

International Development Co-operation



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Budget Support in South Africa

Requesting the Release of Funds



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Supplement 6 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. South Africa has an obligation to the EU to apply the ODA provided effectively. 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.

Other Supplements have provided an overview of Budget Support modality and the conditions required to qualify for BS, some insight into the accountability for South Africa for the ODA funds, the formulation of the technical and administrative provisions of the Financing Agreement and the legal clauses of the Financing Agreement. This document provides guidance on requesting tranche releases.

This document covers

- The process and documents for tranche release requests
- The content of tranche release requests.

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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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 Tranche releases and the Financing Agreement

The tranche payments under the BS modality are made only after submission and approval of a payment request. This request is in the form of a letter with supporting documentation showing compliance with the conditions of the Budget Support. The supporting documentation is typically substantial and includes copies of documents listed in the TAPs as sources of verification. The payment request is referred to as the payment request file or payment file. Sufficient resources must be allocated to the preparation of the payment file. In preparing the payment file, the key guiding document is the programme's Financing Agreement.

1.1 Financing Agreement Contracts

The Financing Agreement is the contractual basis for the release of payment by the European Union. The Financing Agreement is a legally binding contract, drawn up in terms of the legal framework of the EU and implemented in South Africa in terms of the RDP Fund Act and South African legislation. Once the Minister has signed a Financing Agreement and the implementation of the agreement is delegated to a public institution, South African government **officials become responsible for performing against the contract.**

As the Financing Agreement is a contract there is an obligation on the recipient to meet the conditions of the contract before receiving the payments defined in the contract. Where these conditions are not met, payment will be withheld. The contractual and technical conditions are taken seriously by the donor. EU regulations and procedures do not allow EU officials to make payments when these conditions have not been met.

In Budget Support programmes the technical conditions require a high standard of performance, and the risk of losing a tranche is therefore significant. South African programmes have experienced the situation where fixed or variable tranche payments have been withheld.

1.2 Aspects of Financing Agreement Affecting Tranche Releases

The Special Conditions of Contract and General Conditions of Contract relating to the operational implementation period are of importance since tranche release requests after the end of the operational implementation period will not be released. The General Conditions applicable to tranche releases, set out in the technical and administrative provisions section, must be met for **all** tranche releases.

Specific Conditions applicable to fixed tranche releases, set out in the technical and administrative provisions section, must be met for **all** tranche releases. The Specific Conditions for variable tranche releases, with the specified key performance areas and targets, must be met for variable tranche releases. It is common for only a portion of the variable tranche to be released due to targets not being achieved for particular performance indicators.

1.3 Approach to Tranche Release Request

Bearing in mind that the release of a tranche is in response to meeting the conditions of the contract, tranche release requests must:

- provide sufficient information to assure the donor that the conditions of the Financing Agreement have been met
- be a serious analysis of performance and compliance with the Financing Agreement conditions.

1.4 Timing of Payments

The release of funds by the European Union is not done immediately on receipt of the request for payment. The process of accessing the funds takes some time, and this must be taken into account in strategic planning, implementation planning and in preparing the payment file. A typical timeline, assuming that the government programme is fundamentally compliant, can take from five to eight months (more detail is provided in the Table below).

Where the programme is not compliant the request for funds process may extend until compliance is achieved. The timeline is also dependent on the availability of required annual reports and the Auditor General (AG) report. Delays in the release of the final authorised versions of these documents are outside the control of the programme manager.

If the first tranche payment is to be available as soon as possible after the signing of the Financing Agreement, then the first tranche payment file must be prepared in advance of the signing of the agreement.

Timeline for release of tranche funds

STEP	TIME
Prepare draft “Analysis and Verification” document	1-2 weeks full time
Collect copies of supporting documents	Variable. Depends on availability of latest annual report, AG report, progress reports, etc. Usually some weeks.
Submit draft analysis document to NT for comment and input	One-two weeks
Present draft analysis to European Union	One-two weeks to get meeting date
Revised document based on feedback	Variable depending on extent of changes required. About 1 week full time
Submit revised draft and supporting documents to NT for final review	One week for feedback
Prepare internal memorandum and submit final document to DG for sign off	Variable depending on internal processes, may take weeks.
DG submit document to NT officially for letter of support	One-two weeks
Submits to EUD for review and verification	EUD process can take several months and include requests for further verification documents or information
EUD submits the file to Brussels for approval	Can take some months
Funding is transferred to RDP account and NT is notified of transfer. NT matches funds to appropriate programme	Two weeks
Department submits request for transfer of funds	Two weeks
NT processes request and funds are transferred to department	Two weeks
Total duration	Five to eight months

2 Structure of the payment request

The payment request follows a specific format and includes standard information. For that reason a standard structure can be followed. The request includes standards covering correspondence and a document analysing the progress and conditions. Verification is provided as annexes.

2.1 Correspondence Accompanying a Payment Request

The required correspondence which must accompany a payment request is:

- a letter from the requesting department to the European Union requesting payment
- a memorandum or letter indicating approval of the content of submission and the request for payment from the authorising officer in the department requesting payment
- an endorsement letter from National Treasury and
- the financial identification form with information on the account to receive the payment.

2.2 Analysis and Verification Document

The structure of the "Analysis and Verification" document is as follows:

- Cover page: this contains information identifying the programme and its EU filing and funding codes
- Content list, acknowledgments, list of tables, list of abbreviations and terms
- General overview section
- Analysis and verification: fixed tranche conditions
- Analysis and verification: variable tranche conditions and
- Annexures. This section includes supporting documents and sources of verification.

General overview section

The section includes the executive summary, introduction, policy overview and Financing Agreement overview. The purpose of this section is to give a quick insight into the country and government programme context clearly and in a way that a reader with no knowledge of these can quickly understand these and the programme. It is in this section that significant changes in policy, implementation programme, institutional arrangements and focus are raised, and a detail comparison provided of these at time of the preparation of the Financing Agreement and currently.

Analysis and verification: fixed tranche conditions

This section generally includes a detail description of government programme progress, public financial management status, and macro-economic stability. The analysis of compliance with specific conditions is also detailed in this

section. The analysis should be kept as short as possible, while ensuring sufficient information to allow the European Union to make an informed decision.

Where the conditions have not been complied with, an attempt should be made to find an acceptable proxy for the conditionality, or to motivate according to progress in resolving constraints that arose, such that the fixed tranche is still released. A meeting must be held with the EU Delegation to discuss the proposed alternatives before providing them with an official written document.

Analysis and verification: variable tranche conditions

This section should consist of a short introductory paragraph followed by a table identifying the progress against the targets. After the table, explanatory notes can be provided where targets were not met, including actions identified to improve progress.



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