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## **VOTE 36 – SUMMARY AND ANALYSIS OF THE SUPPLEMENTARY BUDGET OF THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT FOR THE 2020/21 FINANCIAL YEAR**

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### **1. INTRODUCTION**

According to the Minister of Finance in South Africa, the aim of the Supplementary Budget is to make adjustments to the main budget so as to “set out a strategy to build a bridge to recovery” in the aftermath of the COVID 19 pandemic and its subsequent impact on the country’s economy<sup>1</sup>. The Public Finance Management Act No. 1 of 1999, together with the Money Bills Amendment Procedure and Related Matters Act No.9 of 2009, “empowers the Minister of Finance, to table an adjustments budget when necessary”<sup>2</sup>.

National Treasury notes that the pandemic has had a profound impact on South Africa and therefore made it necessary to make adjustments. Treasury notes that the “economy is expected to contract by 7.2 per cent this year. All economic sectors have experienced a sharp downturn and small businesses in particular face extreme pressure<sup>3</sup>.

Subsequently spending was adjusted by:

- Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments.
- Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later.

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<sup>1</sup>National Treasury (2020)

<sup>2</sup>South African Government (2020)

<sup>3</sup>National Treasury (2020)



- Suspending allocations to programmes with a history of poor performance and/or slow spending.
- Redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package<sup>4</sup>.

Since the lockdown announcement at the end of March 2020, National Treasury highlights that government efforts to bring relief to the economy have yielded some result which include the following;

- In the first few weeks of operation, the COVID-19 loan guarantee scheme provided small businesses with over R10 billion worth of loans.
- Nearly R12 billion in debt relief has been extended to over 124000 small and medium-sized enterprises by the banking sector.
- Commercial banks have also granted 90-day payment holidays to more than 2 million clients for relief totalling R16.5 billion to date.
- Initiatives such as the Sukuma Relief Programme and the South African Future Trust are providing interest-free loans and grants to small and medium-sized firms<sup>5</sup>.

National Treasury adds that, government has adjusted the budget to respond to new information and related adjustments to policy. Government has reorganised the initial national package and adapted it to the COVID-19 needs<sup>6</sup>.

This paper therefore looks at the COVID 19 budget adjustments in relation to the Department of Small Business Development (DSBD's) and its agencies, i.e. the Small Enterprise Finance Agency (SEFA) and the Small Enterprise Development Agency (SEDA). It gives a brief summary of the main budget as tabled by the Minister of Finance at the beginning of the year, before COVID 19 hit the shores of the country. It then outlines the adjustments to the Department's budget, and issues for consideration, for the Parliamentary Portfolio Committee on Small Business Development (PC on SBD).

## 2. MAIN BUDGET APPROPRIATION FOR 2020/21 – PRE-COVID

During the February 2020 budget speech, the Minister of Finance stated that the projected national budget expenditure for the 2020/21 financial year was R1.95 trillion. Of this amount, the expected budget expenditure for the Department of Small Business Development was approximately R2.41 billion representing approximately 0.12 per cent of the national budget<sup>7</sup>.

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<sup>4</sup> National Treasury (2020)

<sup>5</sup>Ibid

<sup>6</sup>Ibid

<sup>7</sup>Ibid



Programmes	Budget in (R millions)				Nominal Rand change	Real Rand change	Nominal % change	Real % change
	2019/20	2020/21	2021/22	2022/23	2019/20-2020/21		2019/20-2020/21	
Programme 1: Administration	124,4	129,1	136,8	143,5	4,7	- 0,7	3,78 %	-0,60 %
Programme 2: Sector Policy and Research	32,3	28,0	28,7	31,8	- 4,3	- 5,5	-13,31 %	-16,97 %
Programme 3: Integrated Cooperative Development	129,0	140,0	147,1	152,9	11,0	5,1	8,53 %	3,95 %
Programme 4: Enterprise Development and Entrepreneurship	1 982,8	2 109,7	2 383,6	2 432,5	126,9	38,0	6,40 %	1,92 %
<b>TOTAL</b>	<b>2 268,5</b>	<b>2 406,8</b>	<b>2 696,2</b>	<b>2 760,7</b>	<b>138,3</b>	<b>36,9</b>	<b>6,10 %</b>	<b>1,63 %</b>

Source : National Treasury (2020a)

The Department's budget increased by R138 million from about R2.27 billion in the previous financial year to approximately R2.4 billion in 2020/21. This is a nominal increase of 6.1 per cent while in real terms the budget increased by 1.63 per cent compared to the previous financial year. The Department's budget is expected to increase over the medium term to about R2.76 billion by 2022/3.

- The largest amount of the departmental budget went to **Programme 4: Enterprise Development and Entrepreneurship**. This programme was allocated about R2.11 billion or approximately 87.7 per cent of the entire budget of the Department.
- **Programme 3, the Integrated Cooperative Development** received the second largest share of R140 million or 5.82 per cent of the Department's budget.
- Meanwhile **Programme 1: Administration** budget was allocated, R129.1 million or 5.36 per cent, which is the third largest portion of the departmental budget.
- The least budget of R28 million or 1.16 per cent went to the **Programme 2, Sector Policy Research**<sup>8</sup>.

Departmental transfers and subsidies increased by R124.5 million or 6.14 per cent from R2.3 billion in 2019/20 to R2.15 billion in the current financial year. This leaves the Department with an operational budget (total minus transfers) of R255.7 million for the 2020/21 financial year. The overall staff complement in the Department increased from 237 to 239. This increase in numbers was followed by an increase in employee costs from R151. 5 million in the previous financial year to R162.3 million in the current

<sup>8</sup> National Treasury (2020a)



financial year. This represents a R10.8 million or 7.13 per cent increase in the compensation of employees' budget of the Department. The 2020/21 employees costs of 162.3 million represents 6.7 per cent of the total budget. However, when considering the operational budget; Compensation of Employee costs (R162.3m) make up a significant share of approximately 63.5 per cent of the operations budget of R255.7 million<sup>9</sup>.

### 3. COVID 19 ADJUSTED BUDGET

Treasury reports that suspensions of expenditure amounting to R100.9 billion have been implemented for national departments, provinces and local government. Of that amount R39 million representing 0.4 percent of the total suspensions was from the Department. Treasury reports that further suspensions could be announced in the October 2020 Medium Term Budget Policy Statement (MTBPS)<sup>10</sup>.

In addition, government's overall budget expenditure for 2020/21 has been revised up from R1.95 trillion as tabled in February this year to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's COVID-19 response<sup>11</sup>.

In light of the pandemic, the Department established a new fund called the COVID 19 Emergency Fund, which is administered by SEFA. In the Supplementary Budget, the COVID 19 Emergency Fund was allocated approximately R1.15 billion. The budget will be used to support small enterprises affected by COVID-19. The aim is to utilise the Fund to protect jobs and sustain some small enterprises<sup>12</sup>. The COVID 19 Emergency Fund is made up of suspensions and virements from various programmes in the departmental budget as illustrated in the table below.

#### 2020 Budget Adjustments

Programmes (thousands)	Main 2020/21	Adjustments June 2020	Source	Adjusted
<b>Programme 1:</b> Administration	R129.1	R6.4	goods & services	R122.7
<b>Programme 2:</b> Sector Policy and Research	R28	R8.1	goods & services	R19.9
<b>Programme 3:</b> Integrated Cooperative Development	R140	R30.0	R6.5 from goods & services R23.5 from CIS	R110
<b>Programme 4:</b> Enterprise Development and Entrepreneurship	R2 109.7	R22.5	R7.0 from goods & services R15.5 from transfers	R2 087.2
<b>TOTAL</b>	<b>R2 406.8</b>	<b>R66.8</b>		<b>R2 340</b>

<sup>9</sup> National Treasury (2020a)

<sup>10</sup> National Treasury (2020)

<sup>11</sup> Ibid

<sup>12</sup> Ibid



Adapted from: National Treasury (2020)

Approximately R67 million has been suspended from the Department's Goods and Services in different programmes. Consequently, the Department's budget has been revised down from R2.4 billion to R2.34 billion. The changes are as follows;

<b>Economic Classification (millions)</b>	<b>Main Budget</b>	<b>Adjusted</b>	<b>Total suspensions</b>	<b>Reprioritised funds</b>
<b>Current payments</b>	<b>251,4</b>	<b>223</b>	<b>67</b>	
<b>Compensation of employees</b>	<b>162,3</b>	<b>162</b>		
<b>Goods and services</b>	<b>89,1</b>	<b>61</b>	<b>28</b>	
Audit costs: External	5,1	5,1	—	
Computer services	9,3	9,3	—	
Consultants: Business and advisory services	9,1	9,1	—	
Operating leases	24,3	24,3	—	
Travel and Subsistence	21,3	0	21,3	
Venues and Facilities	6,1	0	6,1	
<b>Transfers and subsidies</b>	<b>2151,1</b>	<b>2 112</b>	<b>39</b>	<b>1154,5</b>
Departmental agencies and accounts	889,1	859	30	30
Public corporations and private enterprises	1 262	1 253	9	1 124, 5
<b>Payments for capital assets</b>	<b>4,3</b>	<b>4,3</b>	—	—
Machinery and equipment	4,3	4,3	—	—
<b>Total</b>	<b>2406,8</b>	<b>2339,8</b>	<b>67</b>	<b>1154,5</b>

Adapted from National Treasury 2020

The table above shows that the budget for the Compensation of Employees has remained relatively unchanged. However, the Goods and Services' budget has been revised down by about R28 million from R89.1 million to R61 million. The suspended amounts were taken from the following budgets;

- Travel and Subsistence – R21.3 million.
- Venues and Facilities - R6.1 million<sup>13</sup>.

The Transfers and Subsidies budget was also revised down from R2.15 billion to R2.11 billion and the suspended amounts were from the following budgets

- Departmental Agencies and Accounts – R30 million.

<sup>13</sup> National Treasury (2020)



- Public Corporations and private enterprises – R9 million<sup>14</sup>.

### 3.1 Suspensions and Virements: Departmental Agencies and Public Cooperation

Approximately R1.154 billion was reprioritised for COVID intervention. The reprioritised amounts were virements from Departmental Agencies as well as Departmental Agencies and Public Corporations. Cooperative Incentive Scheme (CIS), SEDA's National Gazelle programme as well as, to finance the COVID 19 interventions. Funds were reprioritised to support small enterprises affected by COVID-19, to protect and sustain jobs<sup>15</sup>.

Programme	Amount (in millions)
SEDA : National Gazelles	30
Department : BBSDP	270
Department : NIBUS	70
Department : CIS	23,5
SEFA: Township Entrepreneurship Fund	800

#### 3.1.1 National Gazelles

The National Gazelles is a flagship SME support programme of Seda and the Department of Small Business Development. It aims to identify and support SMEs with growth potential through a comprehensive range of business growth-oriented programmes, activities and partnerships. Through its combination of financial and non-financial support, the National Gazelles aims to assist members to grow faster and more profitably than they would normally do<sup>16</sup>.

In its 2019/20 Quarterly Reports, SEDA reported that the entity would not be continuing with the National Gazelles programme over the 2019/20 financial year. The entire budget of R30 million, representing 100 per cent of the monies allocated to the National Gazelles programme in the current financial year, was moved to the COVID 19 response fund<sup>17</sup>.

#### 3.1.2 Black Business Supplier development

The Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant offered to black-owned small enterprises to assist them to improve their competitiveness and sustainability to become part of the mainstream economy and create employment. It entails;

<sup>14</sup> National Treasury (2020)

<sup>15</sup> SEDA (2020)

<sup>16</sup> SEDA (n.d)

<sup>17</sup> Ibid



- R800 000 for tools, machinery and equipment on a 50:50 cost-sharing basis; and
- R200 000 for business development and training interventions per eligible enterprise to improve their corporate governance, management, marketing, productivity and use of modern technology on an 80:20 cost-sharing basis<sup>18</sup>.

The Black Business Supplier (BBSDP) Development programme was allocated R283.8 million. Of that amount R270 million representing about 95 per cent has been secured for the COVID 19 Fund<sup>19</sup>.

### **3.1.4 National informal business upliftment scheme**

The NIBUS seeks to uplift informal businesses and render support to local chambers/business associations and Municipal Local Economic Development offices to deliver and facilitate access to upliftment programmes. The focus will mainly be on designated groups, i.e. women, youth and people with disabilities, in townships and rural areas of South Africa. NIBUS is driven by the Department of Small Business Development to address the development void at the lower base of Small, Medium and Micro Enterprise (SMME) Development<sup>20</sup>.

The NIBUS received a budget allocation of R79.8 million in the 2020 budget. Approximately R70 million was transferred from the scheme to the COVID 19 interventions<sup>21</sup>.

### **3.1.5 Co-operative Incentive Scheme**

The Co-operative Incentive Scheme (CIS) is a 100% grant for registered primary co-operatives (a primary co-operative consists of five or more members). The objective of the CIS is to improve the viability and competitiveness of co-operative enterprises by lowering their cost of doing business through an incentive that supports Broad-Based Black Economic Empowerment. The Department administers the Scheme<sup>22</sup>.

The CIS programme was allocated R87.3 million at the beginning of the current financial year. Of that amount about R23.5 million, representing about 27 per cent of the initial CIS budget, was transferred to the COVID 19 Fund.

### **3.1.6 Township Entrepreneurship Fund**

Over the MTEF, R2.8 billion was allocated to the Small Enterprise Finance Agency was allocated for the implementation of the Township Entrepreneurship Fund. For the current financial year the Department earmarked had R800 million for the Township Entrepreneurship Fund. However, government has postponed the implementation of the

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<sup>18</sup> Department of Small Business Development (2020a)

<sup>19</sup> Department of Small Business Development (2020b)

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Department of Small Business Development (2020c)



Township Entrepreneurship Fund and reprioritised the finds to support small enterprises affected by COVID-19, to protect and sustain jobs<sup>23</sup>.

#### 4. KEY ISSUES FOR CONSIDERATION BY PARLIAMENT

Parliament could consider the following;

(a) Requesting the Department to report on its technical and human resource capacity to process COVID-19 related funds.

(b) Requesting progress made on improving the Department's communication strategy to convey messages and update clients on SEFA and COVID related and non-COVID related applications, particularly for those who do not have access to the relevant technology.

(c) Conducting oversight on-line/virtual where possible to establish the extent of the successes and areas of improvement in the implementation of the COVID 19 Emergency Relief Fund and other funds that are administered by the Department and its agencies.

(d) Requesting the Department to provide a plan for ensuring that township enterprises are not left behind given that the Township Entrepreneurship Fund has been suspended.

(e) Asking the Department to elaborate on the financial and other implications of the adjustments on its operational budget for the current financial year and the MTEF.

(f) Requesting the Department to explain the impact of the adjustments on its annual and quarterly performance plans and targets.

(g) A briefing on how the Department exercises oversight on its entities to ensure that the relief funds are administered well and reach the intended beneficiaries.

(h) Requesting the Department to explain the role that SEDA is playing to ensure to provide non-financial support in townships and rural areas – what is SEDA doing differently to reach out to those who need their services the most.

#### 5. CONCLUSION

National Treasury had to use its powers to suspend and reprioritise funds allocated to the Department and its entities in order to address to mitigate the impact of the COVID 19 pandemic on SMMEs. The Department's annual budget has been revised down, however, about R1.15 million has been set aside for the COVID-19 Emergency Fund. In line with National Treasury's initiative, it is important therefore, that Parliament aligns

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<sup>23</sup> National Treasury (2020)



its oversight plans and strategies accordingly towards exercising effective oversight on the Department's implementation of the adjusted budget.

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