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Department of Small Business Development
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BY E-MAIL: (nisedm@dsbd.gov.za)

Dear Sir/Madam

NATIONAL INTEGRATED SMALL ENTERPRISE DEVELOPMENT MASTERPLAN – FINAL DRAFT

The South African Institute of Chartered Accountants (SAICA) herewith presents its comments on the National Integrated Small Enterprise Development (NISED) Masterplan – Final Draft (the Plan).

We thank the Department of Small Business Development (DSBD) for the opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking solutions to complex challenges and we are committed to assist in any way possible to ensure that SMMEs have an enabling environment to thrive and so ensure sustainable economic development for our country.

Yours sincerely

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Executive: Tax

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1. SAICA welcomes the Plan and agrees that the development and support of small businesses is not the domain of one department but the collective action of many public and private actors. Co-ordinating the efforts of all role-players will not be a simple exercise, but it is critical to ensure the necessary changes are made swiftly.
2. We set out below our general and specific comments relating to the Plan. We have not gone into depth into each of the plan's outcomes areas (other than a few) due to the nature of the fundamental concerns highlighted in the general comments below as these will impact the viability of the plan and render each of the individual outcomes meaningless should the concerns not be addressed .

GENERAL COMMENTS

Accountability

3. The Plan is a support framework for the entire SMME ecosystem, enabling various public and private actors to operate in a targeted, collaborative and coordinated manner. The plans overall objective is to have a well-informed South Africa on SMMEs with continuous monitoring, evaluation and learning.
4. SAICA welcomes the publication of the Plan and its detailed list of 'action items' as it is a serious concern, as noted in the plan itself, that despite numerous other resources and policy interventions implemented by the Government over the last few decades, SMMEs are still struggling to survive and thrive as support for these enterprises remain uncoordinated and fragmented.
5. The Plan states that a critical part of the eco-system is to ensure that the policy, regulatory and legislative climate is fit for purpose to foster SMME growth and facilitate an enabling environment. The need to support and work with the Red-Tape Reduction Office in the Presidency will be vital.
6. The Plan thus provides an 'action plan' where the practical actions and activities are set out in alignment with the outcomes and outputs. Central to the successful execution of the Plan is a strong monitoring and evaluation approach – to the Plan itself – and to all projects and programmes that stem from it.
7. It is highlighted in the Plan that these project and programme actions will be reviewed and publicly reported on annually in the Annual Review for Small Business as prescribed in the National Small Enterprise Act No. 102 of 1996 (NSEA).
8. Although SAICA fully supports this, it is concerning that that despite section 18 of the NSEA, that prescribes the Minister of Small Business Development to provide guidance to the rest of government on the assessment and consultation to the effects of legislation and law to SMMEs, these prescripts have not been implemented by either the DTIC (the earlier lead department for small business development) nor the DSBD following its establishment in 2014.
9. In addition to this, section 19(4) of the NSEA stipulates that the Director-General must submit the Annual Review of Small Business to the Minister before the end of June of each year and the Minister must table it in Parliament. Despite this, it is noted in the Plan



that in the past, the annual reviews have been published haphazardly and by different government entities.

10. Submission: Accountability is key to ensuring that any action plan is a success. This plan is most welcomed by SAICA as this will help the public to track and monitor government's progress in this regard.
11. The role of the DSBD in this Plan remains is critical as it is tasked to facilitate, coordinate and strengthen the partnerships between business, labour and civil society. It is the custodian of the Plan and will be accountable for ensuring its implementation as well as monitoring the progress to ensure that the outcomes and outputs are achieved.
12. Considering the past transgressions of the law (including by the DSBD), with seemingly no consequence management for those involved, it is certainly hoped that those accountable for each action item will be held accountable and brought to task should they again fail to deliver on their obligations as set out in the Plan. The Plan is, however, silent on what the repercussions are should the institution responsible fail to meet its obligations.
13. This is in our view a fundamental failure and shortcoming that will undermine the successful implementation of the plan. Those obligated to ensure the plans implementation should have a clear understanding of their accountability and consequences for failure.

Budget available

14. We note with concern that the amount of budget available for each 'action item' is not included in the Plan.
15. Furthermore, the risks associated with many of the individual action items includes budgetary constraints.
16. One of the keys to delivering the outputs of the Plan is a centralised system of gathering information across the whole of government for reporting by public funded entities mandated to support SMMEs. The cost of this system is not provided, but it is evident that this will not be an inexpensive exercise that needs to be undertaken taking into consideration the lack of cost control in the past.

17. Submission: Although we acknowledge that the finances of the country are severely limited, it is submitted that if sufficient funding is not allocated to these critical interventions, then the Plan is set to fail before it even begins.
18. Furthermore, the growth and sustainability of SMME's is a core component of both the NDP and ERRP and therefore an economic structural investment. However, given the known current inefficiencies in supporting SMME's across 3 levels of government and numerous organs of state, as a first point of departure fiscal savings from implementing initial efficiencies should be used to fund this process and realise further funding efficiencies.

19. Alternative funding methods such as, *inter alia*, public private partnerships should also be considered as a matter of urgency to ensure that this plan has a chance of succeeding.

Current situation and risks (Assumptions)

20. As mentioned in the Plan, critical to the success of the Masterplan is meaningful buy-in from the executive in government to ensure coordination of the various departments and agencies. The implementation and delivery of the Plan will require the whole of government championing the masterplan's goals and impact.
21. Despite this requirement, it is concerning that the action plan itself highlights that there is potentially a lack of political will or buy-in for certain changes (such as the development of the digital repository, labour law reforms and regulations), lack of co-operation between the relevant government agencies (to provide information required for reporting in the Annual Review and to identify and publish policy papers) and a lack of capacity (budget and skills) to implement these changes.

22. Submission: The Presidency should require compulsion of the Plan by all government entities/departments involved as any lack of buy-in by all will see the Plan doomed before it even starts.
23. The Presidency should also be driving and leading consequence management for Ministers and departments who do not provide the required cooperation and support.
24. The lack of technical capacity to implement the Plan is also of serious concern as any lack lustre implementation of the Plan will result in less funding being available to adequately address the needs of SMMEs leading to SMMEs' challenges being prolonged and exacerbated. This challenge should be addressed in the Plan and prior to its implementation and should include collaboration between the public and private sector.

A live plan

25. We are pleased that it is acknowledged that the Plan is a live plan, which supports adoption and adjustment to ensure relevancy in changing times. This is critical as the Plan needs to be agile to adapt to the ever-changing business environment that SMMEs find themselves in.
26. However, a live plan with no clear direction is also at risk of constantly being changed and constantly being "planned" with little to no execution. This is especially a risk when Ministers, political officials and management responsible for implementation continually change over the next 5 years.
27. Submission: Any changes should be clearly document in the Plan and timeously communicated to all concerned. Detailed reasons should be provided for any changes and why such changes will result in achieving specific goals ensuring that only relevant and necessary changes are made. The future cost implications of the changes should also be provided and also the forfeited costs due to the change that was spent on the previous implementation.

28. A “live document” should not be the justification for lack of governance and oversight for changes and as much as entrenched positions are at risk to changing circumstances, inappropriate and constant changes are an even bigger risk to implementation and accountability.

SPECIFIC COMMENTS: GENERAL

Uniform definition for SMMEs

29. The NISED Plan states that a uniform definition of SMMEs should be congruent with statistical data collection, tax thresholds, other transformation and development policies and informal economy definitions.
30. We understand that the DSBD was, a few years back, tasked with revising the definition of SMMEs. We understand that it is also tasked with reviewing the NSEA, however, in May 2021 the Department said that it is cautious to provide timelines because it will be doing a lot of consultations as it wants to bring everyone on board and only once the Department has a product that is acceptable to most people will it start taking it through the government processes and then take it to Parliament¹.
31. Although we understand the complexities involved in this process, we do believe that there is already a lot of research on this topic and that reviewing the NSEA should be expedited due to its critical importance to SMMEs. The delay is creating more harm and negative impacts than a universal SMME definition that is not 100% appropriate (if such thing exists) would do.
32. One example of the negative impact of the lack of a uniform SMME definition has on SMMEs, is where an entity (e.g. A Public Benefit Organisation (PBO)) wishing to provide public benefit activities (such as training and support) as well as funding to SMMEs (as set out in the Ninth Schedule to the Income Tax Act No.58 of 1962), will have to set up two separate legal entities to provide these services because of the restrictions imposed in the Income Tax Act. Furthermore, these entities will be restricted in relation to what SMME they can support as it is all dependent on the size (and industry) of the SMME as defined in the Income Tax Act).
33. Submission: The lack of a uniform SMME definition means that a significant amount of red tape, complexity and exclusion to access is created. A SMME would have to navigate its financing, capital structure, labour, tax matters and incentives all based on different requirements as to both access compliance and reporting. This directly results in SMMEs not being able to access or just abandoning any such prospect to especially incentives and support, to the detriment of the economy and government economic policy for SMME's. It also significantly increases the cost for SMME's to access, comply and report.
34. In particular, it appears that the tax legislation does not align with entities/funds that are created/available for supporting SMMEs and job creation. The above concerns highlight

¹ <https://pmg.org.za/committee-meeting/32933/>

- the disconnect between the country's investment objectives and the existing tax legislation that effectively prohibits SARS from supporting the national objective.
35. The available solutions given by SARS provide significant additional cost and operational burdens on companies wanting to invest in South Africa.
 36. Furthermore, the need for changes in the legislation to support PBO's is especially important in this post-COVID world where discretionary funding is in short supply to fund PBOs. However, entities wishing to provide training and support or assistance to SMMEs to improve their capacity to start and manage businesses, as well as the granting of loans to SMMEs, have no other option at this stage but to create two separate entities at much cost and added complexity.
 37. SAICA therefore strongly supports a uniform definition for SMMEs across government as priority to all other projects, as a lack of such definition across government not only increases complexity and compliance costs but prohibits entities wishing to assist SMMEs from doing so in the most economical manner resulting in less funds being available to provide the support SMMEs so desperately need.

New Agency

38. The Plan states that a critical step for the early stage of implementation is the successful merger of SEFA and SEDA into a new organisation which takes a central role in coordinating the various governmental departments' project activities that are SMME focused as contemplated in section 10(b) of the NSEA. Simply put, the central agency (New Agency), with its national footprint will be the predominant implementing agency for all of government (at all levels) for SMME support programmes.
 39. The New Agency, according to the Plan, is thus responsible for ensuring robust consultation, investment planning, coordination and reporting on partnerships and achievements on the economic matters impacting SMMEs and is also best placed to act as secretariat for the Presidential high-level summit every two years.
 40. The Plan provides the New Agency, working closely with DSBD, with a more active role in budgetary considerations and allocations across government on projects and government's goal to deliver more e-governance practices and centralises budgetary allocations to SMME support through "one system".
 41. The Department and the Presidency is to agree on budget allocations to the New Agency for the professional secretariat services to host the presidential summit.
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| <ol style="list-style-type: none"> 42. <u>Submission</u>: The merger of SEFA and SEDA is welcomed. 43. However, there does appear to be some overlap between what this New Agency is tasked with and the role of the DSBD and it would seem to be a lot more efficient and efficient to consolidate the New Agency into the DSBD that will ensure policy and implementation alignment for funding and support to SMME's. 44. Furthermore, should this New Agency still remain outside of DSBD, it should also be made clear who the New Agency is required to report to and why that is the most effective |
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and efficient way to align to the DSBD mandate to consolidate and enhance implementation. This is especially important given the DSBD own identification of cross governmental “silos” and lack of “political will” across government.

SPECIFIC COMMENTS: NISED MASTERPLAN SUMMARY TABLE (‘ACTION PLAN’)

Deadline for start

45. Although the NISED Plan does provide a deadline for *the start* of certain project activities (others were not so clear), it provides no deadline date for the activity to be *completed*.
46. Submission: The aim of any action plan is to get things done, so it's crucial to set deadlines for each task and overall milestones for each action item. This will ensure that each activity is on schedule and focused on achieving the goals of the plan.
47. A deadline date for completion should be inserted for each action item on the Plan as this will help with holding those who are tasked with a particular responsibility accountable for their actions or lack thereof.
48. This will also make it easier for National Treasury to align medium term budgeting to the Plan and for Parliament to exercise appropriate oversight. It would be virtually impossible to budget appropriately if clear timelines are not included – this would need to be factored into National Treasury’s budget plan.

Research

49. In various places in the Plan, it is indicated that the resources to conduct the required research is a risk or that there is no coordinated interlink with government priorities and academia. It is further stated that there is a lack of a preeminent platform to showcase SMME research (ie. hosting research colloquiums).
50. Submission: It is our understanding that academics are required to publish research that contributes to the body of knowledge in order to retain their jobs and/or to be promoted. There should thus be no problem with ensuring a constant flow of researchers/students that can assist with much of the research required in the Plan.
51. Various universities also regularly hold research colloquiums so the DSBD should be able to leverage off these in order to save costs and to reduce duplication of efforts. Given that there is already a significant local and global body of knowledge on SMME’s, this should, however, not be seen as a short-term impediment and the usage of current knowledge and academic platforms should be used concurrently with the creation of new ones.
52. For example, SAICA has partnered with various academic institutions and SARS to conduct meaningful research (e.g. on the tax compliance costs of individuals and SMMEs). We have also partnered with DTIC, SARS, Academic and the tax profession in the Ministerial Paying Taxes workgroup for research on SMME and SMME tax practices. SAICA is therefore willing to engage with the DSBD to share our experiences and to assist, where possible, to co-ordinate access to the various universities that SAICA deals with to share the needs of the DSBD in this regard.

Red Tape Reduction working groups

53. One of the action items is to establish and regularly convene Red Tape Reduction Business and Government working groups (local, district, province & national). The current situation in this regard is stated as “No workgroups established”. The risk is highlighted as agreement is required on action plans in this regard between business and government.

54. Submission: On a national level, SAICA was part of the Presidential Initiative to improve South Africa’s rankings on the World Bank Doing Business study that ranked business (SMMEs) according to the ease of doing business in a country. This initiative included various government and private stakeholders that worked together to achieve meaningful reforms to assist SMMEs. Although the World Bank study has been discontinued, the DTIC and Invest SA are still planning on continuing this engagement (funding permitted) as meaningful reforms came from this engagement.
55. SAICA was tasked to chair a subgroup to focus on the issue of tax complexity in relation to SMME’s and engage on formulation of policy and other practical interventions. However, we identified a challenge in that there seemed to be no platform for this engagement given the public sector role players included SARS, National Treasury and the DTIC.
56. In order to address the broad mandate of tax simplification for SMEs, it was confirmed by members of the Workgroup (including National Treasury, SARS & DTIC), that a consultation and engagement platform would be required outside of the normal legislative cycles. The National Treasury representatives on the Paying Taxes Technical Workgroup were also in agreement with this in principle. Despite a formal request to the National Treasury leadership, they have declined to establish and support such a cross governmental and cross public/private sector initiative that would better create and harmonise policy and interventions.
57. SAICA is more than willing to continue providing support to these initiatives and advises the DSBD to engage with the National Treasury, DTIC and Invest SA to see how this sort of engagement can be continued and duplicated to other areas in government.
58. Another example where SAICA is trying to assist with reducing and simplifying the regulatory and compliance burden is in respect of the Public Interest (PI) Score that all companies are required to calculate in terms of the Companies Act No. 71 of 2008. SAICA has submitted comments to the DTIC requesting an increase in this score as it is used to apply certain requirements of the Companies Act, such as when a company is required to have audited or independently reviewed annual financial statements etc. The CIPC’s requirements in this regard have also resulted in unintended consequences that create an additional burden for smaller to medium sized companies.
59. The PI Score has been the same since the implementation of the Companies Act in 2011 and with the inflationary effect on the monetary measures of the PI Score over a period of time, smaller companies that are owner-managed or that have a lower PI Score would now have to move into the category of having their annual financial statements audited which unintentionally increases their regulatory burden.



60. In this regard, SAICA looks forward to further collaboration with the DTIC, CIPC and all other relevant stakeholders to ensure that the red tape related to the formation and continued existence of companies is simplified and cost effective.
61. It is therefore evident that there are already various workgroups between government and businesses/associations, and these should be leveraged and included in the Plan.
62. The President mentioned his commitment to assist SMMEs to thrive and did this by, *inter alia*, appointing Mr Nkosi to head up a team in the Presidency to cut red tape across government.
63. No mention is made in the Plan of how engagement with this team in the Presidency will take place and how the work of these separate organs will be harmonised.
64. Given the current lack of harmonisation across government, this is a real risk of just further exasperating the problem rather than solving it.
65. Submission: The Plan should include how engagement and collaboration between the team in the Presidency and other role players mentioned in the Plan will take place.