KEYNOTE ADDRESS TO THE PROGRESSIVE BUSINESS FORUM BUSINESS BREAKEFAST

NASREC 19 DECEMBER 2022

Programme Director Sipho Mbele. Cde Treasurer General Paul Mashatile, leadership of the PBF, comrades,

Thank you for inviting me to speak to you this morning.

The portfolio I manage deals with small, medium and micro enterprises, as well as co-operatives. Our future prosperity as a country depends upon whether we can grow the SMME and co-operatives sector. I think this is underplayed in our policy stance as the ANC and consequently in government's policy stance and budget allocation. We are looking to this 55th National Conference to correct this.

COVID-19 hit us hard, and current volatility in the global economy has held back recovery. Our current growth model is faltering. We are growing too slowly, unemployment is stubbornly high, and there is a growing recognition that large corporates will not provide the jobs we need as a country. South Africa remains one of the most unequal countries globally, and excessive market concentration and other barriers to entry such as red-tape and financial exclusion limits levels of economic participation, especially in townships and marginalized rural areas. We will not achieve more inclusive and higher levels of growth unless we focus more on underserved communities and find ways to bring them into mainstream markets and support systems.

The IMF in their latest global economic outlook report put out in October suggest that one third of countries across the world may experience recession in the next two years. Our own growth projections as outlined by the the Minister of Finance in his Medium-Term Budget Policy Statement sees growth downwardly revised to 1.9% for this year, declining to 1.4% for 2023, and slowly climbing up to 1.8% by 2025. This will continue to constrain the fiscus and force us to make tough choices between expanded social protection and productive infrastructure investment. We need growth upward of 4% in the short to medium term, climbing above 5% towards 2030.

The ANC's 6th Policy Conference in July 2022 recognized that small and medium sized enterprises play a leading role in driving economic activity in many fast- growing economies.

This is aligned to the National Development Plan's assertion that between 60% and 80% of future economic value will be created through SMMEs. We believe that a comprehensive support package for SMMEs and co-operatives will add 1.5% to national output. If one adds the 1.5% growth that we will get through the structural reforms to our network industries and energy supply through operation Vulindlela, the 5% growth we need becomes achievable.

The micro, small and medium enterprise sector is also our jobs driver. It is now widely recognized that large companies, while strategic in forming the industrial backbone of the economy, will not give us the jobs we need as a country. Again, the NDP is clear that almost 90% of the 11 million jobs we need to create by 2030 (now 13 million after COVID) will have to come from SMMEs. To achieve this, we have to more or less double the number of SMMEs we have in the country – in other words establish an additional 4 million SMMEs by 2030.

It goes without saying that the majority of these SMMEs will be black-owned, and a large number women-owned and youth-owned. SMME development will also improve spatial equity, between townships and urban centers and between our three large metro areas and our smaller metros, secondary towns, and rural areas. Growing our SMMEs sector will give us racial, gender, and spatial transformation.

But to achieve these outcomes, we need to rethink our SMME and co-operatives eco-system and how it functions. The eco-system is currently underwhelming, disjointed, and is not sufficiently structured around current and future growth drivers. These growth drivers will change for different parts of the country, and it is important the DDM one-plans for the 52 districts and metros across the country are anchored around growth drivers where local economies have comparative advantage. Our job as the state, marshalling all our resources and working with industry and strategic partners like the PBF, is to transform these comparative advantages into competitive advantages in which SMMEs and co-operatives can flourish. We must leave no corner of the country behind.

I would argue that in order to unlock the growth and transformation potential of SMMEs and co-operatives in the country, we need to act with more deliberation and urgency in five areas. These are all closely aligned with the policy decisions of our 6th Policy Conference in July. What I have done is added the flesh, in other words the detailed measures and decisions we need to take to unleash the power of SMMEs and co-ops to fundamentally change our growth and development trajectory as a country.

First, we need to improve the regulatory environment for SMMEs and cut red-tape. A few priority areas we are looking at include:

- The scrapping or at least capping of informal micro enterprise license charges at municipal level;
- Amending the Co-operatives Development Act to scrap the requirement that co-ops are required to submit audited financial statements (or at a minimum this could apply up to a certain threshold such as R10m).
- The integration of SARS and CIPC reporting requirements (Annual Returns) as part of the single point of access for SMMEs. This is a first step and quick win towards a one-stop shop integrating DoL, SARS and CIPC.
- Reforming the skills system through new flexible, shorter term training module offerings for small business. This will address the current challenge that only 37% of skills levy paying small enterprises take up SETA offerings.
- Reforming the Compensation Fund through SMME levy cuts which will improve SMME coverage and ensure benefits flow to small business.
- Simplifying the tax regime which is currently very costly for smaller firms including increasing the VAT threshold say to R5m. We should also look seriously at tax incentives for SMMEs.
- Amending the Insolvency Act to provide second chance opportunities for most small enterprises not covered by the Companies Act, and
- Amending legislation to allow the use of movable property as collateral for both business and consumer credit (which will significantly improve access to finance among the poor).

The second strategic area where changes are needed to unlock SMME and co-operatives growth is market access. The 6th Policy Conference of the ANC acknowledged that our greatest challenge over the years of our democracy has been to give effect to the demand of the Freedom Charter that ‘The People Shall Share in the Country’s Wealth’. Here we need to use policy frameworks, such as competition policy, procurement policies and other instruments to challenge highly concentrated ownership patterns, drive localization, and open new economic opportunities for black South Africans in particular.

We have not done well enough. The 2020 BBBEE Commission Report of 150 JSE entities, 43 organs of state and just under 6000 private entities found that black ownership of the economy had increased from 25% in 2018 to 29% in 2019. The worst performing sectors are agri-business, finance and forestry with construction, property and ICT showing better but still sub-optimal BBBEE performance. Only 3.3% of entities listed on the JSE are wholly black owned (up from 1% in 2017). About half the JSE listed entities are between level 5 and non-compliant.

Enterprise Supplier Development remains a key instrument to increase levels of black ownership in the economy but is performing below target. The 2022 SANLAM Gauge Report of over 10 000 companies provides important insights into the functioning of ESD. The report shows that companies have performed well below target on black management control (55.9% of target) and ESD (64.5% of target).

We need to understand why ESD is not working as it should. First, corporates find it easier to score BBBEE points through funding community socio-economic development, rather than ESD. Performance here stood at 160%, way above target. As important as community development is, it should not be at the expense of ESD.

Second, ESD has become a tick-box exercise. The whole approach is scoreboard driven, with very little measurement of impact. No-one is measuring the proportion of the value that goes to black suppliers, and whether ESD is creating sustainable black businesses. This is a gap which must be urgently addressed.

To address this, we are changing ESD policy to ensure that 30% of the ESD funds are spent in townships and rural areas (15% of the ESD budget in each under-served area). In the new proposition, we are capping at 33% the proportion of the ESD budget that goes to training and capacity building, with 67% of the budget allocated to infrastructure, equipment, working capital and access to technology. ESD has been too dominated by training, again benefitting the corporates and a thin layer of training providers at the expense of the SMMEs themselves.

As DSBD and government more generally, we are actively partnering with corporates and state-owned companies to achieve black supplier development. In terms of this partnership, the corporates and SOCs are expected to unbundle supply chains to open black supplier opportunities, while we offer suppliers a comprehensive package of financial and business development support through sefa and Seda respectively. We have a number of corporates and SOCs on board under our ESD Partnership Platform. We are also partnering with the JSE to develop a pipeline of black-owned SMMEs for future listing.

The third strategic priority area of support to SMMEs and co-operatives is access to finance. The SMME credit gap in SA is estimated at more than R350 billion, with some estimates putting it closer to R500 billion. Most township enterprises do not use a bank account, and most of our small enterprises, especially start-ups, are deemed un-bankable by banks and financial institutions who require collateral and track record.

Our technology start-ups are also disadvantaged by lack of access to venture capital. A recent report by the International Finance Corporation found that Africa, the Middle-East, Central Asia and Pakistan collectively receive less than 2% of the USD 643 billion of global venture capital funding. This means that many of our best start-ups in Africa and in South Africa move to tech hubs abroad to access funding.

As the portfolio we have a number of financial instruments including the Small Enterprise Manufacturing Support Programme aimed at diversifying and strengthening the country's industrial base through a focused import replacement programme. The financial support provided through this programme is up to R15 million per entity, targeting 40% women-owned SMMEs.

We also have the Township and Rural Entrepreneurship Programme (TREP) that links market opportunities in townships and rural areas to local productive business ventures. Here we provide blended finance and loans to the tune of just under R3billion over the 3 year MTEF. We also have financial instruments targeting youth - R630 million for 2022/23, as well as cop-operatives (R76m for 2022/23).

As DSBD we are working with numerous partners, including National Treasury, on strategies to de-risk lending to SMMEs including credit guarantees, developing a moveable collateral asset registry, and improved Credit Information Systems, including tapping into local knowledge systems like stokvels. At the same time, we need to radically increase the scale of financial services and products to SMMEs and co-operatives, including loans, blended finance, and micro-finance delivered through intermediaries and Fintechs. Without this radically scaled up financing package, our plans to double the number of small and medium enterprises will be still born.

The fourth strategic area of SMME and co-operative support we need to galvanize around is entrepreneurship development and Business Development Services. The most recent Global Entrepreneurship Monitor (GEM) Report 2021/2022 released by the Stellenbosch Business School shows that there has been a significant increase in the Total Early-Stage Entrepreneurial Activity amongst South Africans aged between 18 and 64. The report shows an increase from 10.8% in 2019 to 17.5% in 2021. This is encouraging.

But South Africa still performs relatively poorly in start-up skills and is less effective in equipping young people to be entrepreneurs as compared for example to India, Brazil, Indonesia and Malaysia. We were recently ranked 57th out of 140 countries in terms of start-up skills, networking, technology absorption, human capital, and access to risk capital.

To address this, we are as DSBD driving a refuelled incubator programme, and have over the recent past developed more than 115 incubators, over and above the 100 or so private sector incubators and accelerators that have been established. We are focusing on how these can be made more accessible to enterprises in townships and far- flung rural areas, and also how to better integrate our national system of innovation (driven through the DSI) with entrepreneurship development and support.

The final strategic area I would like to talk to is what I would call eco-system co-ordination and capacity. Our efforts to double the number of SMMEs and co-operatives will only bear fruit if we work as a co-ordinated eco-system. To this end, we have recently completed our National Integrated Small Enterprise Development Plan and held our National SMME and Co-operatives Summit. We are now putting into effect practical partnerships to radically scale-up localization, financial and non-financial support to SMMEs and co-ops. We encourage the PBF to play a central role in these partnerships.

These partnerships must be underpinned by a strong state. We conducted road-shows across the country and found that the DSBD and its entities – Seda and sefa – were not responsive enough nor accessible enough to SMMEs and co-ops. We are expanding service access points, especially in townships and rural areas, and introducing digital platforms for ease of access. We are merging Seda and sefa, together with the Co-operatives Banking Development Agency, to create a comprehensive one-stop shop for SMMEs and co-ops. Part of this merger process is also looking at the design and scaling of instruments so that we can have the impact we need.

Comrade Programme Director, as we do these things, we need a strong and united ANC to provide ideological and policy guidance, to mobilize progressive formations behind our programmes, and to hold us accountable as Government deployees to implement the conference resolutions. The only winners of our disunity will be those forces that are threatened by transformation and a growing black business class. We must make sure that black business benefits fully from the R200 billion localization market outlined by the Cde President, from the Reimagined Industrial Strategy driven by Cde EP, and from sunrise industries like cannabis and hemp, the green and digital economy, as well as trade opportunities afforded by our integration into the ACFTA. We call on the PBF to join us on this mission. We cannot fail. The future is in our hands. As leaders it is time to step up or step out.

I thank you.