

International Development Co-operation



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Department
National Treasury
REPUBLIC OF SOUTH AFRICA

Budget Support in South Africa

Context for EU Funded Budget Support in South Africa



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Supplement 1 to “The Policy Framework and Procedural Guidelines for the Management of Official Development Assistance (2003)”

This document has been prepared as a supplement to the National Treasury “Policy Framework and Procedural Guidelines for the Management of Official Development Assistance (2003)” with information specific to programmes funded by the European Union using the Budget Support modality. These Supplements reflect the commitment of the Government to ensure proper application of Budget support funds in the South African developmental context. There are nine such Supplements with more in depth information on EU funding modalities and Budget Support management. The nine Supplements are:

- Context for EU Funded Budget Support in South Africa
- Introduction to EU Funding Modalities
- Guidelines for Formulation of the Financing Agreement
- Financing Agreement Contractual Clauses
- Management of Budget Support Programmes
- Requesting the Release of Funds
- Evaluation of Budget Support Programmes
- Managing Budget Support Funds within the SA Public Accountability System
- Management of Grants Provided under the General Budget Support Programme.

The document is intended as an introductory overview for new staff. It covers:

- Overview of SA Official Development Assistance policy
- Introduction to SA-EU relations and the context of aid
- Overview of SA-EU development co-operation framework and
- Accountability for Official Development Assistance funds.

This document serves as a “map” of the system, but does not contain extensive detail – the reader will be referred to more detailed documents where relevant. Where other SA Government or EU guidelines, or external texts, provide more detailed information, these are referenced and their content is not replicated. The reader is also referred to the other Supplements listed above for further information on Budget Support programmes in South Africa.

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List of resources documents

All our reference documents can be downloaded by following the URLs provided.

- The Policy Framework and Procedural Guidelines for the Management of Official Development Assistance; National Treasury; 2003. Follow the links from <http://www.dcis.gov.za/>
- Paris Declaration on Aid Effectiveness. www.oecd.org/dataoecd/11/41/34428351.pdf
- Accra Agenda for Action. http://www.oecd.org/document/3/0,3746,en_2649_3236398_41297219_1_1_1_1,00.html
- Information on The South African-European Union Trade and Development Co-operation Agreement (TDCA) can be accessed at http://europa.eu/legislation_summaries/development/south_africa/r12201_en.htm and <http://www.dfa.gov.za/foreign/saeubilateral/tdca.html>
- Key documents on the Joint SA-EU Partnership can be accessed at <http://www.dfa.gov.za/foreign/saeubilateral/index.html>; http://europa.eu/legislation_summaries/development/south_africa/r12551_en.htm; and <http://www.dfa.gov.za/foreign/saeubilateral/docs/Political%20Dialogue/politicaldeclarationfinal16jan09.pdf>
- Joint Country Strategy Paper 2007 — 2013 can be accessed at <http://www.eusa.org.za/en/development/MIPCSP20072013.htm> and http://www.eusa.org.za/en/PDFdownload/Country%20Strategy%20Papers/CSP_2007-2013.pdf

Glossary and Abbreviations

AENE	Adjusted Estimates of National Expenditure	MoA	Memorandum of Agreement
AFS	Annual financial statements	MoU	Memorandum of Understanding
AG	Auditor General	MTEF	Medium-Term expenditure Framework
BAS	Basic Accounting System	NAO	National Authorising Officer
BS	Budget Support	NGO	Non-Governmental Organisation
CABRI	Collaborative African Budget Reform Initiative	NIP	National Indicative Plan
CEF	Comprehensive Evaluation Framework	NT: IDC	National Treasury: International Development Cooperation unit
CFO	Chief Financial Officer	ODA	Official Development Assistance
CSP	Country Strategy Paper	OECD	Organisation for Economic Cooperation and Development
DAC	Development Assistance Committee	OVI	Objectively verifiable indicator
DCI	Development Cooperation Instrument	PAF	Performance Assessment Framework
DCMIS	Development Cooperation Management Information System	PAS	Public Accountability System
DDG	Deputy Director General	PFM	Public finance management
DG	Director General	PFMA	Public finance Management Act (as amended)
DIRCO	Department of International Cooperation and Development	PMG	Paymaster-General
DPME	Department of Monitoring and Evaluation	PSP	Policy Support Programme
DTI	Department of Trade and Industry	RCF	Risk Capital Facility
EC	European Commission	RDP	Reconstruction and Development Programme
ENE	Estimates of National Expenditure	ROM	Results Orientated Monitoring
EPRD	European Programme for Reconstruction and Development	SA	South Africa
ESP	European Special Programme	SAI	Supreme Audit Institution
EU	European Union	SBS	Sector Budget Support
EUD	European Union Delegation	SCC	Special Conditions of Contract
FA	Financing Agreement	SCOA	Standard Chart of Accounts
FMPA	Financial Management of Parliament Act	SLA	Service level agreement
GBS	General Budget Support	SME	Small and Medium Enterprise
GCC	General Conditions of Contract	SP	Sector Programme
GP	Government programme, as specified in the Financing Agreement, supported by the Budget Support programme	SPSP	Sector Policy Support Programme
IYM	In-year monitoring	SWAp	Sector Wide Approach
JAP	Joint Action Plan	SWEEEP	Sector Wide Enterprise, Equity and Employment Programme
JCC	Joint Cooperation Committee	TA	Technical Assistance
LFA	Logical framework analysis	TAPs	Technical and Administrative Provisions
M&E	Monitoring and Evaluation	TDCA	Trade and Development Cooperation Agreement
MFMA	Municipal Financial Management Act	ToR	Terms of Reference
MIP	Multi-annual Indicative Plan	UNESCO	United Nations Educational, Scientific and Cultural Organisation

1 South African Official Development Assistance (ODA) Policy

The true value of ODA in South Africa is realised when it is able to provide solutions and means that enable the country to use its national resources more effectively. The value that ODA adds is significant in terms of leveraging own national resources more effectively, with its implications for transfer of knowledge, best practices and embedding innovative approaches. ODA in South Africa is ideally used to support new and more effective ways of implementing government policies and priorities to tackle poverty alleviation and mitigate vulnerability. Five areas of application for ODA are identified, to ensure **value addition** as listed in the graphic below.

Areas of application for value addition for Official Development Assistance



This emphasis on the quality of ODA is mutually acknowledged by both the EU and South Africa, as reflected in the statement in the SA-EU Country Strategy Paper: "The real value provided by aid is not the finance itself but what comes with it: best practice, innovation, risk-taking, pilot programmes, systems development, capacity building, and above all skills and knowledge."¹

ODA in South Africa must align with the policy objectives for ODA², and should always comply with the concepts of the Paris Declaration on Aid Effectiveness³ and the associated Accra Agenda for Action. The Accra Agenda⁴ highlights three key areas where progress is required to ensure continued improvements in aid reform: (i) strengthening developing country ownership of development; (ii) more effective and inclusive partnerships for development; and (iii) delivering and accounting for development results. The most important of these principles is government ownership of ODA: that the Government should set out, lead and coordinate the developmental policies and strategies to which development partners subscribe. Other key principles include alignment to government priorities and procedures,

1 Cooperation between the European Union and South Africa; Joint Country Strategy Paper 2007 - 2013; page 3.

2 Policy Framework and Procedural Guidelines for ODA; National Treasury; 2003

3 www.oecd.org/dataoecd/11/41/34428351.pdf

4 http://www.oecd.org/document/3/0,3746,en_2649_3236398_41297219_1_1_1_1.00.html

harmonisation, management for results, and mutual accountability. More information on the Paris Declaration is given on the OECD website⁵.

2 South Africa-European Union Relations

The role of the European Union in South Africa dates back to 1986 with the establishment of the **European Special Programme (ESP)** for the Victims of Apartheid. In the period before the first democratic election, the European Union provided development assistance to the value of ZAR 2.8 billion channelled through non-governmental organisations (NGOs). Subsequent to the establishment of a democratic state, the EU and South Africa formalised relations through the SA-EU Trade Development and Cooperation Agreement⁶ (TDCA), which is now the legal basis for overall relations with the EU. The TDCA was signed in 1999 and was fully implemented by 1 May 2004. The TDCA was revised in 2007 and the Revision Agreement was signed at the September 2009 Summit⁷.

The uniqueness of the SA-EU relationship is demonstrated by the fact that the TDCA was the first such framework agreement that the EU entered into with any country. The main objective of the TDCA is Free Trade between SA and the EU, to be achieved progressively over a twelve-year period. The TDCA provides a political and legal framework which mandates SA government departments and EU departments to interact around issues in the TDCA. As this is a comprehensive document, almost all issues of potential discussion are covered. The TDCA has five headings, as



shown below.

Headings of the SA-EU Trade and Development Cooperation Agreement

In 2006 the EU indicated that it saw SA as a **strategic partner**, one of just a handful of such EU strategic partners, rather than just a beneficiary of development assistance. The Strategic Partnership is based on the recognition of mutual interests in many areas of common concern that may require joint positions, actions and/or policy coordination.

The SA-EU relationship has consequently expanded into strategic political dialogue in the international arena. The TDCA remains the legal basis for a broader relationship, but with the focus of the TDCA on bilateral relations. The focus of the Strategic Partnership is global and multilateral issues, as well as to develop cooperation around global institutions (e.g.: UNESCO). The objective of the Strategic Partnership is to strengthen and bring added value to SA-EU relations.

⁵ www.oecd.org

⁶ Information on The South African-European Union TDCA can be accessed at http://europa.eu/legislation_summaries/development/south_africa/r12201_en.htm and <http://www.dfa.gov.za/foreign/saeubilateral/tdca.html>

The SA-EU Strategic Partnership agreement is supported by a Joint Action Plan (JAP), signed in May 2007, to take this higher level of SA-EU partnership forward. Institutionally, the Joint Cooperation Committee (JCC), which drives the TDCA, remains in place but now reports on political dialogue as well as development cooperation to the Mogôbagôba Dialogue⁸. The Mogôbagôba Dialogue is the mechanism for enhanced political dialogue at all levels. It includes, among others: high-level political talks twice a year in Troika format; Summits on a regular basis; high-level *ad hoc* meetings on issues of common interest; the annual JCC meetings at senior officials' and/or ministerial levels; and SA-EU Parliamentary bilateral relations.

The on-going development assistance provided by the EU to South Africa should be seen in the context of this Strategic Partnership, where South Africa is no longer just seen as a beneficiary of development assistance, but as having a leadership role which is reflected in policy and governance maturity in relation to domestic development interventions.

While this supplement focuses on the Development Cooperation (Title V) of the TDCA, the overall context of development assistance in the SA-EU relationship should be borne in mind.

3 South Africa-European Union Development Cooperation Framework

3.1 Country Strategy Paper⁹

EU development assistance to South Africa falls under Title V: Development Cooperation of the TDCA. Within this legal framework, the EU prepares periodic Country Strategy Papers (CSP), which cover a period of several years. The CSP is developed after interaction with the South African government, and sets out the rationale for EU involvement in SA. It articulates the agreed EU orientation for development cooperation in South Africa and the agreed areas of emphasis. The strategy for the period is articulated in the CSP, with a concomitant financial commitment. The current CSP at the time of publication of this document is the third CSP, covering the period 2007 to 2013, and committing an envelope of €980 million of support to South Africa.

The CSP has five chapters, covering the legal framework and international agreements on aid harmonisation and delivery, an analysis of the South African situation and issues, the SA policy agenda, and the cooperation philosophy and approach. The document places development assistance in the context of a set of international and bilateral agreements on development objectives and methodologies, which guide how the EU development assistance can be used in South Africa.

The 2007-2013 CSP identifies that the rationale for on-going EU involvement in SA relates to its role in the region. To play this role, SA “must still overcome major social and economic challenges which have started to be addressed during the past fifteen years”¹⁰, and this imperative informs the EU orientation for development cooperation.

7 <http://www.dfa.gov.za/docs/2009/sa-eucommuniqu0911.html>

8 Key documents on the Joint SA-EU Partnership can be accessed at <http://www.dfa.gov.za/foreign/saeubilateral/index.html>; http://europa.eu/legislation_summaries/development/south_africa/r12551_en.htm and <http://www.dfa.gov.za/foreign/saeubilateral/docs/Political%20Dialogue/politicaldeclarationfinal16jan09.pdf>

9 Joint Country Strategy Paper 2007 — 2013 can be accessed at <http://www.eusa.org.za/en/development/MIPCSP20072013.htm> and http://www.eusa.org.za/en/PDFdownload/Country%20Strategy%20Papers/CSP_2007-2013.pdf

3.2 European Union Objectives of Support to South Africa

In terms of the SA-EU CSP 2007 – 2013 the objectives of supporting South Africa are three-fold:



Therefore, on the basis of priorities in the South African Government Development Policy the EU support places emphasis on:¹¹

- Speeding up the process of service delivery
- Promoting public/private partnership to stimulate job creation and
- Strengthening law enforcement mechanisms to contain criminal and social violence.

3.3 Multi-Annual Indicative Programme

All the funds to be allocated under a CSP are available based on an agreed schedule of commitments, termed a Multi-Annual Indicative Plan (MIP). This gives a broad timetable as well as broad areas of commitment. The MIP is derived from the CSP and is the schedule of action for implementation of the CSP.

The MIP specifies¹²:

- Priorities within and across sectors
- Financial envelopes including, where appropriate, the indicative timing and size of each instalment of EU contributions
- Objectives and expected results for each area of cooperation including key domains for conditionalities, and main performance and a limited number of key outcome indicators
- How cross-cutting themes are taken into consideration and
- Programmes to be implemented in pursuit of the objectives defined in the CSP, intended beneficiaries and the type of assistance to be provided (e.g. macro-economic support, technical assistance, training, investment, supply of equipment, etc.).

¹⁰ Cooperation between the European Union and South Africa: Joint Country Strategy Paper 2007 — 2013

¹¹ Cooperation between the European Union and South Africa: Joint Country Strategy Paper 2007 — 2013

¹² From <http://www.acp-programming.eu/wcm/en/programming-references/country-and-regional-programming/national-indicative-programmes-nips.html>

Once an area of support has been identified in the MIP, the European Union Delegation will approach the NT: IDC in National Treasury to identify a South African partner department. The NT:IDC coordinates the South African involvement in the process of developing the detail funding agreement, termed a Financing Agreement¹³.

Individual departments experience development assistance from the European Union through the mechanism of the Financing Agreement, signed by the Minister of Finance. These agreements are formulated within a system of ODA which must not only respond to international agreements (such as the Paris Declaration), but are constrained by the legal frameworks of both European Union and South Africa. A Financing Agreement has contractual status in international law.

4 Accountability for ODA Funds

Accountability for ODA funds occurs at two levels. The first level relates to accountability in terms of international bi-lateral and national political agreements and policy, such as the Paris Declaration and Country Strategy Paper. In terms of the Paris Declaration, donors also have mutual accountability for aid effectiveness (the ODA Guidelines provide more insight into mutual accountability). This level can be viewed as a policy level accountability. The second level of accountability relates to the Financing Agreements, where there is a legal accountability enforceable in a court of law.

4.1 European Union Accountability

Development Assistance from the EU is voted in the European Parliament and subject to EU regulations, formulated to ensure accountability to the European people. In exercising its responsibilities in providing development assistance, the European Union's primary fiscal responsibility is to its own tax payers and the European Union is required to account for the proper application of all funds to its own structures. The funds provided as official development assistance are therefore provided in terms of EU regulations and subject to EU public finance management systems. **A partner country** does not have autonomy over EU funds as it would have over its own fiscal resources, and is accountable to the European Union for the expenditure of the funds in accordance with the Financing Agreement.

4.2 South African Accountability

When the Government of South Africa signs an agreement with a funder in terms of which the government is responsible for the implementation of the agreement, then:

- the South African government becomes responsible for undertaking the agreed actions and responsibilities set out in the agreement and
- the funder takes on the actions and responsibilities allocated to it within the Financing Agreement. In addition, the funder will monitor compliance, approve progress reports and authorise progress payments.

ODA is generally received in terms of contracts executable in the donor's legal system rather than in South Africa's legal system. The Minister of Finance signs the agreement and accepts responsibility for compliance with the terms of the agreement on behalf of the government. The Minister delegates the responsibility for programme implementation

¹³ Refer to the supplement "Financing Agreement Contractual Clauses" for more information on the structure and content of Budget Support Financing Agreements

to a South African institution/government department, which becomes responsible to the Minister for performance against the agreement. The latter responsibility is undertaken within the framework of South African legislation.

To manage the interface between the agreements signed in terms of international legislation and the implementation in terms of the South African legislation, a legal instrument was created for receipt and management of donor funds channelled through the South African government. The instrument is the RDP Fund Act 1994 (amended 1998). The Act provides for the management, accounting and accountability of these funds within South Africa. In terms of the RDP Fund Amendment Act (1998), the accounting officer of the implementing agency is responsible for the funding provided to the agency through the RDP Fund.

Accounting officers must use South African systems and procedures for the management of donor funds, except where the provisions of the RDP Fund Act direct otherwise. As an example: the RDP Fund Act allows the use of donor procurement procedures in preference to South African procurement procedures if this is required in the technical assistance agreement (i.e.: the Financing Agreement). For Budget Support, where the use of South African procedures is implicit in the modality, the following Acts and supporting regulations are the basis for management of, and accountability for, the funds:

- Public Finance Management Act (for national and provincial department and public entities)
- Municipal Finance Management Act (for municipalities and municipal entities) and
- Financial Management of Parliament Act (for parliamentary institutions).

In Budget Support the European Commission funds, once transferred to the RDP Fund, are subject to South African planning and compliance systems. This increases Government involvement in allocation as well as bringing accountability fully into South African systems.

The Supplements "Management of Budget Support Programmes" and "Managing Budget Support Funds within the SA Public Accountability System" (PAS) provide more insight into the management requirements for Budget Support funds.



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