DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

NO. 1094 **12 OCTOBER 2018**

CALL FOR WRITTEN SUBMISSIONS FROM STAKEHOLDER BODIES AND MEMBERS OF THE PUBLIC ON THE UPDATING OF SCHEDULE 1 OF THE NATIONAL DEFINITION FOR SMALL ENTERPRISES IN SOUTH AFRICA

I, **Lindiwe D Zulu**, Minister of Small Business Development hereby:

a) Publish the following amended **Schedule 1** for public commentary in terms of the National Small Enterprise Definition as contained in the National Small Enterprise Act, 1996 (Act No. 102 of 1996), read with the National Enterprise Amendment Act, 2003 (Act No. 26 of 2003) and the National Small Enterprises Act, 2004 (Act No. 29 of 2004).

AVAILABILITY OF THE LEGISLATION AND RESEARCH DOCUMENTS

b) The Act referred to in paragraph 1, as well as the research that informed the updating of the schedule 1 of the National Definition for Small Enterprises in South Africa is available on request to the Department of Small Business Development, email: Legislation@dsbd.gov.za

CLOSING DATE

c) The closing date for the receipt of comments is set as 30 days after publication of this Notice.

ADDRESS FOR SUBMISSIONS

d) It would greatly assist the Department of Small Business Development if all submissions be in writing for the attention of the Legislation Development and Review Unit to the following address(es):

E-mail: Legislation@dsbd.gov.za

Or

Private Bag X84
Pretoria
0002

C/o Sector Policy and Research
Legislation Development and Review Unit
Ms Mpuse Setloboko

Initial

GENERAL EXPLANATORY NOTE

[ ] Words in bold type in square brackets indicate deletions from existing enactments
_____ Words underlined with a solid line indicate insertions into existing enactments

KEY AMENDMENTS

Upon analysis of research undertaken emanating from a series of Provincial and National stakeholder engagements, it is recommended that the following amendments be made to the Schedule of the Small Enterprise Definition as contained in the National Small Enterprise Act, 1996 (Act No. 102 of 1996), read with the National Enterprise Amendment Act, 2003 (Act No. 26 of 2003) and the National Small Enterprise Act, 2004 (Act No. 29 of 2004) to:

- Introduce new threshold values to account for inflation since the Schedule was last revised in 2003;
- Define small enterprise using two proxies instead of three i.e.: total Fulltime Equivalent of Paid Employees and Total Annual Turnover;
- Remove the third proxy of Total Gross Asset Value in the current definition as the proxy is often inappropriate and difficult to measure; and
- Remove the size or class category of "Very Small enterprise" which is part of the current definition and be subsumed into the category of "small enterprise", as many users found this size or class category unhelpful and inconsistent with international practice.

OBJECTIVES OF THIS STATEMENT

The Minister of Small Business Development is empowered by section 20 (2) of the National Small Enterprise Act, 1996 (Act No. 102 of 1996) to amend the Schedule in order to achieve the object of this Act.

The amendment of the schedule of the Small Enterprise Definition aims to ensure that these definitions are current, relevant and applicable to the structure and nature of SMMEs, thereby ensuring access to government support programmes while promoting their financial sustainability and ability to promote and create employment over the medium to long term.

Thereby recommended to:

- Revise the schedule in accordance with the 75th percentile distribution cut-offs from the statistical data generated by the SARS-NT panel;
- Adjust year on year for inflation (6%) to determine the sector cut-offs until 2020;
- Collapse "very small firms" (between 5 and 20 employment) with "small firms";
- Eliminate assets as a proxy since the asset proxy is difficult to administer due to complexities relating to the verification of assets and their actual values. This is further confirmed in the SARS-NT dataset based on the CIT data; and
- Update the SIC classifications and thresholds with Statistics South Africa data which are more accurate and based on company surveys.

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CURRENT DEFINITIONS AND PROPOSED REVISIONS

The current definitions classify small enterprises into four size classes:

- "Micro-enterprise";
- "Small Enterprise";
- "Very Small Enterprise"; and
- "Medium Enterprise".

(1) These size classes will cover all forms of ownership and enterprise structures, including sole proprietors, partnerships, companies and cooperative enterprises; they also apply to formal and informal enterprises.
(2) In defining these class sizes, three proxies were used: (1) number of people employed, i.e.: full time equivalents, (2) value of annual turnover and (3) value of assets.
(3) The review into the use of the definitions and proxies found that many public and private agencies found it difficult to apply all these proxies and that the threshold value of turnover and assets were often inappropriate and difficult to measure. Thus, it is recommended that two proxies are used to define enterprises of different size classes.
(4) Furthermore, consultations during the review found that the size class of "Very Small Enterprise" is not consistent with international practice and many agencies in South Africa found it to be unhelpful. Thus, it is recommended that the term "Very Small Enterprise" be abolished and subsumed into the size class of "Small Enterprise".

THE REVISED DEFINITION

Purpose of a national definition of small enterprise - A national definition of small enterprise is required to officially identify small enterprises in order to:

(1) Inform the design, management and assessment of business support measures (i.e.: programmes and services) in national and sub-national (i.e.: provincial and local) territories.
(2) Measure change in the business sector (i.e.: statistical analysis).
(3) Promote consistency in the use of terms in order to align government policy and legislation.

The new definition introduces three different categories of enterprises:

Small, medium and micro enterprises; and two proxies of total full time employment and total annual turnover.

THE LIMITATIONS OF THIS STATEMENT

The revised schedule updates have not captured any reference to the informal sector; these firms will be present in the Micro cut-offs threshold as proposed in the schedule.

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