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This action is funded by the Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2016 in favour of the Republic of South Africa to be financed from the general budget of the Union

Action Document for the Employment Promotion through SMMEs Support Programme for the Republic of South Africa

<table>
<thead>
<tr>
<th>1. Title/basic act/CRIS number</th>
<th>Employment Promotion through SMMEs Support Programme for the Republic of South Africa, CRIS number: DCI-AFS/039-297 financed under Development Cooperation Instrument (DCI)</th>
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</table>
| 2. Zone benefiting from the action/location | Southern Africa, Republic of South Africa  
The action shall be carried out at the following location: Republic of South Africa |
| 4. Sector of concentration/thematic area | Sector 1 - Employment creation/the cost of doing business, especially for small, medium, and micro-sized enterprises (SMMEs) reduced  
DEV. Aid: YES¹ |
| 5. Amounts concerned | Total amount of EU budget contribution EUR 52 245 800 of which EUR 38 000 000 for budget support and EUR 14 245 800, for complementary support. |
| 6. Aid modality(ies) and implementation modality(ies) | Budget Support  
Direct management – Budget Support: Sector Reform Contract, and procurement of services. |

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.
| 7 a) DAC code(s) | 320 – Industry, Mining & Construction – 89%; 32130 – SME development – 89%; 32161 – Agro Industries- 11%.  
250 – Business & Other Services – 11%: 25010 – Business Support Services & Institutions – 100%. |
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<td>b) Main Delivery Channel</td>
<td>10000 – Public Sector Institutions</td>
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### 8. Markers (from CRIS DAC form)

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<table>
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### 9. Global Public Goods and Challenges (GPGC) thematic flagships

<p>| | |</p>
<table>
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<tbody>
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</table>

### 10. Sustainable Development Goals (SDGs)

Main: SDG Goal 8 "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"  
Secondary: SDG Goal 5 "achieve gender equality and empower all women and girls". SDG Goal 10 "reduce inequality within and among countries". SDG Goal 13 "take urgent action to combat climate change and its impacts"

### SUMMARY

The overall objective of the "Employment Promotion through small, micro and medium enterprises (SMMEs) Support Programme for South Africa" is to contribute towards inclusive and sustainable economic growth and employment creation through supporting SMMEs. It is expected to contribute to the government's targets of reducing official unemployment from around 26% in 2016 to 14% by 2020, by reducing the cost of doing business especially for SMMEs and by enhancing their business, marketing and production skills. The specific objectives/outcomes will be as follows (1) to improve the competitiveness of SMMEs and their
ability to meet procurement requirements of large multinational/local corporations and state-owned enterprises (2) to improve access to finance for SMMEs with limited access to finance (3) to improve the regulatory and administrative environment for SMMEs. The programme will focus its support to SMMEs in sectors identified in the New Growth Path and Industrial Policy Action Plan (IPAP) as having high growth and employment creation potential, these include agribusiness, infrastructure, mining and green industries.

This programme will be implemented through sector budget support with complementary support through project modality. The choice of budget support takes into account the fact that the fundamental values, macroeconomic policy, Public Finance Management (PFM) and budget transparency and oversight have been assessed and found to be satisfactory. In addition, appropriate government institutions and policies are in place to allow for positive uptake of the programme. These include the following: (1) the creation of a new Department for Small Business Development (DSBD) to be solely focused on small business development (2) ensuring that all spheres of government and state-owned enterprises are required to set aside 30% of appropriate categories of state procurement for purchasing from SMMEs as a matter of policy (3) new policy that encourages private companies to actively develop SMMEs within their value chains as suppliers by allocating a portion of their income to enterprise development programmes.

A Programme Steering Committee (PSC) will be established comprising of government, the private sector, the EU and cooperating partners to provide strategic guidance and oversight of the implementation of the programme.

1 CONTEXT
1.1 Sector/Country/Regional context/Thematic area

South Africa is facing persistent poverty, decline in economic growth, high rates of unemployment of above 25%, underemployment and inequality. Based on the World Bank’s Economic Outlook report (2014), growth momentum in South Africa has faded progressively since 2011. The real gross domestic product (GDP) growth declined from post-crisis peak of 3.6% in 2011 to 1.5% in 2014. In addition, the general consensus is that growth as measured by GDP has not resulted in reciprocal job creation. The government acknowledges these challenges and through the National Development Plan (NDP) 2030 is committed to ensure improved standards of living for all South Africans through the elimination of poverty and reduction of inequality. The NDP has prioritised three areas: employment creation; education, training and innovation; and building a capable and developmental state. This programme aims at complementing government efforts in addressing the above challenges through the promotion of a healthy SMME sector. This takes into account results of a number of studies that have found a positive relationship between SMME growth and employment creation.
1.1.1 Public Policy Assessment and EU Policy Framework

There are a number of government policies that are consistent with the proposed intervention. These include the National Development Plan (NDP), the Broad-Based Black Economic Empowerment (B-BBEE) Act and its Codes of Good Practice, the New Growth Path, the Delivery Agreements under the Government's Outcome approach, the Medium Term Strategic Framework, and the Industrial Policy Action Plan (IPAP). Key objectives of these policy documents include unemployment reduction, reducing the infrastructure constraints on business, such as energy and transport; offering tax incentives for employment, in particular unemployed youth; reforming labour markets; harmonising approaches to encouraging local procurement; designing sector-specific incentives for strategic sectors (in particular green industries, farming and rural agro-processing and metals); and strengthening demand-side skills planning through the development of customised artisan programmes in support of IPAP priority sectors.

In summary the National Development Plan articulates a vision of an economy that is inclusive, equitable and fast growing, with SMME contributing 90% of all new jobs by 2030. The B-BBEE Act intends, among other things, to increase the number of black people that manage, own and control enterprises and productive assets; facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; human resource and skills development; promoting preferential procurement, which involves the purchase of goods and services from enterprises that are owned or managed by black people; and investment in enterprises that are owned or managed by black people. The Broad-Based Black Economic Empowerment Codes of Good Practice provides a framework with which private companies are assisted to comply with B-BBEE throughout the chain of supply, from first-tier suppliers to government downwards.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa which was followed by the promulgation of the 'National Small Business Enabling Act in 1996 encourages' among other things, the need for the government to create an enabling legal framework, facilitate access to information and advice, boost procurement from small firms and to improve access to finance and affordable physical infrastructure. Through the small business policy in South Africa, several departments and arms of government and agencies are offering a number of small business support programmes, to give effect to the country's small business strategy and legislation.

In 2005, the government's strategy was revised and the 'Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises' was published, giving renewed impetus to the government's efforts to foster a vibrant SMME sector. It remains the overarching strategy for small business development and is based on three pillars (1) Increasing the supply of financial and non-financial support for SMMEs (2) Creating demand for SMME products and services; and (3) Reducing regulatory constraints

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2 The Outcomes approach was adopted by government as a planning tool to track progress in the delivery of government programmes. Twelve Outcomes were agreed by the Cabinet in 2010, including Outcome 4 (Employment) and Outcome 5 (Skills).
Further, the Strategic Plan for the Department for 2016-2019 has been finalised and is now being implemented. The strategy seeks to address a number of objectives which include *inter alia*: 1) the creation of a conducive legislative and policy environment for SMMEs; 2) to drive a comprehensive research agenda on key areas relating to SMME support; 3) to drive integrated planning and monitoring of SMMEs and cooperative development in rural areas and townships; 4) to design and implement targeted programmes that support new and existing SMMEs and Cooperatives in rural areas and townships; 5) to increase the participation of SMMEs and cooperatives in the mainstream economy; 6) to coordinate and maximise support for SMMEs and cooperatives through public-private partnerships (PPPs).

The establishment of the DSBD as the new political champion and lead coordinator for small business development is a positive development, which was well received by key SMME actors in South Africa. One challenge, however, is that the DSBD is only two years old and is still in the process of building adequate capacity. This is mitigated, however, by the involvement of Department of Agriculture Forestry and Fisheries (DAFF), Small Enterprise Finance Agency (sefa), and the Department of Trade and Industry (DTI) with a long track record and the foreseen support under this programme through provision of experts to assist in the implementation of the foreseen activities.

The digital economy in South Africa has experienced growth, but quicker growth is anticipated once implementation of policies aimed at increasing broadband access are implemented. At this juncture, the exact policy instruments are debated and contested, but policy certainty is likely to emerge once the Department of Telecommunications and Postal Services unveils clear policy. This will be an important step to reducing the costs to access broadband services. The reform initiative is likely to provide an environment in which Fintech start-ups will have better prospects for growth. South Africa already has a set of institutions in the public sector (e.g. Innovation Hub) and the private sector (e.g. AlphaCode, a hub for financial services entrepreneurs). Additionally, efforts to remove informational asymmetries on funding arrangements are being addressed. An example is FinFind ([https://www.finfindeasy.co.za/](https://www.finfindeasy.co.za/)) which provides consolidated services of financial products for small business, and provides guidance to entrepreneurs on selecting products.

Overall, the European Commission is of the view that the current policy environment for SMME development in South Africa is favourable due to the consistency of key policies and the fact that SMME development has been placed at the top of the government development agenda. The government's objectives are moreover consistent with the EU objectives in the "Agenda for Change"[^3], the EU Communication on 'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries'^[^4], and the new trade strategy "Trade for All: Towards a more responsible trade and investment policy". These policies underscore the importance of inclusive and sustainable economic growth for long-term poverty reduction and

[^4]: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries. COM(2014) 263 final
the fundamental role of the private sector in providing jobs. Among its policy commitments, the EU is expected to strengthen those sectors that have a high multiplier effect in developing countries, such as sustainable agriculture and energy, and to strengthen the role of private sector in development cooperation. Agenda for Change also states that an enabling environment and more effective ways of leveraging private sector participation and resources in partner countries will be key to the development of a competitive private sector. Trade for All highlights that trade should be accessible to small, medium and large enterprises and the need for responsible trade, which among other aspects addresses the specific needs of small and medium enterprises (SMEs) such as dedicated SME provisions in all Free Trade Agreements and closer work with SME representative bodies. The recent conclusion of the Southern African Development Community (SADC) - EU Economic Partnership Agreement (EPA) opens up new opportunities, notably in the area of regional and global value chains, which SMMEs should be able to take advantage of.

Furthermore, an EU External Investment Plan is foreseen aimed at supporting investments in Africa and the EU Neighbourhood countries as a means to contribute to the achievement of sustainable development goals, while tackling the root causes of irregular migration and forced displacement. It will provide an overall framework for the promotion of investment in these geographical regions, by leveraging funds from the EU, its Member States and other donors, and financing from Financial Institutions (FIs) and the private sector. The External Investment Plan will be based on three pillars: a new investment fund (pillar 1) including a new guarantee facility, a technical assistance component to help local authorities and companies develop a higher number of sustainable projects and attract investors (pillar 2); and a range of dedicated thematic, national and regional EU development cooperation programmes combined with structured political dialogue targeted at improving the investment climate and overall policy environment in the countries concerned (pillar 3).

### 1.1.2 Stakeholder analysis

The final beneficiaries of the Programme will be the people of South Africa who will benefit from a reduction in poverty and improved standards of living, through economic growth and a more equitable distribution of wealth. They will benefit either directly through job creation or indirectly through their central, regional and local administrations or semi-public institutions.

The target group of the Programme will be the private sector, in particular SMMEs, and the Government. SMMEs will benefit from capacity building and enhanced access to markets, appropriate financing and an improved administrative and regulatory environment, while the relevant government departments and local authorities will be able to access resources necessary to assist with the implementation of their policies in this area.

Under the coordination of the National Treasury, the main relevant South African government departments who are expected to be key partners in implementation were identified and consulted during formulation. The departments are: DSBD, DTI and DAFF. The Small Enterprise Finance Agency, a government-owned finance institution, was also identified and consulted as one of the key implementing partners. During formulation, consultations with a number of private sector actors (business chambers, corporate companies/buyers, private funds/investors, researchers, think tanks and other agencies etc.) were carried out to solicit their
views and inputs to the programme. Other stakeholders consulted included state-owned enterprises as well as international development cooperation partners that are supporting private sector activities in South Africa. To ensure demand and ownership, the key implementing partners were requested to submit detailed proposals based on their respective priorities, which were then discussed and –as appropriate- integrated within the description of the action.

1.1.3 Priority areas for support/problem analysis

In 2014, the government of South Africa reaffirmed its commitment to the small, micro and medium enterprise (SMME) sector by creating a new Department solely focused on small business development. The DSBD is mandated to lead an integrated approach to the promotion and development of small businesses, also by ensuring coordination with other key role players in the sector. In addition, in order to increase demand for SMME goods and services, the government has introduced a set-asides programme in support of small businesses. Through this programme, all spheres of government and state-owned enterprises are required to set aside 30% of appropriate categories of state procurement for purchasing from SMMEs. Private companies are also incentivised to actively develop SMMEs within their value chains as suppliers by allocating a portion of their income to enterprise development programmes, if they want to do business with the State.

In spite of these policy initiatives developed by government, SMMEs in South Africa continue to be faced with limitations and fail. This is supported by research conducted by Absa Bank Small Business which revealed that 63% of small businesses in South Africa fail in the first 18 months of their trading. The biggest challenges facing SMMEs in South Africa are: lack of skills to effectively run their businesses; lack of access to markets, the lack of access to finance, and an inhibiting administrative and regulatory environment.

   a) Lack of skills and access to markets

There is ample evidence that many SMMEs have failed to capitalise on the procurement opportunities presented by big companies/buyers and the public sector, because they lack the requisite competitiveness. Similar considerations apply to the SMMEs' ability to access international markets and use opportunities opened up under trade agreements such as the SADC-EU Economic Partnership Agreement (EPA). A number of factors have been cited as the main constraints to integration of SMMEs in the supply chains of these big companies. These include: capacity of SMMEs to provide quality goods and services according to the requirements of big companies; compliance with regulatory requirements; inappropriate technical skills, insufficient operative and financial management skills; and lack of access to finance. The skills challenge is largely attributed to the lack of a well-functioning ecosystem of business development services (BDS) in South Africa and technical vocational education and training (TVET) system. The BDS ecosystem is characterised by many players that are offering a diverse range of support. While the government has attempted to offer strategic direction, there is as yet no coherent and focused delivery of such services. Many programmes are not sufficiently linked

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[7]
to access to markets for products of SMMEs and are not integrated with access to finance strategies. A study by Business Unity South Africa (BUSA) on the challenges facing SMMEs revealed skills shortages in the workplace as one of the biggest impediments to the growth of small firms. Only 4% of the SMME respondents to the research indicated that vocational education (TVET-run courses) meets most of the needs for their businesses⁶.

The TVET system faces significant challenges and weaknesses in providing the appropriate quality of skills and “on-the-job” training required by the economy in various sectors. This issue affects directly entrepreneurship development, due to the lack of good quality training, which is further exacerbated by the lack of strong partnerships between TVET colleges and the private sector. In particular, concerning on-the-job training many entrepreneurs/students cannot easily access apprenticeship, internship, learnership or mentorship opportunities in the work place. The Japan International Cooperation Agency (JICA) is currently undertaking a survey to identify the needs of the TVET system in various trade sectors in South Africa⁷. The first draft of the report is expected around November 2016 and the EU Delegation is in discussion with JICA on this issue. It should be noted that the Delegation is planning a new programme in 2017 focusing on skills development (vocational training, life skills and entrepreneurship development), work integrated learning, placement assistance and targeting the TVET system in South Africa.

Given the government's renewed focus on providing access to markets to SMMEs through both public sector procurement (30% of appropriate goods and services procured from SMMEs) and private sector market via enterprise development programmes, a huge opportunity exists to build the competitiveness of SMMEs to capture these markets and to facilitate their growth and development. The proposed programme aims to address the above constraints by equipping SMMEs with the requisite technical and operative skills.

The **SMMEs to be supported through the programme will be linked to the supply chains/value chains of big companies/state-owned enterprises**, which will require close partnership with the private sector. The aim is to ensure that the programme develops SMMEs with clear market opportunities as opposed to stand-alone capacity-building which have often been found to be ineffective.

These **SMMEs will also be aligned to the government's high priority sectors in terms of their potential for high growth and labour absorption** as set out in the key policy documents such as the IPAP, the Agriculture Policy Action Plan (APAP), the New Growth Path and the NDP. These include agro-processing, mining (small to medium mining equipment and mineral beneficiation), infrastructure and green industries. Discussions with relevant sector divisions at the DTI and DAFF have confirmed the potential to develop SMMEs in these value chains.

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⁷ This is an initiative of the Vice President of South Africa following a visit to Japan in 2016.
b) Access to finance

Access to finance is singled out as one of the major challenges impeding the survival and growth of SMMEs in South Africa. Many entrepreneurs are of the opinion that, although there seems to be sufficient funds available in the market, it remains difficult to access these funds especially for start-up SMMEs. This is attributed to a conservative financial sector which prefers to concentrate on more established businesses with risk profiles that they find acceptable, rather than supporting businesses with higher risk profiles. Stringent requirements by commercial banks also make it difficult to access funding, and alternative sources of funding are not readily available or accessible to entrepreneurs.

c) Excessive red tape

There are many regulations or administrative requirements which, although mandatory for all businesses, are not well adapted to SMMEs and could hamper their development. A panel of SMME owners participating in 2013 in a Small Business Project SME Growth Index reported that they spend about 75 hours a month dealing with red tape. This can be anything from huge amounts of paper work that have to be completed, and the number of laws and returns that need to be complied with. The Department of Small Business Development has identified the review of regulatory and administrative burden and red tape reduction as one of its key objectives in order to contribute to the right enabling environment for small business.

Overall, the proposed programme aims to support the government in addressing the above constraints. Catalysing private sector involvement, for instance, financial institutions, angel investors, large corporations and business chambers, in addressing the needs of SMMEs, will be critical. The potential impact includes survival of SMMEs beyond the current life expectancy of the average SMME through enhanced access to finance and skills development; jobs being secured and new jobs created, both directly and indirectly through further demand effects; increased growth and formalisation of SMMEs leading to increased government revenue through tax collection.

1.2 Other areas of assessment

1.2.1 Fundamental values

South Africa has a strong framework for adherence to the fundamental values of democracy, human rights, and the rule of law. It has also ratified all the main international human rights conventions.

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9 Article, 12 June 2014. "It's tough being an SMME in South Africa". Conducted by business environment specialists SBF, the SME Growth Index is geared towards establishing a solid evidence-based understanding of SMEs in South Africa.
With respect to **democracy**, peaceful periodic democratic elections are held in respect of national laws and international standards. Constitutional/democratic institutions function well and checks and balances are in place. A strong civil society and media significantly contribute to pluralism, oversight and accountability.

With respect to the **rule of law**, the South African Constitution includes the three branches of the State (Government, Legislature and Judiciary), in accordance with the separation of powers. The South African Judiciary carries out its constitutional mandate impartially, and its independence vis-à-vis Government is ensured by the Office of the Chief Justice, whose supervision powers have been recently strengthened.

With respect to **human rights**, they are enshrined in the Constitution and the Bill of Rights (Chapter 2 of the Constitution). Particular features stand out in terms of South Africa's approach to human rights. First, section 7.2 of the Constitution requires the State to "respect, protect, promote and fulfil the rights in the Bill of Rights". Second, the Bill of Rights establishes a number of socio-economic rights in the areas of environment (section 24), property (section 25), housing (section 26), health care, food, water, and social security (section 27), children (section 28), and education (section 29). The State has the obligation, in most cases, to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. Third, these socio-economic rights are justiciable: citizens are empowered to bring authorities to court if their rights are not realised in accordance with the terms of the Constitution. Non-judicial actions vis-à-vis the State can also be undertaken as illustrated by an action initiated in 2012 and led by a South African civil society organisation (CSO) on minimum norms and standards for school infrastructure.

The European Commission’s overall assessment of the fundamental values is positive despite some inherent problems linked to newly established democracies. The political debate at all levels and amongst all strata of the society on the underlying principles, while at times chaotic, remains open and free.

### 1.2.2 Macroeconomic policy

There is no doubt that, since 1994, South Africa has made significant social and economic progress. Access to basic services has substantially increased as highlighted in the latest General Budget Household Survey (2015). Annual GDP growth over the last two decades reached 1.5% contributing to much improved living standards. Also, globally-competitive corporates and a sophisticated financial sector have resulted in a more internationally integrated economy.

Meanwhile, the country still faces considerable challenges to meet the socioeconomic objectives set in the National Development Plan 2030. A quarter of the labour force is unemployed and inequality measured by personal disposable income is amongst the highest in the world.

The 2016 GDP growth is projected at 0.1% and a 2017 recovery is not currently envisaged by the National Treasury and the Reserve Bank. The economy is under-performing leading to increased unemployment. Global financial instability, China's slowdown and rebalancing, weak commodity prices, domestic policy uncertainties combined with credit rating downgrades risks are factors that contribute to this grim outlook and low business' and consumers' confidence.
Greater private sector participation and investment in the economy would help as public balance sheets are stretched. For this, it would be beneficial to have improved industrial relations, more inclusive labour markets, improved professional skills and technical capacities. Also important are enabling the business environment and removing obstacles to private investment. Equally important is the state’s capacity to plan, manage, maintain and increase investments in infrastructure.

Political stability and structural reforms are both imperative and urgent to facilitate private sector led-growth and consequently create job opportunities, reduce inequality and vulnerabilities. The government should continue to invest in human capital (education and training) and continue to reduce electricity bottlenecks.

The 2016 Budget targets are reasonably ambitious though based on growth assumptions that possibly will not materialise. Greater public expenditure efficiency, strict adherence to an expenditure ceiling, containment of the public sector wage bill and maintaining debt sustainability are the key features of the South African government's fiscal policies. Improving state-owned enterprises governance, performance and balance sheet is also a key priority for the National Treasury. Contingent liabilities are quite substantial and represent a financial risk - in an already weak economy - that the government cannot afford. Increasing private sector participation in state-owned enterprises is also being considered though difficult to get accepted from a political point of view.

SARB's primary objective on monetary policy remains price stability. Price stability reduces uncertainty in the economy and, therefore, provides a favourable environment for growth and employment creation. After recent rate hikes, monetary policy may be able to remain on hold through more tightening may be needed if core inflation rise significantly.

The European Commission’s conclusion is that it believes that the country will stay within acceptable macroeconomic and fiscal boundaries, while acknowledging a somewhat increased risk in this area, both due to endogenous and exogenous factors.

1.2.3 Public Financial Management (PFM)

Unquestionably, the National Treasury remains the custodian of South Africa’s national government finances as mentioned in the Constitution of the Republic (Chapter 13). Its solid foundations have been built over the last 20 years through the implementation of critical reforms such as the creation of a unitary fiscal system, a medium term budget framework (the October Medium Term Budget Policy Statement (MTBPS), the February Budget and Medium Term Expenditure Framework (MTEF), and extensive budget transparency.

This three-pillar system (the foundation of the PFM system in South Africa) enables the creation of a more predictable, open and transparent budget process, provides the opportunity for Parliament to discuss and shape government’s approach to the Budget and empowers it to amend the fiscal framework or change appropriations.

Overall, the PFM system in South Africa is highly developed and sophisticated and does not suffer major weaknesses. Fiscal discipline is the rule (expenditure ceiling – “rule of thumb” and stabilising debt to GDP/ratio). A much needed public procurement reform (eTender/ eCommerce
platform, Central Supplier Database) is under way. A new Public Procurement Bill is available for public consultation and is due to be presented to Parliament in October 2016.

Improving services delivery at the local level is certainly the first and most pressing challenge faced by the Authorities. Local unrests are bound to be more frequent evidencing ineffective and inefficient municipal management. Cooperative Governance and Traditional Affairs Ministry's Back to Basics Strategy has been specifically developed to create decent living conditions, improve good governance, increase public participation, strengthen financial management and build institutional capacity. The South African Revenue Services (SARS) still performs well. However, the recommendations of the Davis Tax Committee highlight the need to enhance the progressive character of the fiscal systems, to substantially improve the tax efficiency and to carry out structural improvement in revenue collection.

Overall, Public Expenditure and Financial Accountability (PEFA) 2014 scored slightly better than PEFA 2008 with some slippages though related to Budget Credibility (PI-4: Stock and Monitoring of Expenditure Arrears) and to predictability and Control in Budget Execution (PI-21: Effectiveness of Internal Audit). On the positive side, Comprehensiveness and Transparency has improved with a better score for PI-9: Oversight of aggregate fiscal risk from other public sector entities and Policy based Budgeting with a better score for PI-11: Orderliness and participation in the annual budget process.

The National Treasury carried out PEFAs at provincial level. Results showed that all nine provincial governments seem to perform reasonably well, mirroring the strengths and weaknesses of PFM systems and processes accounted for at the central level.

The European Commission is in a position to confirm that on the basis of the 2015-2016 annual monitoring report, South Africa’s PFM system is robust, transparent and constantly evolving to face the challenges posed by the global, regional, local economic and financial environment and therefore remains eligible for budget support.

1.2.4 Transparency and oversight of the budget (OBI 2015)

Eighty six out of one hundred is the score that South Africa obtained in the latest edition (2015) of the Open Budget Survey ranking the country at the third place after New Zealand (1) and Sweden (2). This score is substantially higher than the global average of 45.

Public participation: South Africa’s score of 65 out of 100 indicates that the public is provided with adequate opportunities to engage in budget process. Audit outcomes reports (Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA)) are easily accessible by the public through the website of the Auditor-General of South Africa (AGSA). It is worth noting that the European Commission intends to launch calls for proposals for Local Authorities (LAs) and Civil Society Organisations (CSOs) in the context of another EU-funded programme (DCI thematic programme on Non-State Actors-Local Authorities (NSA-LAs), whose priorities will be specifically to increase public participation and public monitoring throughout the budget cycle at the local level but also to create LAs/CSOs partnerships in that respect.
In terms of Budget Oversight: The legislature (score 85/100) provides adequate oversight during the planning stage of the budget cycle and adequate oversight during the implementation stage of the budget cycle. AGSA (score 100/100) provides adequate budget oversight. Under the law, it has full discretion to undertake audits as it sees fit. Moreover, the head of the supreme audit institution cannot be removed without legislative or judicial approval, which bolsters its independence. Finally, the supreme audit institution is provided with sufficient resources to fulfil its mandate and has an adequate quality assurance system in place.

In addition to conducting the Open Budget Survey in South Africa, the International Budget Partnership (IBP) works with civil society partners to monitor budgets at the subnational level and advocate for better policies and implementation. Based on this work, IBP also recommends that the government undertake a further set of budget transparency reforms that would support deeper public engagement in the budget process.

The European Commission is of the opinion that this eligibility criterion is fulfilled.

2 RISKS AND ASSUMPTIONS

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<td>Lack of commitment and ownership by the government to the assistance</td>
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<td>Risk will be mitigated by establishing a sound governance structure, including the EU</td>
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<td>provided by the Programme, as well as by other partners.</td>
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<td>Delegation, which will meet on a regular basis, to ensure commitment and ownership</td>
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<td>Competing interests in Departments in terms of SMME development that</td>
<td></td>
<td>throughout implementation.</td>
</tr>
<tr>
<td>could end up affecting implementation of the programme.</td>
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</tbody>
</table>

Assumptions

It is assumed that the development of SMMEs remains a key priority of the government and that Departments will continue giving this area and consequently the programme their full attention. Furthermore, it is assumed that over time DSBD will occupy its rightful position as the lead department on SMMEs and will be provided support by other departments.

Limited capacity related to the programme objectives in relevant government departments

Medium

Risk will be mitigated by providing the necessary capacity building measures and technical assistance to relevant government departments.

Assumptions

There is no more than normal staff turnover in the key implementing departments to guarantee effective transfer of skills and knowledge.

Lack of EU visibility and of a strong collaborative relationship with key government counterparts

Low/Medium

Risk will be mitigated by: establishing a sound governance structure including the EU Delegation; ensuring continuous dialogue with key government counterparts; and promoting the use of other complementary EU tools (e.g. dialogue exchanges with relevant European counterparts or drawing on short term European
<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>experts if and where possible) throughout implementation.</td>
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<tr>
<td><strong>Assumptions</strong></td>
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<tr>
<td>The programme governance structure is effective in discharging its</td>
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<td>mandate and that there is dialogue on key policy issues affecting</td>
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<tr>
<td>SMME development.</td>
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<tr>
<td>Limited buy-in from established corporates</td>
<td>Low/Medium</td>
<td>Involvement of private sector actors such as ABSA bank guarantees continued participation of corporates.</td>
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<tr>
<td><strong>Assumptions</strong></td>
<td></td>
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<tr>
<td>Incentives for large corporates to do business with the government</td>
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<tr>
<td>will sustain interest in Enterprise Development and Supplier</td>
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<td></td>
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<tr>
<td>Development.</td>
<td></td>
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<tr>
<td>Procurement opportunities remain confined to a small group of</td>
<td>Medium</td>
<td>Establishment of national SMME database will promote greater transparency and enhance supplier diversity.</td>
</tr>
<tr>
<td>SMMEs.</td>
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<tr>
<td><strong>Assumptions</strong></td>
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<tr>
<td>SMMEs are willing to register and provide details of their business</td>
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<td>on the national database.</td>
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<tr>
<td>SMMEs with contracts, financed by the programme have challenges to</td>
<td>Medium</td>
<td>Through the support of the technical assistance (TA) team, Small Enterprise Finance Agency (sefa), ABSA and other financiers that are part of the</td>
</tr>
<tr>
<td>supply quality goods and services.</td>
<td></td>
<td>programme will conduct due diligence on the SMMEs that are being funded and establish their BDS requirements in line with the specifications of the</td>
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<td></td>
<td></td>
<td>contracts and provide appropriate mentoring.</td>
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<tr>
<td><strong>Assumption</strong></td>
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<tr>
<td>It is assumed that, without compromising standards, supply chain</td>
<td></td>
<td></td>
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<tr>
<td>managers in government and private companies will have a</td>
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<tr>
<td>developmental approach that seeks to build the confidence of the</td>
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<tr>
<td>SMMEs that are providing goods and services and will interface with</td>
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<tr>
<td>the BDS mentors/trainers.</td>
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<tr>
<td>SMMEs fail to repay the loans they receive from the funds.</td>
<td>Low</td>
<td>The bulk of the funding will be provided to SMMEs with either government or private sector contracts. Payments will be received directly from the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SMMEs’ clients through a cessation of the contract. In the event that the SMME does not have a supply contract or is not in value chain, close</td>
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<td></td>
<td></td>
<td>monitoring and post finance support will assist to mitigate the risks of non-payment. The TA will also provide capacity building support to sefa to</td>
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<td></td>
<td></td>
<td>reduce non-performing loans.</td>
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<tr>
<td><strong>Assumption</strong></td>
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<tr>
<td>Majority of SMMEs that are supported by the programme either have</td>
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<tr>
<td>viable supply contracts in a designated value chain or have concrete</td>
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<td></td>
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<tr>
<td>business opportunities without necessarily having a contract.</td>
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<td></td>
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<tr>
<td>The sefa/ABSA ESD fund does not create good traction</td>
<td>Low</td>
<td>One third of the access to finance component have been earmarked for this fund while the other two thirds have been set aside for the Innovation fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to avoid concentration risk.</td>
</tr>
<tr>
<td><strong>Assumption</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Risks | Risk level (H/M/L) | Mitigating measures
---|---|---
sefa and ABSA are both committed to building a long term relationship and the latter, even though a commercial bank, continues to have significant interest and innovative approaches in SMME financing. |  |  |
SMMEs that are not financed by sefa funds will struggle to access BDS services | Medium | The programme will have a wider range of TA available which will be able to reach a wider pool of SMMEs that require BDS. |
**Assumption** |  |  |
SMMEs are very interested in this support and will be able to absorb the TA. |  |  |
Failure to integrate financial support for SMMEs with the technical support of the BDS, can result in various constraints | Low | This will be addressed through the TA facility set up under the access to finance component. |
**Assumption** |  |  |
TA facility will be well integrated into the access to finance part of the programme. |  |  |

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The EU can add value to this area through the lessons learnt from previous and existing programmes, such as the Risk Capital Facility (RCF); Innovation for Poverty Alleviation Programme; Employment Creation Programme; the Local Economic Development (LED) Programmes, and the National Development Policy Support Programme, as well as through the implementation of the funded grant projects in the areas of environment and skills development and job creation.

Some of the important lessons learnt are: (i) to enhance sustainability of the project, developing links with various relevant government Departments is strongly encouraged; however, the programme structure and governance has proven to be crucial for implementation purposes with, for instance, the RCF structure having proven to be very effective with implementation through a specialised entity but linked to the South African government; (ii) jobs and SMMEs creation can be enhanced through innovation, utilisation of research results and better access to technology; (iii) having a partnership with private sector actors in the project usually increases a project's chances to be successful and sustainable; and (iv) the relevance of targeting quality indicators in addition to quantitative ones.

Some valuable lessons from the RCF (*implemented in 2 phases from 2001-2015 - phase 1 for EUR 38 million and phase 2 for EUR 50 million*) that are particularly pertinent for the proposed programme are: (1) there is clear demonstration that providing risk capital to small enterprises contributes significantly to job creation - both the RCF I and the RCF II have significantly
surpassed their job creation targets with about 17 000 jobs created against a total target of 13 000 jobs. (2) In terms of additionality, RCF has proven the programme's ability to address current financial market failures through co-investment with Industrial Development Corporation (IDC) the implementing Development Finance Institution (DFI). A finding of the final evaluation is that some investments (in particular start-ups) would simply not have taken place as commercial banks consider SMEs as too risky. It is therefore useful to continue to support DFIs with risk-sharing instruments while, at the same time, look in to developing new mechanisms that would also encourage commercial banks to lend to SMMEs. (3) RCF also resulted in very positive leverage effects of EU funds at about 3 euro for every euro spent. (4) The importance of Business Support Services (BSS) for SMEs - for many small businesses, professional assistance and a degree of training and mentoring remains essential to the profitability and sustainability of their enterprises. (5) Programme management by IDC, a solid and reputable DFI partner, with TA by the European Investment Bank (EIB) – were key prerequisites for the success of the RCF. It is important going forward to ensure that we work with strong, credible partners.

Lessons learnt from similar programmes related to SMME support and supplier development, especially those implemented in South Africa, will also be taken into account during implementation of the programme.

3.2 Complementarity, synergy and donor coordination

Donor coordination takes place through the monthly EU Development Counsellors' meetings, and through the ad-hoc EU working group on employment. This group was formerly chaired by the UK's Department for International Development (DFID), but is now chaired by the EU Delegation. It is the intention to enlarge this employment working group to include, when appropriate, also non-EU donors active in this area. The EU's coordination with the South African Government takes place, among others, through the Employment and Social Affairs informal working group linked to the Strategic Partnership and the TDCA. Regular meetings take place that address particular topics, notably in preparation for the annual Joint Cooperation Council and the Summit between the European Union and the South African authorities.\(^{10}\)

In addition, as part of the Summit there is now a regular South Africa-European Union business forum that has included discussions on the business climate in South Africa and the problem of unemployment. Regular discussions also take place in the context of on-going projects and programmes.

Other main EU donors in the area of employment are France Agence Française de Development (AFD), Belgium, UK, Netherlands, Finland, and the EIB. Both EIB and AFD focus on infrastructure investment in South Africa, and the provision of credit lines to South African DFIs and commercial banks for on-lending to small and medium-sized enterprises (SMEs). The proposed programme will complement these credit lines. Belgium (Flanders – Flemish

\(^{10}\) Including, The Presidency, Department of Trade and Industry (DTI), the Economic Development Department (EDD), the Department of Higher Education and Training (DHET), the Department of Labour (DOL), and the Department of Social Development (DSD).
International Development Cooperation (FICA) has focused on employment creation through SMME development and social enterprise. Going forward, Flanders is looking to support the South African Government on green economy developmental initiatives. The Swiss Development Cooperation has a number of on-going initiatives that they undertake in South Africa, including value chain skills development, trade financing, Infrastructure development and climate change and green economy. The World Bank has undertaken some work through the Financial Sector Development and Reform Program (FSDRP). The programme has a number of interventions which could serve as a point of confluence for the proposed programme. These objectives relate to: 1) Enhancing access to finance for SMEs/ improving access to credit for SMEs; 2) The establishment of an SME credit information service or credit bureau; 3) A public support programme, such as a Partial Credit Guarantee scheme; and 4) improving the legislative framework for a modern movable asset lending regime and a centralized registry for security interests in movable property. Ireland has assisted the DTI in reviewing its policy on Special Economic Zones, and Finland provides support to Non-Governmental Organisations (NGOs) in the area of employment. Recently, the EU has established an EU Chamber of Commerce and Industry.

Coordination will also be sought with the United Nations Development Programme (UNDP), which also launched a Supplier Development Programme (SDP) in South Africa, drawing primarily on experience with similar programmes in other countries, notably Mexico. It is an initiative to work together with countries to increase the competitiveness of value chains by assisting SMMEs to provide more and better products and services to large companies. Trained and certified specialists work closely with SMMEs using a 9 - 10 month in depth intervention which follows a methodology which is based on world best practices with regards to quality, price, time of delivery, and service.

In addition, by designing the programme jointly with National Treasury’s International Development Cooperation department, there is also access to information on other donors and international organisations working in this area, which can facilitate synergies and ensure efficient utilisation of resources and avoid duplication.

Complementarity can also be found in the fact that this programme falls under the MIP Overall Objective 1 "To assist the Government in reducing unemployment from around 25% (2013) to 14% (2020)" and focuses on Specific Objective (SO) 2 "The cost of doing business, especially for Small, Medium, and Micro-sized Enterprises (SMME) reduced", notably on the accompanying result areas 'access to appropriate finance for SMMEs improved', 'Business Support Services for SMMEs consolidated and strengthened', and 'administrative environment for SMMEs simplified'. This means it is complementary to the Capacity building Programme for Employment Promotion (CBPEP) adopted as part of the Annual Action Programme (AAP) 2015, which falls under the same Overall Objective 1 with a focus primarily on SO 1 "Employment creation and active labour market policy making and implementation improved", through institutional strengthening and capacity development assistance. It is also complementary to another programme under the MIP Overall Objective 1 that is envisaged, probably in 2017, to focus primary on SO 3 "Actions in the area of skills development and placement assistance enhanced".
3.3 Cross-cutting issues

The following cross-cutting issues will be brought into the mainstream of this programme:

- **Gender equality and women’s empowerment.** Actions will focus on supporting women-owned enterprises to promote their access to investment funding, employment, and skills development, as appropriate. One of the key outputs that will be monitored during implementation of the programme is the extent to which women-owned and youth-owned enterprises access investment funding.

- **Environment/climate change.** Special attention will be paid to mainstreaming environment and climate change related issues, through encouraging growth and job creation in SMMEs active in the green economy, and by ensuring that SMME activities do not negatively affect the environment and apply low-carbon choices. A key output that will be monitored during implementation of the programme is the proportion of investment funding that will be allocated to green enterprises.

- **HIV/AIDS prevention.** SMMEs that are supported by the programme will be encouraged and assisted to develop HIV/AIDS prevention and support measures for their staff.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This programme is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG Goal 8 "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", but also promotes progress towards Goal 5 "achieve gender equality and empower all women and girls", Goal 10 "reduce inequality within and among countries", and Goal 13 "take urgent action to combat climate change and its impacts". This does not imply a commitment by the country benefiting from this programme.

The overall objective (impact) of the programme is to support inclusive and sustainable economic growth and employment creation in South Africa in line with the Government of the Republic of South Africa’s objectives as described in its National Development Plan, notably to reduce the official unemployment rate from around 25% (2013) to 14% (2020).

The specific objectives/outcomes of the programme are:

i. to improve the competitiveness of small, micro and medium enterprises (SMMEs) and their ability to meet procurement requirements of large multinational/local corporations and state-owned enterprises.

ii. to improve access to finance for SMMEs with limited/no access to finance.
iii. to improve the regulatory and administrative environment for SMMEs\textsuperscript{11}.

The Key Result Areas (KRAs) of this SMME Support Programme are informed by the KRAs of the Department of Small Business Development’s (DSBD) strategic plan and are as follows:

**KRA 1:** Competitiveness of SMMES, and their ability to meet procurement requirements of large multinational/local corporations, government and state-owned enterprises is improved.

**KRA 2:** Access to finance for SMMEs with limited or no access to finance is improved.

**KRA 3:** Capacity of relevant government departments/agencies in enhancing the regulatory and administrative environment for SMMEs is strengthened.

The indicative list of result indicators are detailed in Appendix A of this Action Document.

### 4.2 Main activities

#### I. Value Chains/Suppliers Development

The programme will support SMMEs to capitalise on opportunities as suppliers to bigger companies and the public sector, building also on incentives set by government related to procurement from SMMEs. The aim is to address the constraints related to the capacity of SMMEs to provide quality goods and services according to the requirements of big companies or state-owned enterprises, bringing about a win-win situation for the parties involved. The main constraints relate to inappropriate technical skills and insufficient operative, marketing, business and financial management skills. An objective approach will be used to identify deficiencies in the participating SMMEs. After the diagnostic exercise, customised intervention packages will be implemented for participating SMMEs. This will involve providing the right technical (e.g. in the area of quality standards), business and market expertise to the involved SMMEs.

Within the framework of minimum conditions required by corporates or government entities/state-owned enterprises towards their possible suppliers, efforts will be made to assure equal opportunities for SMMEs to participate in the supplier development process, for instance through targeted requests for interest where appropriate, while also taking into account other criteria such as promoting business ownership by the previously disadvantaged population and stimulating employment of women.

The main activities foreseen under this component are focused on, inter alia: (i) Capacity building of public sector officials to enhance participation of SMMEs in government

\textsuperscript{11} Complementarity will be assured with the Capacity building Programme for Employment Promotion (CBPEP), adopted as part of the AAP 2015, which includes as area of support, among others, the analysis, monitoring and advice on small business promotion and informal sector development.
procurement, in particular targeting the 30% set aside\textsuperscript{12} and possibly capacity building of civil society organisations (specifically the Chambers of Commerce) to promote increased involvement of SMMEs in the corporate supply/value chains. (ii) Business Development Services (BDS) support to SMMEs in targeted value chains in the private sector and in the public sector through promoting the government procurement 30% set aside. (iii) Agri-business value chain analysis and development including provision of BDS for SMMEs. This can include initiatives such as a sanitary and phyto-sanitary support programme, and an agro-processing certification programme for smallholder producers and entrepreneurs.

II. SMME Financing\textsuperscript{13}

The anchor entity identified for this component is the Small Enterprise Finance Agency (sefa) which will work with private sector actors such as ABSA bank and other financial institutions, and possibly with other Development Financial Institutions (DFIs). Two main activities are foreseen: (i) wholesale lending initiatives between sefa and private sector financial institutions, with a specific focus on increasing access to finance for SMMEs, notably for those with potential as suppliers in corporate or government value chains. These initiatives will leverage sefa's own funding and substantial leveraging of private sector funding from financial institutions and corporates is also expected; and (ii) Business Development Support (BDS) to the SMMEs that are being financed and support to sefa and partners to build internal capacity in order to assist in the implementation of the programme, and to enhance further lending to SMMEs.

III. Support for red tape reduction, national SMME data base development, SMME related research, Monitoring and Evaluation and capacity building measures\textsuperscript{14}

The main activities foreseen under this component are as follows: (i) Assistance to initiatives guided by the DSBD such as the development of an SMME National Database; development of a small business portal, roll-out of the National Red Tape Municipal Support Programme; and SMME surveys; (ii) Assistance to initiatives guided by other departments around SMME development, such as the development of a draft government policy to enable SMME growth; the establishment of open data standards for procurement systems to aid in accurate reporting on SMME activities; and the development of system enhancements for SMME within the government supplier database; (iii) Capacity building of DSBD and other departments around SMME development, such as assistance to undertake research and monitoring and evaluation (M&E), the development of an integrated strategy on the promotion of entrepreneurship and small enterprises in rural and urban areas, and SMME policy dialogues. The objective of the

\textsuperscript{12} The President of South Africa during his state of the nation address in 2015 announced that the government would set aside 30% of government procurement for SMMEs. This however, now needs to be drafted into law to be implemented.

\textsuperscript{13} As indicated in section 5 this component will be implemented by the South African government from the budget support provided.

\textsuperscript{14} As indicated in section 5, this component is expected to be implemented primarily by the South African government from the budget support provided, complemented by limited targeted capacity building activities under project modality.
activities and inherent dialogues is to engage with stakeholders that are interested in the mandate of the department and to share learnings on experiences. It this context the EU could also bring in valuable lessons on SMME development that can contribute to informing South Africa’s SMME policy implementation.

The following government departments/agencies have been identified, although not exclusively, as potential beneficiaries of the programme: DSBD, Department of Agriculture, Forestry and Fisheries (DAFF), the Department of Trade and Industry (DTI), sefa, Small Enterprise Development Agency (SEDA), Construction Industry Development Board (CIDB) and Chief Procurement Officer (CPO).

4.2.1 Budget support

Budget support will primarily be used for increasing access to finance for SMMEs through wholesale lending initiatives between sefa and private sector financial institutions, for assistance to initiatives guided by DSBD, and for agri-business value chain analysis and development initiatives guided by the DAFF.

For increasing access to finance for SMMEs the South African government envisages that through sefa two separate ‘funds’ would be developed:

- **The sefa/Absa Enterprise Supplier Development (ESD) Fund (indicatively EUR 10 million allocated through Budget Support).**

  The ESD proposition of affordable funding is premised on the partnerships’ ability to de-risk enterprise development lending in order to keep the interest rates charged to SMMEs as reasonable as possible, as well as the ability to attract other funding - beyond sefa/Absa funding - from large corporates, DFI’s, and other government entities in order to leverage and share risk as the fund lends to SMME’s that would not otherwise be able to access funding.

- **The Innovation Fund (indicatively EUR 20 million allocated through Budget Support).**

  The Innovation Fund is intended to allow for other wholesale lending initiatives between sefa and different financial intermediaries that are innovative in leveraging private funding and sharing risk while being able to fund SMMEs that have difficulties to access funding.

For assistance to initiatives guided by DSBD and DAFF, EUR 8 million is foreseen.

Policy dialogue will take place, inter alia, through the Project Steering Committee that is foreseen to meet at least 3 times per year (see section 5.7), through possible ad-hoc meetings on issues relevant to the achievement of the objectives of this programme, through a foreseen Development Partner Forum under the leadership of DSBD, and through events such as the launch of the programme or field visits to sites of interest.
4.2.2 Complementary support

Complementary support will focus on, inter alia:

- Technical Assistance (TA) to the implementing partners;
- Capacity building of government departments to develop integrated strategies and engage in policy dialogue, and to undertake research and M&E;
- Capacity building of public sector officials and chambers on Enterprise Development as well as supplier diversity and development;
- Technical Assistance for SMMEs through the provision of technical, business and market access expertise;
- Technical assistance related to Value Chains analysis and development, integrated SMME support hubs and shared services platforms, SMME incubation, innovative solutions to SMME capacitation; and
- Capacity building of sefa and partners around SMME access to finance lending.

4.2.3 Intervention logic

SMMEs are considered key drivers for employment creation, thereby helping to address the major unemployment challenge in South Africa. This is particularly the case for South Africa with a less developed SMME base than other countries\(^\text{15}\), notably countries at a similar level of development. Assuring survival and growth of SMMEs through increasing their market access via value chain/supplier development has become an important government objective.

The programme is designed to work at two levels to support growth of SMMEs:
(i) Top down approach focusing on improvement of capacity at key government departments and agencies. In particular the support to the recently established Department for Small Business Development (DSBD) will strengthen their ability to enhance the regulatory and administrative environment for SMMEs and to execute their coordinating role among the various national departments and towards the provincial/municipal level around all SMME related initiatives taken by different actors. In this respect, capacity building and Technical Assistance will focus on support to policy development and implementation, on comprehensive SMME related research, and on M&E of activities in the SMME support space.

(ii) Bottom up approach of support to SMMEs that have clear growth and employment creation potential, with a non-exclusive focus on the agro-processing, mining, infrastructure and green industries sectors. A significant portion of the programme will focus on access to finance for SMMEs and on increasing competitiveness of SMMEs to meet procurement requirements of corporates and government entities. The lack of a sustainable market and access to finance

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\(^{15}\) For instance, according to the Global Entrepreneurship Monitor, 2015/2016 Report, South Africa has one of the lowest established business ownership rates in the world, with a rate of 3.4% and ranked 53 out of 60 reviewed economies.
have been identified as interlinked challenges impeding the survival and growth of SMMEs in South Africa. This is attributed to a conservative financial sector with focus on more established businesses with a track record and access to collateral resulting in a more acceptable risk profile, as well as to procurement channels in corporates and government entities that have not been geared to SMMEs. At the same time, SMMEs often lack technical, managerial and financial capacity to seize on opportunities as suppliers. With more government incentives towards the private sector to focus more on enterprise and supplier development, as well as its own objective to set aside 30% of appropriate categories of state procurement for purchasing from SMMEs, the current policy environment is beneficial towards growth of SMMEs as suppliers if they have access to required financial and non-financial support.

**Budget support** will be allocated to support the acceleration of reforms within particular government departments, in improving efficiency and effectiveness of sector expenditures in these departments and in knowledge sharing including with the private sector. Main focus areas will be:

- Improvements in the quality of public financial management, policy development and implementation, data collection, and M&E.
- Improvements in key indicators of access to finance for SMMEs with a limited track record, notably through partnerships between the Small Enterprise Financing Agency (sefa) and private sector financing institutions, including with respect to lending to women and youth owned SMME’s.

The envisaged **complementary support** will focus on three levels as follows:

i) **SMME level**: supporting SMMEs to access markets and providing them with business development services;

ii) **Intermediate level**: capacity building in Supplier Development (SD) and Enterprise Development (ED), both in government (e.g. to obtain the 30% set aside for SMME procurement) as well as in the private sector, notably business associations. Also foreseen is assistance related to value chain analysis and value chain enhancement, for instance to facilitate compliance with regulatory and other requirements, and thereby also increase the potential for SMMEs to access international markets resulting from opportunities through trade agreements such as the SADC-EU EPA. Other opportunities expected to result from the coming into force of the EPA, notably related to export to the region and to the European Union will also be considered.

iii) **Institutional level** (government): including capacity building in research, database development/maintenance, M&E; as well as support sefa with their management of direct and indirect lending.

The programme is also expected to have linkages to the digitalisation of the economy. For instance, in the area of enhanced access to financial services, the proposed Sefa-ABSA Enterprise Supplier Development Fund will strengthen their relationship in which they are currently developing an online lending platform for SMMEs. In the area of improving the regulatory and administrative environment for SMMEs, one of the foreseen activities is the
development, set up and implementation of a “National Small Business Portal”. The main idea of this Portal is to ensure that SMMEs have immediate (digital) access to information on business development support services and tender opportunities that are available to them, and also to improve coordination of this information amongst key partners.

Sustainability of the activities and results from this programme is linked to the demonstration effect and learning that will be derived from this pilot of a significant size focused on assisting SMMEs to acquire sustainable market access, also seizing on the opportunities stemming from government incentives in this area. Capacity building towards direct implementing partners and relevant government actors will also complement the assistance to SMMEs. On this basis it is expected that, over time, further resources will be mobilised from the public sector as well as private sector (corporates, financial institutions) for targeted financial and non-financial assistance to SMMEs.

5 IMPLEMENTATION

5.1 Financing agreement
In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2) (b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period
The indicative operational implementation period of this action, during which activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed on by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support
The amount allocated for budget support component is EUR 38 000 000, and for complementary support is EUR 14 245 800. The amount for budget support is based on a broad qualitative assessment of the following elements:

- Financing needs based on the policy supported and the use of official development assistance (ODA) funding for piloting new promising initiatives not otherwise feasible with voted budget due to lack of sufficient track record or perceived risk.
- Management capacity: National Treasury issued a document reflecting the commitment of the overall management capacity of the government to ensure proper application of Budget Support funds in South Africa.

- Ownership: Departments receiving support from this programme must reflect their allocations in their annual performance plan, budget overview and Medium Term Expenditure Framework (MTEF).

- Transparency: The funds are released to the South African government, through the RDP (Reconstruction and Development Programme) Account, when the agreed conditions set out in the Financing Agreement have been met. The Auditor-General of South Africa audits the financial statements.

- Monitoring and Evaluation: South African systems of monitoring and evaluation are used to assess the performance of activities funded under the programme.

5.3.2 Criteria for disbursement of budget support

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the DSBD Revised Strategic Plan 2015-2019, the DAFF policy and strategy on SMMEs and the Industrial Policy Action Plan (IPAP) 2013/14 – 2015/16, and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the programme to improve public finance management;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

The indicative disbursement table is given in the Table below:

### Indicative timetable of disbursements of budget support (€m)

<table>
<thead>
<tr>
<th>Type tranche</th>
<th>Fiscal year 2017/18</th>
<th>Fiscal year 2018/19</th>
<th>Fiscal year 2019/20</th>
<th>Fiscal year 2020/21</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quarters</td>
<td>Quarters</td>
<td>Quarters</td>
<td>Quarters</td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td>1 2 3 4</td>
<td>1 2 3 4</td>
<td>1 2 3 4</td>
<td>1 2 3 4</td>
<td>28</td>
</tr>
<tr>
<td>Variable</td>
<td></td>
<td>6 4</td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>14 11</td>
<td>9 4</td>
<td></td>
<td></td>
<td>38</td>
</tr>
</tbody>
</table>

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the National Authorising Officer (NAO) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the National Treasury. The crediting of the Euro transfers disbursed into South African Rand (ZAR) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support of budget support

5.4.1 Procurement (direct management)

<table>
<thead>
<tr>
<th>Subject in generic terms</th>
<th>Type</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance and capacity building as described under 4.2.2</td>
<td>Services</td>
<td>1-2</td>
<td>Q2/Q3 2017</td>
</tr>
</tbody>
</table>

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.
5.6 Indicative budget

<table>
<thead>
<tr>
<th></th>
<th>EU contribution (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3 – Budget Support (Sector Reform Contract)</td>
<td>38 000 000</td>
</tr>
<tr>
<td>5.4.– Complementary support (Direct management – procurement)</td>
<td>14 245 800</td>
</tr>
<tr>
<td>5.4.1- Technical Assistance/Capacity building related to KRA-1, KRA-2 and KRA-3</td>
<td>13 865 800</td>
</tr>
<tr>
<td>5.9 – Evaluation, 5.10 - Audit</td>
<td>260 000</td>
</tr>
<tr>
<td>5.11 – Communication and visibility</td>
<td>120 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52 245 800</strong></td>
</tr>
</tbody>
</table>

5.7 Organisational set-up and responsibilities

The programme will be managed through a Programme Steering Committee (PSC) chaired by the DSBD and the National Treasury and including, as members, relevant departments/agencies such as sefa, DAFF, DTI, the EU delegation, private sector association(s)/chamber(s), and academic(s)/think thank(s) specialised in the field, and potentially other development partners engaged in similar activities.

The role of the PSC will be, among others, to provide strategic guidance and direction and overall oversight for the programme.

An important component of the organisation setup is also the Technical Assistance team to assure day-to-day management and coordination of the implementation of the programme. The Technical Assistance team will assist the PSC. Its operational activities could include tasks such as the selection and training of business development consultants to provide BDS, designing the selection criteria for identification of SMMEs, reviewing applications, the monitoring of implementation of the activities of the programme, etc. This day-to-day management and coordination is key to the success of the programme.
5.8 Performance monitoring and reporting

Performance monitoring by the South African government takes place annually based on a fiscal year (FY) that runs from April to March. Mechanisms to conduct monitoring and evaluation are covered in the work of the Departments including National Treasury, Statistics South Africa, the Auditor General and is overseen by the Department of Performance Monitoring and Evaluation established in the Presidency. DSBD as the anchor Department for the programme, together with other implementing partners, are fully aligned to the performance monitoring and evaluation requirements through the publication of their Annual Performance Plans (APP) in April of each year and their Annual Reports, published around August/September.

With the exception of the first payment, performance monitoring for the programme is expected to take place on an annual cycle consisting of four main steps: (i) the APP published in April of each year; (ii) the Annual Report published in August/September of each year, including the Auditor General's report and the SMME support programme outcomes for the previous fiscal year; (iii) the formal request for disbursement from the DSBD via the National Treasury (NAO) approximately in November of each year; and (iv) the payment planned for April of the following year. For the assessment of the general condition regarding satisfactory progress in the sector policy, assessments in year N will, as far as possible, be based on the performance in year N-1 for disbursement in year N+1. The exception to this annual cycle will be the first payment which is foreseen to take place, following the signature of the Financing Agreement. The DSBD will be responsible for collecting the data for the request for disbursements of budget support tranches.

Policy dialogue will take place through the Project Steering Committee that is foreseen to meet at least 3 times per year (see section 5.7), and will be complemented by other exchanges in forums such as those cited under 4.2.1.

Outstanding baseline values and targets of indicators in Appendix A will be defined at inception of the programme in accordance to what is stated for each such indicator in Appendix A.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).
5.9 Evaluation

Having regard to the importance of the action, a mid-term and a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes and to adjust the programme accordingly. A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively 2 contracts for evaluation services shall be concluded in 2019 and 2022.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded in 2022.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.
The communication and visibility budget of this Financing Agreement may be pooled with the respective budgets of other Financing Agreements in the context of a larger communication programme.

Indicatively, one contract for communication and visibility shall be concluded in 2018.
APPENDIX - INDICATIVE LIST OF RESULT INDICATORS

The activities, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note that indicators should be disaggregated by sex whenever relevant.

<table>
<thead>
<tr>
<th>Results chain</th>
<th>Indicators</th>
<th>Baselines (incl. reference year)</th>
<th>Targets (incl. reference year)</th>
<th>Sources and means of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall objective (Impact): To support Inclusive and sustainable economic growth and employment creation in South Africa.</td>
<td>1. GDP growth rate</td>
<td>1. Annual growth of Gross Domestic Product (GDP) 1.2% (first quarter 2016)</td>
<td>1. GDP growth 5% by 2020</td>
<td>1. Quarterly Labour Force Survey (QLFS) documents from STATSSA.</td>
</tr>
<tr>
<td></td>
<td>2. Unemployment rate disaggregated by sex.</td>
<td>2. Overall unemployment 26.6% (second quarter 2016) 29.1% of women are unemployed and 24.6% of men are unemployed.</td>
<td>2. Overall unemployment 14% in 2020</td>
<td>2. Quarterly Labour Force Survey (QLFS) documents from STATSSA.</td>
</tr>
<tr>
<td>Specific objective (Outcome) 1: To improve the competitiveness of SMMEs and their ability to meet procurement requirements of large multinational/local corporations and state-owned enterprises.</td>
<td>1.1 Amounts in value of contracts awarded to SMMEs participating in the programme have with large multinational/local corporations and state owned enterprises.</td>
<td>1.1 Baseline to be defined during programme inception</td>
<td>1.1 Targets to be defined during programme inception</td>
<td>1.1 Programme implementation reports.</td>
</tr>
</tbody>
</table>

17 Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.
19 Objective of the National Development Plan
20 The South-African National Development Plan (NDP) does not disaggregate this target by gender, however, the programme will report on this target.
21 Objective of the NDP and an overall objective in EU-South Africa MIP
22 together with sefa on basis of existing contracts of participating SMMEs
23 together with DSBD/sefa and endorsed by the Project Steering Committee
### Specific objective (Outcome) 2:
To improve access to finance especially for SMMEs with limited access to finance.

#### 2.1 Number of jobs facilitated - (Created and sustained) (reporting to be disaggregated by gender)

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Description</th>
<th>Target</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>69,450 jobs</td>
<td>2.1 115,000 jobs by 2020</td>
<td>2.1 sefa annual report which includes audited figures.</td>
</tr>
</tbody>
</table>

#### Specifically:
2.1.1 Burden of government regulations country ranking 117 out of 140 in 2015/16

#### 2.1.2 Time required to start a business country ranking 94 out of 140 in 2015/16

#### 3.1 Comparative indicators (Global Entrepreneurship Monitor) on SMME business environment

- 3.1.1 Target to be defined during programme inception
- 3.1.2 Target to be defined during programme inception

### Specific objective (Outcome) 3:
To improve the regulatory and administrative environment for SMMEs.

#### 3.1 Comparative indicators (Global Entrepreneurship Monitor) on SMME business environment

- 3.1.1 Burden of government regulations country ranking 117 out of 140 in 2015/16
- 3.1.2 Time required to start a business country ranking 94 out of 140 in 2015/16

#### Induced Output 1.1: Needs of SMMEs for training/TA/mentoring identified

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Description</th>
<th>Target</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Zero</td>
<td>All SMMEs identified by the programme undergo written assessment of BDS needs.</td>
<td>1.1 Programme implementation reports.</td>
</tr>
</tbody>
</table>

#### Induced Output 1.2: Improved access to and use of BDS by SMMEs

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Description</th>
<th>Target</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2</td>
<td>Zero</td>
<td>All SMMEs identified by the programme that require BDS have access to it.</td>
<td>1.2 Programme implementation reports.</td>
</tr>
</tbody>
</table>

#### Induced Output 1.3: Enhanced participation of SMMEs in maintenance of Government infrastructure

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Description</th>
<th>Target</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3</td>
<td>Zero</td>
<td>200 public sector officials trained by 2020</td>
<td>1.3 Construction Industry Board Standards (cird) annual reports</td>
</tr>
</tbody>
</table>

---

24 Both targets to be defined together with DSBD and to be endorsed by the Project Steering Committee at inception stage.
<table>
<thead>
<tr>
<th><strong>Induced Output 2.1:</strong> Increased number of SMMEs financed through intermediaries</th>
<th>1.3.3 Number of black owned SMMEs certified in line with Construction Industry Board Standards (cidb) (reporting to be disaggregated by gender)</th>
<th>1.3.3 Zero</th>
<th>1.3.3 - 100 black medium size contractors are certified to SANS 1393 Construction management system by 2020</th>
<th>1.3.3 Construction Industry Board Standards (cidb) annual reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Induced Output 2.2:</strong> Sefa’s management capacity is strengthened</td>
<td>2.1.1 Number of SMMEs financed through intermediaries to be disaggregated by gender</td>
<td>2.1.1 54484 SMMEs.</td>
<td>2.1. 65952 SMMEs by 2020.</td>
<td>2.1.1 Sefa annual report which includes audited figures</td>
</tr>
<tr>
<td><strong>Induced Output 2.3:</strong> Improved access to and use of BDS by SMMEs supported through the access to finance component</td>
<td>2.2.1 Application Turnaround times</td>
<td>2.2.1 50 days</td>
<td>2.2.1 30 days by 2018.</td>
<td>2.2.1 Sefa annual report which includes audited figures</td>
</tr>
<tr>
<td></td>
<td>2.2.2 Percentage of Sefa’s non-performing loans (npl)</td>
<td>2.2.2 56.7%</td>
<td>2.2.2 reduce npl to 40% of the total loans by 2019</td>
<td>2.2.2 Sefa annual report which includes audited figures</td>
</tr>
<tr>
<td><strong>Induced Output 2.4:</strong> Grant funding is increasing leveraging other sources of funding</td>
<td>2.3.1 Number of SMMEs supported through the access to finance component of the programme that require BDS and have access to it</td>
<td>2.3.1 Zero</td>
<td>2.3.1 All SMMEs participating in the access to finance component of the programme that require BDS have access to it</td>
<td>2.3.1 Programme implementation reports.</td>
</tr>
<tr>
<td><strong>Induced Output 2.5:</strong> Funding for black-owned, women-owned, and youth-owned enterprises through wholesale lending increased</td>
<td>2.4.1 Total amount of financing provided to SMMEs divided by the amount of grant funding provided for the same SMMEs. ** (investment leverage ratio)</td>
<td>2.4.1 Zero (no grant funding available)</td>
<td>2.4.1 Amount of third party funds leveraged by grant funds should exceed 3 times - by 2020</td>
<td>2.4.1 Sefa annual report which includes audited figures</td>
</tr>
<tr>
<td></td>
<td>2.5.1 Amount disbursed to black-owned enterprises through wholesale lending (reporting to be disaggregated by gender)</td>
<td>2.5.1 ZAR 199 million</td>
<td>2.5.1 ZAR 679 million (FY 2018/2019)</td>
<td>2.5.1 Sefa annual report which includes audited figures</td>
</tr>
</tbody>
</table>

\[25\] Reporting to provide gender disaggregated data
<table>
<thead>
<tr>
<th>Induced Output 2.6: Green economy enterprises/projects supported</th>
<th>2.6.1 Amount of funding to green economy/projects enterprises.</th>
<th>2.6.1 Baseline to be defined during programme inception(^\text{26})</th>
<th>2.6.1 25% of funding is for green economy enterprises/projects</th>
<th>2.6.1 sefa annual report which includes audited figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Induced Output 2.7: HIV/AIDS prevention / support measures, and environmental aspects (where required) of investee businesses are strengthened</td>
<td>2.7.1 Number of investee SMMEs</td>
<td>2.7.1 Zero</td>
<td>2.7.1 All investee SMMEs have HIV/AIDS prevention/support measures and environmental protection plans (where required) by 2020</td>
<td>2.7.1 sefa annual report which includes audited figures</td>
</tr>
<tr>
<td>Induced Output 3.1: Monitoring and Evaluation capacity of DSBD is strengthened</td>
<td>3.1.1 Existence of M&amp;E framework and system</td>
<td>3.1.1. None</td>
<td>3.1.1 M&amp;E system and framework is in place and annual reports produced by 2018/2019</td>
<td>3.1.1 Department of Small Business Development Annual Report</td>
</tr>
<tr>
<td>Induced Output 3.2: Improved coordination of information of business development support services for small business through the development and maintenance of a national small business portal</td>
<td>3.2.1 Status of a National Small Business Portal</td>
<td>3.2.1 None</td>
<td>3.2.1 Development, set up and implementation of portal. by 2018/2019</td>
<td>3.2.1 Department of Small Business Development Annual Report</td>
</tr>
<tr>
<td>Induced Output 3.3: Recent and relevant research information available to support policy</td>
<td>3.3.1 Research projects to support policy development and</td>
<td>3.3.1 None</td>
<td>3.3.1- 2018 (bi-)Annual Review by 2019</td>
<td>3.3.1 Department of Small Business Development Annual Report</td>
</tr>
</tbody>
</table>

\(^{26}\) Together with sefa
| Induced Output 3.1: Development and programme design. | programme design, finalised | 3.3.2 - 2020 (bi-) Annual Review by 2021  
3.3.3 - Provincial RED Tape research by 2019  
3.3.4 Integrated strategy on enterprise development and the promotion of entrepreneurship (township and rural) by 2018 |
|---|---|---|
| **Induced Output 3.4:** Improved engagement with stakeholders and diverse interest groups with focus on policy discussions, in order to improve programme design and planning as well as to seek to formulate practical solutions to complex problems | 3.4.1 Number of policy dialogues held | 3.4.1 None  
3.4.1 At least 5 stakeholder consultations per year to discuss the small business research agenda and policy |
| **Induced Output 3.5:** Enhanced implementation of government set-asides programme for SMMEs. | 3.5.1 Number of government institutions implementing set aside programme | 3.5.1 None  
3.5.1 Set-asides programme being implemented at all state institutions by 2020. |
| **Induced Output 3.6:** Central Supplier Database (CSD) integrated to store verified SMME data | 3.6.1 Integrated SMME database | 3.6.1 Current CSD is not integrated with other SMME databases in the country  
3.6.1 CSD with SMMEs data from different industries by 2020 |
| **Induced Output 3.7:** Rating system for SMMEs to enhance their sustainability and access to finance established | 3.7.1 Status of rating system | 3.7.1 None  
3.7.1 Rating system in place and reports produced on SMMEs rated and results by 2020 |

27 All three spheres of government (national, provincial and local), and state-owned entities (SoEs) are required to set aside 30% of appropriate categories of state procurement for purchasing from SMMEs.