

International Development Co-operation



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National Treasury
REPUBLIC OF SOUTH AFRICA

Budget Support in South Africa

Introduction to European Union Funding Modalities



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Introduction to European Union Funding Modalities

Supplement 2 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.

EU procedures form a complex and interlinked system of policies, regulations, management modalities, development programme methods and supporting procurement modalities. This document can serve only to provide some insight into this system in order to set the context for Budget Support as a funding modality. It is intended as an introductory overview for new staff. It covers key concepts relating to Budget Support and EU Aid modalities.

The purpose of these supplements is to reflect the Budget Support experience in South Africa from the perspective of the recipient, and therefore diverge from the donor’s conceptual framework of Budget Support. More information on the Budget Support Financing Agreement is provided in the Supplements “Guidelines for Formulation of the Financing Agreement” and “Financing Agreement Contractual Clauses”. The reader is also referred to the other Supplements listed above for further information on Budget Support programmes in South Africa.

This document is not a comprehensive text on Budget Support or EU procedures, and therefore does not contain extensive detail. Where EU guidelines, or external texts, provide more detailed information, these are referred to, but their content is not extensively replicated. It is recommended that all institutions implementing Budget Support programmes undergo the comprehensive EU training on the modality.

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List of resources documents

Reference documents can be downloaded by following the URLs provided.

1. Guidelines on Sector-Wide Approaches "Harmonising Donor Practices for Effective Aid Delivery Vol. 2"; OECD DAC
<http://www.oecd.org/development/effectiveness/34583142.pdf>
2. Budget Support Guidelines Executive Guide: A modern approach to Budget support. Europe Aid Development and Cooperation Directorate-General; European Commission; Brussels; September 2012.
http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/budget_support_guidelines_part-1_en.pdf
3. Budget Support Programming, Design and Management - A modern approach to Budget Support, Tools and Methods Series: Working document; September 2012. http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/budget_support_guidelines_part-2_en.pdf
4. EU support instruments refer to http://ec.europa.eu/europeaid/how/finance/dci_en.htm
5. For more information on EU modalities refer to http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/

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 Introducing Budget Support

1.1 Budget Support Aid Modality

The 2012 EU guidelines¹ for budget distinguish between Budget Support as an **aid modality**², and Budget Support as a **funding modality**, which is only one component of the aid modality. Budget support as an aid modality has four components:

- dialogue
- financial transfers to the National Treasury account of the partner country
- performance assessment and
- capacity development, based on partnership and mutual accountability.

Conditions must be met before the partner country qualifies for Budget Support.

Budget Support is therefore not only about financial support. The aim of the EU in providing Budget Support is “to help partner countries implement their own policies and to achieve shared goals in terms of poverty reduction, consolidating democracy, and to improve inclusive, sustainable growth”³.

With Budget Support the South Africa implements its own policy and strategy, and is required to adhere to good public finance management practice. It is a feature of Budget Support that tranche⁴ payments are released **after** the partner country has met agreed conditions and not, as for other modalities, as an advance to fund activities and expenditure.

1.2 Budget Support Funding Modality

Budget Support as a **funding modality** channels European Union funds through partner government systems, and funds are subject to partner public finance management systems, reporting, and accountability systems for programme management, control and procurement. The partner government takes responsibility for managing the funds.

Budget Support is considered to be the funding modality with the least transaction costs, which simplifies the management of EU funds from the perspective of government departments. However, **there are still requirements that must be met** to allow the EU to fulfil its responsibility for management of taxpayer funds. Therefore the EU requires access to reports on public finance management, government policy programme performance, planning and institutional capacity. The reports required are those for the **whole of the government programme operations, not for only those costs covered by the EU funds.**

¹ Budget Support Programming, Design and Management - A modern approach to Budget Support, Tools and Methods Series: Working document; September 2012. http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/budget_support_guidelines_part-2_en.pdf

² A modality is an EU term for a method, supported by defined rules and procedures. More information is given on modalities in section 4 of this document.

³ <http://capacity4dev.ec.europa.eu/article/explaining-new-guidelines-budget-support>

⁴ “Tranches” are instalments, and are a portion of the total agreement amount. These are paid out according to a schedule and conditions included in the Financing Agreement.

2 Budget Support Concepts

2.1 Intervention Logic

Budget support is provided as a “vector of change” to address five key development challenges:

- Promoting human rights and democratic values
- Improving public financial management, macroeconomic stability, inclusive growth and the fight against corruption and fraud
- Promoting reforms and improving service delivery
- State building in fragile states, and addressing the specific development challenges of small island development states (SIDS) and overseas countries and territories (OCTs)
- Improving domestic revenue mobilisation and reducing dependency on aid.

Budget Support Programming, Design and Management - A modern approach to Budget Support, Tools and Methods Series: Working document, September 2012

A distinction is made between the **Budget Support** programme and the **government programme** which is supported.

- The government programme is the programme, in support of the government policy, identified in the Financing Agreement
- The EU Budget Support programme supports the government programme through financial resources, capacity building, dialogue and support to performance assessment.

Budget support programmes have a logic distinct from the government programme, because the objective of the Budget Support programme is to support **strengthening** of the policy, government systems and delivery systems. The logic of the government programme, on the other hand, is to **implement** the policy objectives.

Budget Support intervention logic conforms to a generic framework and has two parts:

- the direct and induced effects of the Budget Support inputs and outputs on policy, institutions and delivery and
- the effect of Budget Support on outcomes and impacts of the government programme. Budget support programmes support the desired impact e.g. eradicate poverty, sustainable economic growth, consolidate democracies. The generic framework developed for Budget Support is detailed in the Comprehensive Evaluation Framework (CEF), which is discussed in greater detail in the supplement “Evaluation of Budget Support Programmes”.

2.2 Types of Budget Support Programmes

The EU distinguishes between three types of Budget Support programme, depending on the purpose of the programme:

- **Good Governance and Development programmes** have the purpose of strengthening the partner government systems, accountability and control mechanisms, supporting reforms and assisting in addressing constraints to sustained and inclusive growth

- **Sector Reform programmes** have a sectoral focus and the purpose of supporting sector policies and reforms, improving governance and service delivery to populations
- **State Building Programmes** are used in fragile or transition situations and have the purpose of supporting transition processes, assisting with vital state functions and delivering basic services.

2.3 Eligibility for Budget Support

For good governance and development programmes, Budget Support is only provided to a partner where it is committed to the fundamental values of human rights, democracy and rule of law. For Good Governance and Development and Sector Reform programmes, an eligibility assessment is made against four criteria to determine whether the partner qualifies.

Qualification Criteria for Budget Support

To receive Budget Support a partner country has to meet four fundamental **eligibility conditions**:

- Relevant and credible national/sectoral policies and reforms supporting poverty reduction, sustainable and inclusive growth and democratic governance
- Relevant and credible programme to restore/ maintain a stable macro-economic framework
- Relevant and credible programme to improve public financial management
- Transparency and oversight of the budget (budget published and enacted)

Budget Support Programming, Design and Management - A modern approach to Budget Support, Tools and Methods Series: Working document, September 2012

In addition to an assessment against the four eligibility criteria, the EU undertakes a risk assessment which informs the decision to fund a programme as well as contributing to the determination of the elements of the programme.

The amount of funding provided through Budget Support is a function of

- The financing needs of the partner country
- The commitment of the partner country to allocate national budget resources in line with development strategy and objectives
- Effectiveness, value for money and impact of the specific added value that Budget Support will bring in achieving the partner country's policy objectives
- Track-record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with Budget Support operations and
- Result orientation in the partner country's development strategy, including a monitoring system⁵.

⁵ Budget Support Programming, Design and Management - A modern approach to Budget Support, Tools and Methods Series: Working document; September 2012

3 Budget Support in South Africa

EU Budget Support **aid modality** has evolved and is now the subject of revised guidelines⁶. In South Africa, however, the ten Budget Support programmes were designed under the previous EU Budget Support guidelines, published in 2007⁷. This section provides information from the EU 2007 Budget Support Guidelines to assist programme managers in understanding the SA Budget Support programmes.

In the 2007 guidelines the EU distinguishes between a Policy Support Programme and Budget Support. The Policy Support is the **aid modality** while Budget Support is **funding modality**.

South Africa receives two types of Budget Support:

- General Budget Support (GBS), now termed Good Governance and Development Contracts (GGDC) under the 2012 EU guidelines. The National Development Policy Support Programme includes a GBS programme (or GGDC) component
- Sector Budget Support programmes (SBS), now termed Sector Reform Contracts (SRC) under the 2012 EU guidelines. South Africa has had nine SBS programmes since 2000.

As indicated in section 2.1 of this document, the EU Budget Support programme supports a **government programme** to implement South African Policy. When assessing the eligibility of the government programme for Budget Support, the EU would typically look for certain elements in the government programme, as listed in the text box below.

Note: The EU has regularly reviews its ODA policies and modalities modality. Readers should approach Treasury or the EU Delegation to ensure that they have the latest information when designing and implementing Budget Support programmes.

Elements of a Budget support Programme

A government programme to be supported by Budget Support will include the following elements:

1. **Policy:** A relevant and credible policy supporting the government programme
2. **Programme budgeting and medium-term perspective:** An agreed strategic framework with clear measurable outcomes and time-frame, with an associated medium-term financing framework that is set within realistic medium-term budget expectations sourced from all funds
3. **Programme and donor coordination:** A comprehensive planning, programming and coordination mechanism and process amongst the programme stakeholders led by government
4. **Institutional setting and capacity:** An institutional framework to ensure efficient implementation
5. **Performance monitoring systems:** An agreed performance monitoring system
6. Public finance management improvement process for the Programme

⁶ In this document the term Budget Support programme is used for both the EU programme and the funding modality, aligning with the 2012 guidelines.

⁷ Support to Sector Programmes Covering the three funding modalities: Sector Budget Support, Pool Funding and EC project procedures; July 2007

3.1 Sector Budget Support in South Africa

Revised Guidelines were issued in 2012, by the EU, for its Budget Support aid modality. In South Africa, however, the ten Budget Support programmes were designed under the previous guidelines, published in 2007⁸. This supplement provides information from the EU 2007 Budget Support Guidelines to assist programme managers in understanding the SA Budget Support programmes.

In the 2012 guidelines the EU distinguishes between a Budget Support as an aid modality and Budget Support as a funding modality. The focus of this document is on Budget Support as a funding modality.

3.2 General Budget Support in South Africa

The General Budget Support Programme in South Africa is (which is a Budget Support component of the National Development Policy Support Programme), would be a Good Governance and Development Contract in the latest EU terminology. The programme supports the National Development Policy and the National Development Plan and is managed by National Treasury, as the lead department.

The move towards General Budget Support signifies confidence that a South Africa has the policies and systems in place to support the policy, both from the government programme, and from a financial management position. From a South African point of view the following is of importance in respect of GBS:

- There is one Financing Agreement between South Africa (National Treasury) and the EU for a single programme, reducing transaction costs
- Expenditure is aligned to the priorities of government and to the national budget process and
- SA Government systems are used for allocation, planning, implementation, procurement, accounting, reporting, monitoring and evaluation.

As with Sector Budget Support programmes, the underlying government programme supported by the GBS programme must meet general and specific conditions, and has indicators that are used to calculate tranche releases. To support effective use of ODA, the GBS funding is not absorbed directly into the national budget but is allocated to appropriate projects, as proposed by national and provincial departments. Proposals are mobilised through a formal "Call for Proposals" which is published with the annual MTEF guidelines. To ensure alignment with SA budget processes, the proposals are submitted to National Treasury and assessed at the same time as the annual budget submissions.

Proposals for the GBS funding must align with Outcomes 4 and 12 and with the Guidelines for use of ODA in South Africa. Allocations are on merit. Department and Provinces are advised of their allocations from the GBS funds through the annual letters to departments advising them of their budget allocations from the fiscus.

Once Budget Support funds have been disbursed from the RDP account to departments, these funds are managed in the same manner as funds from the national fiscus. Refer to the Supplements "Managing Budget Support funds within the South African Public Accountability System" for further insight into project-s and financial management

requirements for projects funded from the GBS programme. The management requirements include the provision of a business plan to National Treasury, and quarterly reporting on project progress and finances. Templates for the business plan and quarterly reports can be found in Annexures D and C, respectively, of the supplement “Managing Budget Support Funds within the SA Public Accountability System”.

As for Sector Budget Support programmes, the GBS programme is subject to review using:

- South African systems of monitoring and evaluation to assess the performance of the projects funded under the programme and
- The EU Comprehensive Evaluation Framework to assess the GBS programme.

4 Funding modalities of the European Union

4.1 Development Cooperation Instruments of the European Union

European Union development assistance is typically provided as conditional grants⁹, but may also be given as concessional loans or in-kind support. This document focuses on grants to South Africa as a government. Such grants are made in terms of EU legislation. Formerly different regions were funded by the EU under different policies and procedures, and South Africa was funded under the European Programme for Reconstruction and Development (EPRD). A consolidation was undertaken by the EU to reduce the procedures applied in different regions, and currently EU aid is provided to South Africa under the EU Development Cooperation Instrument (DCI). When support is given to a country or region, it is considered a “geographic instrument” of support. The EU also provides grants based on “themes” of support¹⁰ and these grants are termed “thematic instruments”. ODA to the South Africa government is currently in terms of a geographic instrument¹¹ (the DCI).

4.2 Modalities

EU Management Modalities

Centralised management: The EU manages the programme. In Budget Support programmes centralised management means that the EU manages the Budget Support contract and NOT the underlying government programme.

Decentralised management: The partner manages the programmes and the EU approves decisions.

The term “modality” refers to the manner in which the funds can be used. A modality comprises a set of rules on decision-making and/or procurement. The EU system requires that the Financing Agreement indicate both “management” and “implementation” modalities. A full description of all EU modalities and their implications in terms of

⁸ Support to Sector Programmes covering the three funding modalities: Sector Budget Support, Pool Funding and EC project procedures; July 2007

⁹ The terms “grant” is used here in its broader sense of a gift or donation which is not repayable. This is distinct from the very specific use of the term under EU procurement procedures, which refers to non-repayable support provided under a competitive allocation procedure. The term “conditional” indicates that there are conditions to be met in using the grant. (An example of a conditional grant within the SA system is the grant made to a municipality for infrastructure development, which can only be used for a specific infrastructure). Where these conditions are not met the grant (or a portion of it) may have to be repaid.

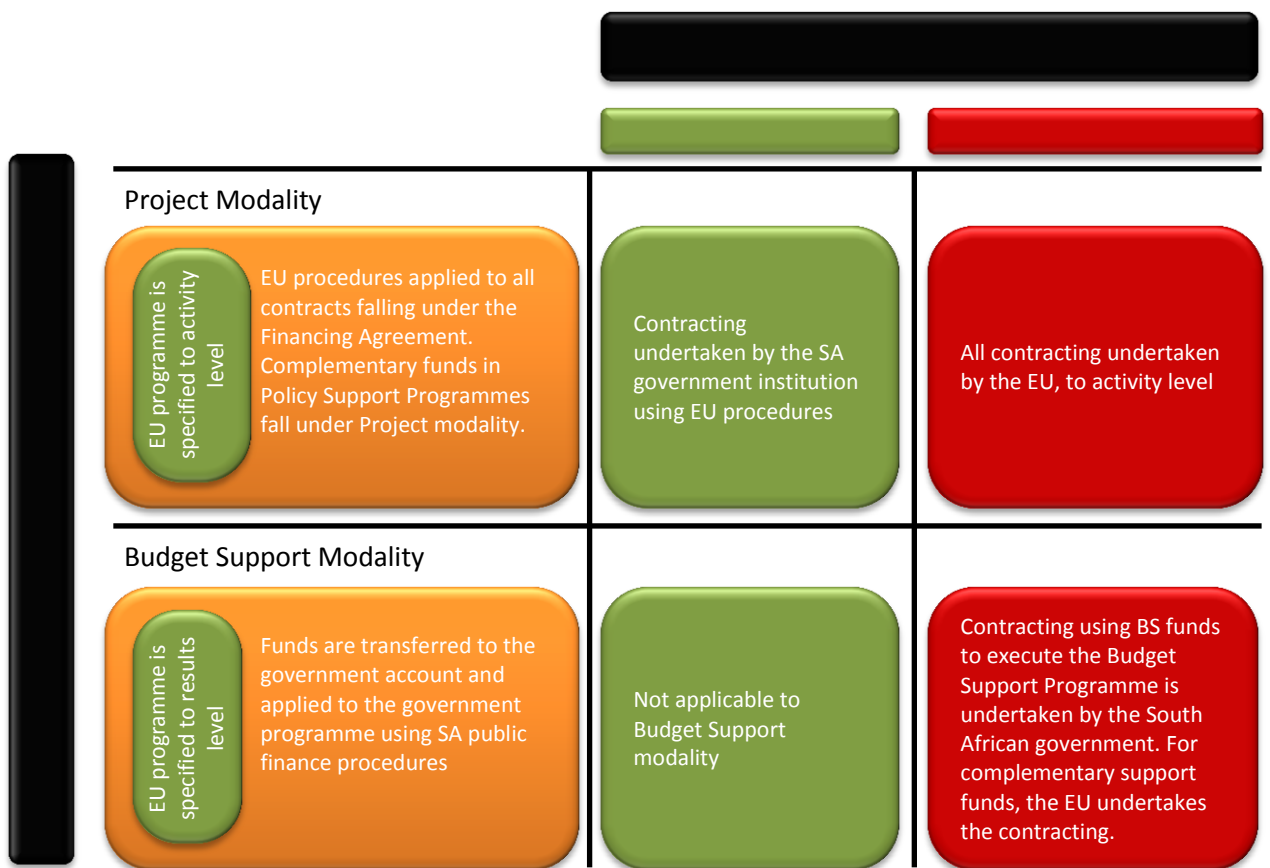
¹⁰ Examples of “themes” supported are democracy, water and sanitation, peace and security.

decision-making and procurement combinations is beyond the scope of this document¹². There is a linkage between the programme design and the management and implementations modalities, as modalities respond to the programme implementation approach.

Budget support programmes are managed using centralised management. As Budget Support funds are disbursed using South African systems this appears anomalous since, under centralised management modality, it would be expected that the EU undertakes all contracting. The rationale for centralised management is that the Financing Agreement for the Budget Support portion of the funds is the only contract that the EU considers. As this contract is managed by the EU, the modality is considered to be centralised management. The centralised management actions of the EU are monitoring and evaluation of performance of the Budget Support contract, approving tranche release applications and releasing funds.

The diagram below shows the relationship between management and implementation modalities for project modality compared to Budget Support modality programmes.

Implications of management and implementation modalities



¹¹ For a deeper understanding of EU support instruments refer to http://ec.europa.eu/europeaid/how/finance/dci_en.htm

¹² For more information on EU modalities refer to http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide. As the PRAG is revised regularly, the latest guidelines should be accessed

Classic Project Modality

EU Project (classic project) Procurement Modality

Under Project modality disbursement are made using EU procedures, as set out in various directives and the Practical Guide to Contract Procedures for EU External Actions, 2013 (PRAG)¹. Because this was previously the most common approach it is termed here as the “Project” modality (also called “classic project” modality).

In the Classic or Project funding modality the programme is designed in detail down to activity level in the logical framework, and funds are disbursed according to activities contracted. The logical framework forms part of the Financing Agreement. The “management modality” may be centralised, partially or fully decentralised. For implementation / procurement the EU procurement procedures are used, even where management is undertaken by South Africa government. For “classic project” modality all funds would be expended via:

- procurement of goods or works, as identified for various activities
- technical assistance (services) procured through service contracts or EU framework contracts or
- grants.

Grant modality

Grant funding for programmes in the EU system has set procedures, detailed in the PRAG 2013. Two categories of grants use these procedures:

- those under the EU the “thematic” instrument, which are managed from Brussels and do not form part of the agreed ODA envelope to South Africa. These grants are typically given to civil society and international institutions and are distinct from
- grant funds included in a Financing Agreement, which are part of the funding envelope to South Africa under the CSP and are considered a “geographic” instrument. In this category, grant funds managed under “centralised” management modality are evaluated, awarded and managed by the European Union Delegation, while decentralised grant funds allow the evaluation and award by the implementing agency (South African government), with the European Union Delegation undertaking procedural checks prior to the approval of the awards.

It should be noted that a Financing Agreement supporting a government programme may also include amounts subject to EU procurement procedures (“project” and “grant” modalities) in addition to the amounts subject to budget modality. Typical aspects of the support that could be subject to EU procurement procedures are technical assistance and grants to civil society.



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