



MINISTRY
SMALL BUSINESS DEVELOPMENT
REPUBLIC OF SOUTH AFRICA

**ADDRESS BY THE MINISTER OF SMALL BUSINESS
DEVELOPMENT, MS KHUMBUDZO NTSHAVHENI (MP), ON
THE OCCASION OF DELIVERING BUDGET VOTE 31 ON
SMALL BUSINESS DEVELOPMENT**

12 JULY 2019 (OLD ASSEMBLY)

Honourable Chairperson

Ministers and Deputy Ministers

Deputy Minister Capa

Chairperson of the Portfolio Committee on Small Business

Development, Ms Violet Siwela, and Honourable Members of our

Portfolio Committee

Honourable members of Parliament

Officials of the Department led by our acting DG, Mr Lindokuhle
Mkhumani

The Chairperson of the Board of SEDA, board members and the
SEDA CEO

Acting Chairperson of the Board of SEFA, board members and
the acting CEO

Representatives of the organised business formations,
cooperatives movement, academia and other partner institutions

Our special guests: Entrepreneurs, SMMEs and members of
cooperatives

Ladies and gentlemen,

Ndi matsheloni,

Imagine being young South Africans in the Delft or any other
area of our country. You are very entrepreneurial and approach

your own government with a business concept for support. In this case, it is the Braai Café with franchising potential and implemented through youth-owned cooperatives. These young people of the Delft and the other Cape Flats areas, knocked on the government's doors and the NYDA responded. Other partners including my department responded and made undertakings but the implementation was slower than the snail mail. It took almost five (5) years, for the members of the Braai Cafe cooperatives to almost realise their vision. We failed them. The turnaround time for the Braai Cafes and other delayed projects is not what we are about. We have committed that within 100 days from today, the Braai Cafes will be operational across

the Cape Flats, with a vision to make them the first government-supported franchise outfit in our term of office.

In his State of the Nation Address, His Excellency, President Cyril Ramaphosa committed the Sixth Administration to move speedily with supporting small businesses to be the biggest contributors to economic growth and thereby generating much needed job opportunities. This confidence by the President is informed by the fact that most of the developed countries' economies are driven by small businesses. For example, the OECD SME and Entrepreneurship Outlook 2019 asserts that *“SMEs account for about 60% of employment and between 50%*

and 60% of value added and are the main drivers of productivity in many regions and cities”, in developed economies. The report further points out that “as predominant forms of business and employment, small and medium-sized enterprises (SMEs) are key actors for building more inclusive and sustainable growth, increasing economic resilience and improving social cohesion”.

Even when the OECD is positive in its outlook for SMEs and Entrepreneurship, the descriptions of the challenges facing SMEs in developed economies, it is as if, it was describing the challenges of SMMES in South Africa. They describe *“smaller firms [as facing] long-standing size-related barriers in dealing with stringent business conditions or access to strategic*

resources". The sharp contraction in our country's economy and a projection of a lower economic growth, worsens the burden on SMMEs in South Africa.

Chairperson, our work is cut out for us. We, however, are ready to ensure that SMMEs and cooperatives take their rightful place in growing South Africa for both an inclusive and sustainable economy. We are bold in this commitment because we are from a generation that lived through our resolve of Freedom or Death, Victory is Certain! and want to pay forward to the generation of Economic Freedom in Our Lifetime. Ours is the pursuit of Economic Transformation and Job Creation through the

development of small businesses and cooperatives. We want SMMEs to contribute to the attainment of at least two of the goals as set by our President. So, our work in this term of office, will be directed at ensuring that SMMEs and cooperatives contribute to the two goals of:

- *Our economy growing at a much faster rate than our population, and*
- *Two million more young people being in employment over the next 10 years.*

We are fully aware that to achieve these, SMMEs must have access to strategic resources such as skills, knowledge networks, finance, and access to facilities/platforms, amongst

others, that will enable them to nurture their innovative ideas.

Our focus on improved access to finance, includes initiatives to make SMME finance more affordable. The plan is to make cost of money less expensive, starting with the cost of **sefa** financing.

In this regard, the President announced during his response to the SONA debate, that we will introduce a blended financing model, its details we committed to announce in this budget vote address. This model will be introduced over the next three years, commencing in the current financial year (2019/2020).

A blended finance model involves the mixing of grants and loans with the aim to lower the cost of capital for borrowers, increase access and improve the chances for the survival and

sustainability especially for early-stage enterprises that require lower gearing and patient capital. By adopting a blended funding model, **sefa** will, in effect, strengthen SMMEs capital structures and consequently increase their chances of sustainability. Further, the blended funding model will enable leveraging of **sefa**'s funding to achieve higher development impact through the crowding-in of investment to SMMEs.

sefa will collaborate with the Department of Small Business Development (DSBD) and other government entities and the private sector in utilizing their grant/ incentive offerings to develop a blended funding model that will directly benefit SMMEs across its funding facilities over the MTEF period. It is

an honour for me to announce that the Land Bank, under the leadership of Minister Thoko Didiza, has agreed to partner with us in the implementation of the blended funding model and this will benefit small agri-businesses, popularly known as small scale farmers.

sefa will ensure the delivery of the first blended finance model to SMMEs through the Small Business and Innovation Fund commencing in the 2019/2020. Qualifying start-ups, innovators and SMMEs will be able to access matched grant funding with a repayable **sefa** loan. The grant portion will be up to a maximum of R2.5 million per enterprise.

The Small Business and Innovation Fund is a joint fund of the Departments of Small Business Development and Science and Technology, with **sefa** appointed as the implementing agency.

The Fund targets underserviced SMMEs in the early stages of the business development cycle including for business expansion. It provides a range of financial instruments beyond what **sefa** can ordinarily offer. It aims to promote and facilitate funding of innovation in key industry sectors, and enhance financial inclusion by increasing access to finance for enterprises owned by targeted groups (women, youth, township(black) and rural communities).

The first beneficiaries of the blended funding model will be at least one hundred thousand (100 000) young entrepreneurs who will be funded through the Small Business and Innovation Fund in the 2019/2020 financial year. The budget for the Small Business and Innovation Fund in the current financial year is over R1 billion. The beneficiaries of this Fund will be drawn from all the nine (9) provinces. In Gauteng and the Western Cape provinces, we will prioritise entrepreneurs from the black townships and rural areas as well as women-owned enterprises. The process for entrepreneurs, innovators and SMMEs to access this funding will be announced in the first week of August but at a minimum they must have the potential to create a minimum of ten (10) jobs. This initiative for 100k young

entrepreneurs is in line with our commitment to enable a generation of job creators, as young people must take their rightful place in our economy and become owners of the means of production.

Honourable members,

Access to finance will not be a panacea to challenges facing SMMEs. The extension of meaningful support is critical to the survival and growth of businesses. Over the years, SEDA has established incubators across the country, albeit with an urban bias and other incubation work has been directed by private sector. We are aware that government does not have sufficient

resources to act alone. In this regard, we announced the re-orientation of SEDA to be the lead incubator of South Africa, to coordinate, consolidate and regulate the work of incubators. SEDA will adopt a standard incubator model based on best practice that will be a minimum framework for incubation in South Africa. SEDA will register the incubators so that where necessary, their work can be redirected for maximum impact in line with economic priorities of the country.

In the meantime, SEDA will increase the incubation network in rural areas and townships as part of government's commitment to grow rural and township enterprises. For this purpose, SEDA

will establish an additional eight (8) incubation centres in the rural and underserviced Provinces of Free State, Mpumalanga, Limpopo, Northern Cape, and North West and the townships of Gauteng and the Western Cape. This is our response to the directive of our President during the SONA, when he committed that we *are going to rollout small business incubation centres to provide youth-driven start-ups with financial and technical advice as they begin their journeys.* Our commitment to increase the incubation period to a maximum of five (5) years remain.

We are also committed to optimize the utilization of our already existing facilities, not only to expand our reach but to increase

the return on government's investment. In the previous financial years, we established 13 Centres for Entrepreneurship and Rapid Incubation in TVET colleges through our partnerships with the department of Higher Education, Training, Science and Technology. In the current financial year, these centres will be upgraded to full incubators in order to provide business incubation services for enterprises in black townships and rural areas where they are located. The upgrade of these centres into full incubators will benefit small businesses and start-ups that are adjacent to the TVETs colleges. An additional, nine (9) centres with full incubation services will be established in all our Provinces. We will also coordinate with the private sector to establish incubators in underserviced areas as we ensure

improved support to rural and township enterprises. We are aware that the roll out of incubation services will not reach all corners of the country at the desired pace and therefore, through SEDA, we will provide enterprise coaching and various training to informal businesses and start-ups.

Chairperson,

We also aim to ensure that there are accepted indicators for successful SMME support in our country. Therefore, within the next 6 months, we will adopt an SMME business index that track economic health of SMMEs. We will do this so that we can measure the impact of various SMME support programmes and

interventions, be they by government or the private sector. We cannot continue to spend resources without measuring and directing their impact. In the current conditions, SMMEs are the cornerstone of our economy and therefore our support programmes can no longer be left to their own devices.

Honourable members,

The President announced spatial interventions to bring economic development in local areas. We are happy to announce a partnership with Vodacom on the roll-out of digital hubs. This partnership piggybacks on the already existing partnership between Vodacom and the department of Basic

Education for the establishment of youth centres using former teacher training colleges. The plan is to expand the youth centres to become digital hubs where our young and rural and township based entrepreneurs can have access to technology platforms and resources for ideation, experimentation, testing, and end-user computing.

We do this because the economy has gone digital and small businesses and young entrepreneurs cannot be left behind because of the circumstances of their birth or their geographic locations. DBE and Vodacom have already converted 92 youth centres out of the 140 teacher training colleges, this partnership will therefore give us scale and speed in the roll out of the digital

hubs. To cover the areas where there are no former teacher training colleges, we have planned for the establishment of at least four (4) digital hubs for geographic inclusivity. We are planning for the gig economy! and our SMMEs will transform us into a gig nation. In this regard, we will facilitate the development and adoption by SMMEs and techs of software applications and Apps to enable business efficiency and productivity.

Chairperson,

In order to improve coordination and traceability of support provided to SMMEs and cooperatives, we will shortly commence a process of establishing the SMME and cooperatives database

categorized by sector, geographic location, size and product or service. For we are not only going to be definitive about the number of SMMEs and cooperatives in our country, but we are going to ensure effective and traceable support as we strive for their business sustainability. I must point out, that the reference to OUR support, does not mean government only but it refers to private sector support as well. We will work with National Treasury to ensure the communication of this database to already existing critical databases and business systems of government. At a minimum, this database must access information about any payment made by government to an SMME or cooperatives. We must also emphasise that where

databases or registers with information about SMMEs already exist, we will not duplicate but reuse.

We are not just about scaled-up support to SMMEs but it must be integrated and seamless. We believe that an environment that enables SMMEs to do business with ease is a pre-condition for a successful economy. To enable seamless access to support, we plan to establish a One- Stop-SMME Platform for businesses to access both financial and non-financial support. The One-Stop-SMME- Platform will include Walk-In option, online access (including through social media) and call-centre access. The platform will be linked to the SMME-database as we

firmly believe that our ability to trace assistance provided to SMMEs and cooperatives is critical to improving the effectiveness of the support. Ours is a vision wherein an SMME that is assisted to develop a business proposal by SEDA, will exit with funding from either sefa, NEF, Land Bank and even the IDC at a minimum. To enable this, within the 2019/ 2020 financial year, SEDA will adopt business templates that are currently used by NEF as we coordinate the development of common templates with the IDC, Land Bank, and NEF. Our view is that the adoption of common templates for funding applications by DFIs will improve access to funding and lesson the burden of doing business by SMMEs. The intention is to lobby private banks to adopt same templates as a way of opening access to the much

needed but currently elusive private bank financing of small businesses. We also believe that when these templates are known and available, DFIs will improve the turn-around time in the approval of funding applications.

Honourable members,

For us, the ease of doing business for SMMEs is linked to the eradication of red-tape that confronts and inhibit the success and sustainability of SMMEs. In this regard, there are three (3) urgent interventions that will be done within the 2019/2020 financial year:

- In consultation with SALGA and the Department of Cooperative Governance and Traditional Affairs, we will

review and develop generic by-laws to enable conducive environment for SMMEs and informal traders to conduct their businesses in municipalities. Our view is that, streets are economic spaces. We subscribe to a view that “streets and public spaces are assets for the livelihoods of the poor and resources for the urban economy” as advocated by Mendelsohn. Therefore, municipalities must start including SMMEs and informal trading in their spatial planning frameworks.

- We would engage National Treasury on the cost of tender documents That have become prohibitive, and the requirement for compulsory briefing sessions, even when

the tender is for the supply of toiletpapers, have become an elimination factor for small businesses, and

- We will table the SMME Ombudsman Services Bill to provide a less costly dispute resolution mechanism.

In addition to the by-laws that are favourable to SMME and informal businesses, we will commence with a process of registering informal businesses so that we can offer them coordinated support including bulk buying opportunities.

Honourable members,

Of late, South Africa has taken the cooperatives model of doing business for granted, as a result the framework for establishing cooperatives is very weak and susceptible to abuse. To borrow from my Deputy Minister, Honourable Zoleka Capa, today you may deal with a cooperative, and tomorrow the same outfit is an NPO depending on where the grant is available. For us, cooperatives are businesses and we are going to support them as businesses. The Deputy Minister will soon announce tightened mechanisms for registration of cooperatives. Fundamental to that is the fact that cooperatives must not be a forced collaboration of people, in particular women and other vulnerable groups. For us, cooperatives are but a natural fit of entrepreneurs. To facilitate the change in perspective, the

funding model for cooperatives will be changed to blended financing in line with the blended financing model we articulated earlier. Similar to SMMEs, Cooperatives are to be registered in the database and where incubation is necessary, they will be incubated. We have lived with examples of very successful cooperatives such as the former NTK, GWK and others, it is those models we seek to replicate. We are for a cooperative sense of purpose, cooperative vision, cooperative ideas, cooperative business, cooperative success.

Access to markets is another key determinant to the success of any business. Therefore, we have a non-negotiable

responsibility to ensure that products and services from our SMMES and cooperatives have markets. Our plan for market access is three-pronged and based on availing technical support to address challenges of scale and quality where necessary:

1. We will establish trade markets for our SMMEs and Cooperatives. In this financial year, we will establish at least four trade markets as follows: light manufacturing trade markets in Ehlanzeni, Nkangala district of the Mpumalanga Province, and Musina, Vhembe District of Limpopo in support of the declared SEZ, in partnership with the Eastern Cape Provincial government on their Mthata “Ntozonke” Market, we will develop the KSD market for home industries

and small traders, and another home industries and fashion market in Mahikeng, in the Ngaka Modiri district.

2. As part of government's programme to open markets for SMMEs, we will finalise agreements with big business on their SMME procurement spend and supply value chains. I must indicate that initial engagements and commitments are encouraging. Joint technical teams to thrash-out final details are in place and the plan is to match the opportunities to the SMMEs and Cooperatives in the database in line with the principle of traceability of support, and.

3. Government as the largest consumer of goods and services, must put its money where its mouth is. With the

guidance of our Deputy President, we will finalise the list of goods and services that the SMMEs and cooperatives ecosystem will provide to government as a minimum.

We are also in the process of establishing the Small Business Advisory Council which is a structure that will report to the Minister and dedicated towards providing critical information on the sector and advise on the interventions that need to be introduced to ensure that we have competitive and growth

SMMEs

Chairperson

Our budget is based on a stronger SEDA and sefa as our implementing agents and a department that is able to coordinate and direct SMME and cooperatives support work of not only the two agencies and government, but across all sectors of our country. The department will finalise our structure for approval within the 3rd quarter of the current financial year and fill strategic vacancies of the approved structure. This financial year will be used for both concluding the outstanding work from the 5th administration and commencement with the implementation of the 6th administration priorities.

The board of SEDA has just started their three-year term of office and face the challenge of re-orienting the Agency to execute the priorities of the 6th Administration. We wish them well and have guaranteed them our full support in the execution of with this mandate. They also know that failure is not an option. SEDA is fully aware that we take a very deem view on delays in processes that impact on the wellbeing of our SMMEs and cooperatives.

The term of office for the Board of sefa is coming to an end and we will embark on a process to establish a new Board. However, **sefa** face serious challenges that in their nature are not insurmountable.

Due to **sefa**'s mandate and target market, the institution is often exposed to high risks as capital security is often not available from its clients. It has become apparent that sefa's access to the cashflows of the SMMEs and Co-operatives it funds is critical, if we are to secure repayment its loans. This can be possible through cession agreements.

At present, **sefa** is struggling to obtain cession agreements with the different spheres of government due to provisions within the Treasury and Regulations relating to the payment of suppliers by contracting departments. This provision places **sefa**'s bridging loan/revolving credit portfolio at serious risk. **sefa** is experiencing

high levels of arrears in this portion of its book. To be precise, almost 90% of **sefa's** impairments are due to debts owed by government to SMMEs. We are facilitating through National Treasury a process which all government entities are directed to accept cession agreements to **sefa** through a regulatory regime by the Minister of Finance.

The prohibition of cession agreements for **sefa**, has indirectly pointed to the fact that SMMEs predominantly rely on government for business and funding. The private sector has not really come to the party to support mainly black business which are predominantly SMMEs. This situation must be changed, if

the economy of South Africa must grow and be inclusive. Zizo
jika Izinto.

Secondly, the non-payment of SMMEs and cooperatives by government is not only destroying the sector but it is a major contributor to the sustainability of DFIs. Therefore, their non-payment is not only a travesty of justice but a threat to the economic well-being of our country. The Deputy Minister will soon announce concrete measures to address the non-payment of SMMEs.

Honourable members,

I am honoured to table my first Budget Vote 31 on Small Business Development to this House today for your consideration and approval.

2019/20 BUDGET

The Department of Small Business Development has been allocated R8.15 billion over the MTEF, spread as follows:

- 2019/20: R 2.57 billion
- 2020/21: R2.71 billion
- 2021/22: R2.86 billion

The Department's budget for the 2019/20 financial year of R2.57 billion is allocated as follows:

- **Transfers and subsidies** consume 90.6% or R2.3 billion whilst operations are provided 9.4% or R242 million of the allocated resources. The R2.3 billion of transfers and subsidies provide for:
 - **Seda's allocation** of R867.8 million, which is 37.3% of the transfers and subsidies.
 - **Sefa's allocation** of R1 billion, which is 43% of the transfers and subsidies
 - The Department administers the remaining R458 million through the four (4) incentive schemes plus one (1) new programme that we are introducing this year for the first time the **Blended Finance Facility**.

- The four (4) DSBD incentive schemes are:
 - Black Business Supplier Development Programme
(BBSDP) allocated R206.1 million;
 - Cooperatives Incentive Scheme (CIS) allocated
R67.9 million;
 - Craft Customised Sector Programme allocated
R10.5 million and,
 - The National Informal Business Upliftment Scheme
(NIBUS) which is allocated R73.9 million.

- Taken from the allocation of BBSDP and CIS, we have
allocated R100 million to the Blended Finance Facility

- The Department's R242 million operational budget provides

for:

- Compensation of Employees (CoE) at 5.9% or R151.8 million
- Goods and Services at 3.4% or R86.1 million, and
- Capital Expenditure at 0.2% or R4.3 million.
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Chairperson, I thought it would be important to highlight the fact that 90.6% of our budget is allocated to serving SMMEs and Cooperatives and 9.4% to operational expenditure.

Out of **sefa's** total budget allocation, an amount of R241 million does not form part of Budget Vote 31, as yet. It is transferred through the Budget Vote on Economic Development as **sefa** is a subsidiary of the IDC.

Out of the budget of R867 million allocated to Seda,

- R152 million will go to the Seda Technology Programme,
- R57 million is allocated to the Enterprise Incubation Programme,
- R35 million is allocated to the Gazelles Programme and
- R607 million is allocate to the agency to ensure that the entity has branches and all over the country that are

supporting small enterprises to access non-financial support services.

We have defined the potential in us as that of a potato. From a potato, we can have French fries, Mash, wedges, chips, casserole, salad, na tshi tshulu. The small businesses and cooperatives are the Potato of our country's economy from which much is possible.

I would like to thank South Africans from all walks of life including the captains of industries, the SMME and cooperatives ecosystem, and entrepreneurs whom since my appointment

have offered valuable suggestions and support as I start this journey.

Of course, Buying Local is not a campaign but must be our way of life. I would like to thank AKA Emporium at 27 Boxes in Melville, Johannesburg for dressing me today and the 26-years Restaurateur Emmanuel Xxx of Have Wings at 27 Boxes who fed us during our site visit last week. We are confident our government will walk the journey with him and other young entrepreneurs as they realise their business vision.

Chairperson and Honourable Members, I present the 2019 Budget Vote 31 on Small Business Development for your approval.

Ndo livhuwa