institutions
 Our special guests: Entrepreneurs, SMMEs and members of Cooperatives
 Programme Director and Compatriots

Good Morning

What an honour for me to deliver this address in this Small Enterprise and Co-operatives Policy Dialogue, which presents an integral part of policy engagement, negotiation, and development by all role players in the small enterprise eco-system; a principle espoused in our Constitution. Key anchoring policies that guide our department and the ecosystem at large in supporting small businesses and co-operatives are the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, 1995 and the Co-operative Development Policy for South Africa, 2004.

Both the White Paper, 1995 and the Co-operative Policy, 2004 acknowledged that small enterprises are an integrated and interdependent equal partner in the broader vision of the collective South African economy and are a vector for job creation, income generation, resource mobilization, and broad-based economic empowerment and thereby have the potential to sustain human development in South Africa.

This dialogue comes at a critical time as we look at how to diversify our economy out of capital-intensive commodities growth and place our economy on a higher and more inclusive growth path.

National output growth has averaged around 2% for the past decade, which has led to increasing unemployment, declining per capita incomes, and declining state revenue. COVID-19 has exacerbated the country's economic and employment woes, with a quarter of micro enterprises closing and close on 2 million jobs lost because of the pandemic. BBBEE hasn't sufficiently changed the racial ownership patterns to the extent we thought it would.

We now have heightened levels of global volatility associated with the Ukraine conflict. This has further disrupted commodity supply chains and resulted in sharply rising oil prices, triggering a world-wide inflation upcycle. This will result in declining foreign direct investment flows as major developed economies implement tighter monetary policy. Diminished livelihoods and increased food insecurity are expected over the short to medium term. There will be more pressure on the state safety net.

Government is attending to this crisis through the Economic Reconstruction and Recovery Plan and industry masterplans which are aimed at kickstarting growth and building back a more transformed and inclusive economy. Priority structural reforms are being undertaken through Operation Vulindlela to address growth constraints, especially related to energy insecurity and inefficiencies in the network industries. The effective execution of these reforms will add approximately 1.5% to the GDP.

We believe we could add another 1.5% to national output by putting the right small enterprise development eco-system in place. SMME and cooperatives growth will also give us the jobs we need, reduce inequality by increasing black and women asset ownership, as well as reverse spatial inequality between townships and urban centres, and between marginal rural economies and urban nodes. The current patterns of spatial concentration of investment and economic activity is leaving an increasing number of municipalities with declining and non-viable revenue bases. This is an unsustainable trajectory, which also brings risk of political instability. If we put the right frameworks and partnerships in place for SMME growth, we tackle several burning issues at the same time.

So, what do we need to do?

First, we must cut red-tape. Red-tape reduction and regulatory amendments generally cost nothing or very little and have significant impact. We need to look at licensing costs and the ease of small business registration and reporting requirements. We need to make the skills development system work for SMMEs. Currently only 37% of skills levy paying small enterprises take up SETA offerings. We need to reform the Compensation Fund and simplify the tax regime which is hugely costly for small firms. We need to look at amending the Co-operatives Development

Act to see whether we should scrap the requirement that all co-ops are required to submit audited financial statements – this could apply up to a certain threshold.

We need to improve the ease of doing business in our municipalities. As DSBD we have developed a dashboard and are supporting 20 municipalities this year with red-tape issues. We are busy with a regulatory review of red-tape impediments and will work with the Red-Tape Cutter in the Presidency to fast-track the reduction of red-tape across government. Second, we must address market concentration and make markets more competitive and accessible for SMMEs and co-operatives. The 2018 amendment to the Competition Act has given the Competition Commission more teeth to address anti-competitive behaviour but needs to be complemented with far more deliberate and bold measures to unbundle supply chains and give under-served SMMEs and co-operatives greater market access. This includes the refocusing of public sector and private sector procurement to include SMME and co-operative set asides, the development and use of aggregators to source markets, and the rethinking of Enterprise Supplier Development policy and models.

Third, we must address the SMME credit gap, estimated at between R350 billion and R500 billion. Here we need to radically increase the credit lines to SMMEs and co-operatives through blended finance instruments, through substantially increased direct lending by DFIs, and through de-risking strategies in partnership with banks and non-bank financial intermediaries – credit guarantees and the like. We are also looking at strengthening SMME bankability through recognizing moveable collateral and through more innovative credit information systems, which should include tapping into local knowledge systems like stokvels.

Fourth, we have to up-scale and focus our business development services across the entire eco-system. Key here will be to refuel our best performing incubators and accelerators so that they can increase their uptake and reach, especially into townships and rural areas. Our point of departure in doing these things is to accept that the current support architecture that is in place for SMME and co-operative development in South Africa is underwhelming. We have recently conducted roadshows across the provinces, and it wasn't always pretty. We heard from SMMEs, co-ops and entrepreneurs that we need to be doing much more; we need to be far more accessible; and we need to be far more accountable.

We need a fundamental shake up in the small enterprise support eco-system, and I would add in the department and the entities. The department has recently completed the National Small Enterprise Development Masterplan, which has been gazetted for public consultation and which will be presented and discussed here today. The plan represents a paradigm shift away from the focus on a few directly funded and delivered departmental programmes towards the mobilization of all capacity and resources in the SMME development eco-system. The NISED Masterplan is based on four key pillars with measurable outcomes and outputs to achieve recognisable impact.

Pillar/Outcome 1 focuses on the knowledge system we need to build and outlines the work to facilitate well-informed SMMEs with continuous monitoring, evaluation and learning. Pillar/Outcome 2 outlines the focus on facilitating policy, laws and regulatory reform to enable SMME growth and efficient governance. Pillar/Outcome 3 details the steps to be taken to ensure that effective support and services are delivered for SMME growth, both financial and non-financial, and Pillar/Outcome 4 focuses on how we can achieve a better coordinated government with strengthened private sector and NPO partnerships for SMME growth.

This is very much aligned to the thinking in the Social Compact, which looks at how we can build collaborative partnerships across the state with business, labour and civil society. The DSBD's role is to facilitate, coordinate and strengthen these partnerships, and new capabilities will have to be urgently developed to

enable this. We are also leveraging technical expertise from our development partners to close gaps and build capacity. IT platforms will enable eco-system role-players and stakeholders to interface and allow entrepreneurs to connect to and access the full ambit of support offerings across the public, private and non-profit sectors. Our plan is to integrate the district information systems being developed, which in turn will allow key SMME and co-operatives support initiatives to form part of local LED strategies. This will also enable the local sphere of government to leverage resources from provinces and national government through the District Development Model. In this sense, the model we are proposing is aggregation underpinned by decentralization.

To enable these partnerships, we are developing "Game Changer Programmes". The game-changers must respond to the differentiated needs of all SMMEs and co-operatives, including township and rural enterprises, suppliers in key value chains, innovative start-ups, and those with the highest propensity to create jobs. Under-served communities, and especially black-owned, women-owned and youth-owned enterprises will receive particular focus. Game-changers that are being proposed include those for digital start-ups, for a refuelled incubator programmes, for upscaled enterprise supplier development partnerships, for the township and rural economy, and for a small enterprise financial package, among others. We are hopeful that this policy dialogue will deliberate on the masterplan and on these game-changers – how they can be developed, resourced, and implemented, which partners will participate, and how they can hold each other to account. We must learn from the previous small enterprise strategy – the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise in 2005 (ISPESE, 2005). According to the ISPESE Evaluation report which was compiled by the DPME and DSBD in 2018, "ISPESE, 2005, was noted to be an appropriate response to the underlying problems confronted by SMMEs; but there were fundamental shortcomings that needed to be addressed in order to achieve its objectives.

"Some of the shortfalls included a lack of clear implementation guidelines, no formal coordination structures being established, and there were no rigorous monitoring and evaluation mechanisms setup to measure the impact of implementation of programme support". Furthermore, interventions were not applied consistently across the three spheres of government (the issue we seek to address also through this dialogue and the development of the game-changer programmes).

We have prepared the NISED Masterplan with due consideration to the evaluation and improvement plan as approved by Cabinet. We will also make sure we are able to secure the best minds and most experienced eco-system practitioners in the country to help us track and continually improve the NISED. I will be establishing the National Small Business Advisory Council for this purpose.

We thank and appreciate all those we have engaged with, including government departments and their agencies across the national, provincial and local spheres, the academic fraternity, small business and co-operative associations as well as chambers of commerce and industry representing corporates and a number of corporates themselves. We have recorded all entries and will consider necessary adjustments of the final NISED document.

I am confident that we can build on this co-operative spirit to begin really changing the fortunes of SMMEs and co-ops in the country, and in so doing move us towards a more prosperous economy for all.

I thank you for your contribution and participation going forward on this exciting journey we are embarking upon. I wish you all the best in your deliberations and engagements at this conference.

I thank you.