POLICY FRAMEWORK AND PROCEDURAL GUIDELINES FOR THE MANAGEMENT OF OFFICIAL DEVELOPMENT ASSISTANCE:

1ST EDITION

OCTOBER 2003

1st Edition: October 2003

FOREWORD

The guidelines outlined in this document reflect the policies, legislative provisions and procedures that apply to the management of ODA in an accurate and comprehensive manner. They are intended to ensure that all role players involved in the management of ODA have a clear understanding of how ODA should be managed to achieve optimal impact and to satisfy the interests of the South African Government, as well as its partners in the international donor community.

These guidelines should never be regarded as the final, definitive version. Development co-operation is a dynamic process of interaction, and this also needs to be reflected in the guidelines for the management of the process. Therefore, you are all urged to contribute to improvements in the document, as well as in the way that ODA is managed in South Africa. In addition, the Guidelines will have to be fully operationalised at implementing agency level. This document cannot address detailed systems and procedures at that level.

The guidelines incorporate recommendations reflected in the Development Co-operation Report (DCR), released in September 2000. The guidelines are available on-line at www.treasury.gov.za.

I would also like to thank each and every one of you who has contributed to strengthening our development co-operation partnerships over the past five years. I believe that we have laid a solid foundation for optimally utilising ODA towards achieving our shared reconstruction and development objectives.

Regards

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1st Edition: October 2003

GLOSSARY OF TERMS

Absorption capacity	The ability of implementing agencies to implement projects/ utilise resources. The term **spending capacity** is also used.
Accountability	Refers to both financial and substantive accountability – answerability/liability for the management and control of resources, and for project management.
Accounting Officer	Head/CEO of a South African implementing agency, or person to whom accountability is delegated in accordance with the PFMA, other relevant legislation and technical co-operation agreements.
Chief Financial Officer	Head of financial management section of a South African implementing agency.
Cluster **Commitment**	Grouping of sectors by the South African Government for co-ordination/integration/alignment purposes. Formal allocation of ODA resources for particular purposes, per sector, programme or project (part of ODA programming process).
Counterpart contributions	Complementary contributions in cash or kind made by recipients of ODA to those of donors. This is important for proof of importance/relative priority and longer term sustainability of donor-supported interventions.
Development co-operation	The process of ODA (see **Official Development Assistance**). The term is used increasingly to reflect the concept of partnership between recipients and donors.
Donors	Foreign official (as opposed to private) agencies, including states and international organisations that provide ODA to South Africa.
Donor co-ordination	The process by means of which donors themselves harmonise their efforts in South Africa. This should be distinguished from the concept of **ODA co-ordination**.
Financial Co-operation	Concessional loans, credit guarantees, export credits.
Framework agreement	Other terms used are **overall agreement**, **general agreement** and **umbrella agreement**. These agreements are also **Technical assistance agreements** as defined in the RDP Fund Amendment Act. The are used to set out the broad parameters/conditions for development co-operation between South Africa and particular donors.
Gini Coefficient	Income coefficient that expresses the difference between the highest and lowest income in a country.
Grant assistance	ODA in the form of actual funds that do not have to be repaid to the donor. Grants can also be used to procure technical assistance services.

Implementation plans	A generic term referring to subsidiary planning documentation prepared in support of technical co-operation agreements. Other terms used are **business plans**, **work plans**, **annual plans**, etc.
Implementing Agency	South African public entity, or private legal entity in the case of direct support to civil society, charged with the implementation of donor-supported programmes and projects.
Implementing agreement	A category of technical assistance agreements dealing with the implementation of a particular programme or project (also referred to as **project agreement**).
Logical Framework Approach	Project management model used by most donors. Also referred to as **PCM – Project Cycle Management**
Local duties and taxes	Duties and taxes levied by ODA recipient countries. Includes VAT, Customs and Excise Duties and Income Tax.
ODA co-ordination	The process of ensuring integration of ODA management with South Africa's development priorities, strategies and delivery systems. ODA co-ordination is a South African Government responsibility and, as such, should be distinguished from **donor co-ordination**.
ODA management system	Structures/institutional arrangements, mechanisms, processes and roles and responsibilities for the management of ODA to South Africa.
ODA programming	Process by means of which ODA resources are allocated for particular purposes (results in commitments made by donors)
Official Development Assistance (ODA)	**OECD DAC definition**: "… (resource) flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)". In this document, the concept ODA is used in a more restricted sense, referring to: **Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation, where the South African Government is held at least partially responsible or accountable for the management of such resources.**
Overall agreement	See **Framework Agreement** (also referred to as **umbrella agreement**)

Pledge	Process by means of which donors indicatively make available ODA resources to recipient countries (also the outcome of that process). Generally broad and non-specific.
Procurement	Purchasing of goods and services
Project agreement	See **Implementing Agreement**.
RDP Fund	The central account at the SA Reserve Bank into which donor funds for government projects are paid, and from which transfer payments are made to South African implementing agencies.
Recurrent cost implications	Expenditure requirements resulting from initial spending. These are mainly in the form of staffing and maintenance costs of infrastructure and continuation of initiatives kickstarted through ODA.
Subsidiary agreement	Categories of technical assistance agreements concluded in accordance with and subordinate to overall or umbrella agreements (see **Implementing Agreements**).
Sustainability	The ability to continue operating institutionally, or to continue with particular interventions, beyond donor support
Technical assistance	Also referred to as **technical co-operation** and **knowledge capital**. ODA in the form of technical expertise rather than actual funds.
Technical Assistance Agreement	Term used in the RDP Fund Amendment Act to encompass all ODA agreements, including framework/overall/umbrella agreements and project/implementing/subsidiary agreements. The preferred term used in this document is **Technical Co-operation Agreement**. It is defined as an international agreement contemplated in Section 231(3) of the Constitution, in terms of which a foreign state or international organisation grants development aid to South Africa. Technical Co-operation Agreements are the principal instruments governing ODA to South Africa.
Technical assistant	Person contracted/employed to provide technical assistance.
Technical Co-operation	See **technical assistance**. **Technical co-operation** is the preferred term.
Technical Co-operation Agreement	See **Technical Assistance Agreement**. The term Technical Co-operation Agreement is preferred to reflect the concept of partnership between South Africa and donors with whom such agreements are entered into.
Umbrella agreement	See **Framework Agreement**.

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ABBREVIATIONS USED

A&LM	Asset and Liability Management Branch: National Treasury
AC	Annual Consultation
BAS	Basic Accounting System
BC	Budget Council
CFO	Chief Financial Officer
DAC	Development Assistance Committee of the OECD
DCR	Development Co-operation Report
DCIS	Development Co-operation Information System
FMS	Financial Management System
FOSAD	Forum of South African Directors General
GEAR	Growth, Employment and Redistribution Strategy
GNI	Gross National Income
GRAP	Generally recognised accounting principles
HIPCs	Highly Indebted Poor Countries
IDC	International Development Co-operation Section: National Treasury
IDCC	International Donor Co-ordination Committee
IDTs	International Development Targets (also referred to as MDGs)
IRPS	International Relations, Peace and Security (DG Cluster Forum)
LFA	Logical Framework Approach (see PCM)
MDGs	Millennium Development Goals (also referred to as IDTs)
MinComBud	Ministers' Committee on the Budget
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
MTR	Mid-term Review
NCOP	National Council of Provinces
NT	National Treasury
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PCM	Project Cycle Management (see LFA)
PFMA	Public Finance Management Act
PIC	Public Investment Commissioner
PMG	Paymaster-General
RDP	Reconstruction and Development Programme
RDP PSC	RDP Programme Steering Committee
SARB	South African Reserve Bank
SARS	South African Revenue Services
SMMEs	Small, medium and micro enterprises
TAU	Technical Assistance Unit: National Treasury
VAT	Value Added Tax

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CHAPTER 1

INTRODUCTION

1.1 The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD)[1] defines Official Development Assistance (ODA) as "… (resource) flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 per cent (calculated at a rate of discount of 10%)".

1.2 In this document, the concept ODA is used in a more restricted sense, referring to:

> **Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation[2], where the South African Government is held at least partially responsible or accountable for the management of such resources.**

1.3 Even though other forms of assistance, such as direct support to NGOs or the private sector, are essential to development and form part of aid flows to this country, Government is not accountable for the utilisation of such resources. Therefore, these forms of assistance are dealt with directly between the donor community and recipients, and fall outside South Africa's formal government-to-government development co-operation framework.

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1 The global debate on development co-operation is not covered in this paper. The following information, which is available on the internet (e.g. http://www.oecd.org and http://www.earthscan.co.uk), could be useful in understanding the nature of development co-operation globally, as well as important trends:
- How the OECD's Development Assistance Committee works
- The Story of Development Assistance
- Shaping the 21st Century: The Contribution of Development Co-operation
- Annual reports: Development Co-operation: Efforts and Policies of DAC Members
- Recommendation on the Terms and Conditions of Aid
- DAC Principles for Evaluation of Development Assistance (and Review)
- A Better Life for All: Progress towards the International Development Goals
- OECD Forum 2001: Sustainable Development in the New Economy
- DAC's Development Assistance Manual (can be purchased)
- The Reality of Aid – Published annually (can be purchased)

2 Financial co-operation instruments include ODA loans, credit guarantees, export credits etc.

1.4 ODA to South Africa is made available in a variety of forms, broadly classified as grants (actual non-repayable funds), technical co-operation (expertise) and financial co-operation (loans, credit guarantees etc.). These guidelines relate mainly to grants and technical assistance. A specific chapter is devoted to financial co-operation (Chapter 10).

1.5 ODA can be provided in the form of multilateral, regional or bilateral support, or even project-based support under global facilities. ODA can also range from strictly project-based support to direct budget support. Finally, numerous instruments have been developed to address particular needs, such as the Swedish Rapid Response Fund or the German Study and Expert Funds under technical and financial co-operation.

1.6 Attempts will be made in the document to address exceptional cases where relevant, while striving towards a generic approach to the management of ODA. The differences between donor rules and regulations limit the extent to which a generic approach can be applied.

1.7 The South African Government became a recipient of ODA in 1994, after the country's first democratic elections. In the absence of an established framework for the management of ODA, it was decided that ODA should be utilised primarily for purposes of implementing the Government's five-year Reconstruction and Development (RDP) Programme. ODA to Government was therefore managed mainly in a centralised manner, through the International Donor Co-ordination Committee (IDCC), the RDP Programme Steering Committee (RDP PSC) and the Special Cabinet Committee on the RDP.

1.8 With the closure of the RDP Office and the integration of the RDP into departmental budgets, the function of overall ODA management and co-ordination was transferred to the Chief Directorate: International Development Co-operation, in the National Treasury. However, the responsibility and accountability for the implementation of ODA-supported projects and programmes are vested in South African implementing agencies – national and provincial departments, and local authorities.

1.9 Therefore, these guidelines are aimed primarily at providing spending agency officials (especially accounting officers, chief financial officers and other financial managers, project managers and sectoral/provincial ODA co-ordinators) with a coherent, comprehensive and user-friendly set of policy and procedural guidelines for accessing and managing ODA effectively and efficiently, in pursuit of Government's reconstruction and development objectives. They are also intended to contribute meaningfully to the ongoing discussions with the international donor community on how best to achieve optimal impact with limited ODA resources.

1.10 The first part of the document (Chapters 2, 3 and 4) deals with the overall policy and legislative framework for ODA and outlines the overall ODA management system. Subsequent chapters deal with each of the process steps involved in the management of ODA. These chapters are structured to provide information on the key outcomes of these processes, procedures to be followed, policy and/or legislative considerations, as well as particular issues that need to be addressed as part of these processes.

1.11 APPENDIX A outlines financial management issues pertaining to ODA and is of particular relevance to financial managers/chief financial officers in implementing agencies.

CHAPTER 2

ODA IN THE CONTEXT OF SOUTH AFRICA'S RECONSTRUCTION AND DEVELOPMENT PRIORITIES

2.1 DEVELOPMENT REALITIES

2.1.1 South Africa is a middle-income country with a *per capita* GDP of around $3 000. It is an emerging market, and has the largest, most diversified and most advanced economy in Africa. Despite structural constraints, its economy is generally well managed and financially sound. It has a modern financial and industrial sector, with an excellent infrastructure. South Africa accounts for some 80 percent of the total economic output of the southern African region. It possesses the fourth largest electricity utility in the world, and accounts for 60 per cent of electricity generation in Africa.

2.1.2 However, South Africa is also a very unequal society, and one in which racial and class inequalities generally coincide. While South Africa's overall human development index is 0.650, whites score 0.878 while blacks score 0.462. In line with this, life expectancy for whites is 75 years, and for blacks 50; 95% of the poor is black. If 'white' South Africa were a separate country, it would rank 24th out of 180 countries, while 'black' South Africa would rank 123rd. At 0.58, South Africa's Gini Coefficient also indicates that it is one of the most unequal societies in the world.

2.1.3 The key development challenge is therefore to address South Africa's developmental imbalances in a way that consolidates democracy, promotes growth, broadens economic participation, extends and deepens human development, reduces inequality and poverty, and fosters a stable society.

2.2 THE RECONSTRUCTION AND DEVELOPMENT PROGRAMME (RDP)

2.2.1 Following the 1994 elections, the Government adopted the 5-year RDP Programme as its primary development strategy. Its major stated goals were to:

(1) eliminate poverty and inequalities generated by decades of apartheid;
(2) raise living standards;
(3) develop human resource capacity;
(4) address imbalances and structural problems in the economy and labour markets;
(5) end discrimination in business;
(6) establish a living wage;
(7) address economic imbalances in southern Africa; and
(8) develop a prosperous and balanced regional economy.

2.2.2 The intention was also that the RDP would provide the impetus required for transforming public service activities and expenditure towards Government's development priorities.

2.2.3 Due to the realisation that it would take time for the RDP to become embodied in government policies and programmes, a separate system of RDP projects was created, administered by a central office, which was also meant to serve as a guiding framework for ODA. With the closure of the RDP Office, the RDP was integrated into normal departmental operations.

2.3 THE GROWTH, EMPLOYMENT AND REDISTRIBUTION STRATEGY (GEAR)

2.3.1 Underlying the GEAR Strategy, introduced in 1996, was a growing realisation that the growth needed for attaining development goals could not be driven by public expenditure; instead, redistribution of wealth and resources would have to be fuelled by market-led economic growth.

2.3.2 The GEAR Strategy aims at the rebuilding and restructuring of the economy, and entails the need for a competitive platform for export growth; a stable environment for increased private investment, including foreign direct investment; restructuring of public services and government capital expenditure; a new emphasis on industrial and infrastructural development; greater labour market flexibility; and enhanced human resource development.

2.3.3 A major objective of GEAR is SMME development, aimed at empowering black entrepreneurs and creating jobs. It also focuses on a comprehensive crime prevention strategy.

2.4 THE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

2.4.1 One of the core elements of the GEAR Strategy is a renewed focus on budget reform to strengthen the redistributive thrust of government expenditure. To give effect to this, Government in 1998 introduced a three-year rolling expenditure plan known as the MTEF.

2.4.2 A Medium Term Budget Policy Statement (MTBPS) is released annually around October, and can be accessed via the National Treasury's website www.treasury.gov.za. The MTBPS represents Government's overarching budget framework within which national, provincial and local governments prepare their spending budgets for the following three-year period. The Budget Policy Statement is released well in advance of the annual rolling budgets, signalling Government's commitment to transparent and interactive policy-making. The Budget, as a statement of Government's operational plans, has to be developed and informed by Government's policies and priorities. Only such a policy-driven budget process can consistently ensure the shift of resources to areas of need.

2.4.3 South Africa's macro-economic policy aims include enhancing and sustaining economic growth, maintaining a healthy balance of payments, creating employment opportunities and improving conditions of work, and moderating price inflation.

2.4.4 At the same time, Government is faced with several critical transformation challenges in its efforts to overcome the legacy of injustice from the past:

(1) Reducing poverty, inequality and vulnerability.

(2) Investing in education, training and skills development.

(3) Building houses, extending water and electricity services, investing in municipal infrastructure and creating self-sustaining neighbourhoods and communities.

(4) Redistribution of land and investment in rural and agricultural development.

2.4.5 In the 2003 Budget Review, Government set out nine complementary medium-term policy priorities, aimed at ensuring that broad-based development accompanies accelerated growth:

(1) Progressive broadening of the income security net, revitalised health services and targeted poverty reduction initiatives.

(2) A national skills development strategy, focused on productivity enhancement and learning opportunities for the unemployed.

(3) Redistribution and restitution of land, coupled with investment in rural development and agricultural support services.

(4) Public administration reform, founded on respect for citizens' rights, courteous and efficient service delivery, modernisation of systems and honest, accountable governance.

(5) Investment in infrastructure, technology advancement and industrial expansion, in partnership with the private sector.

(6) Strengthening the fight against crime and combating corruption.

(7) Widening access to financial services, integration of small businesses into the formal economy and further easing of the tax burden on low and middle-income households.

(8) A sustainable, broad-based and transparent approach to black economic empowerment.

(9) Deepening of democracy, promoting peace and security and expanding investment and trade as principles of international co-operation and the New Partnership for Africa's Development.

2.4.6 Sectoral white papers, policies and strategies, and development plans at provincial and local level provide further guidance regarding South Africa's development priorities. As these policies and strategies developed, efforts were made to ensure integration of donor support programmes.

2.5 THE FUTURE IMPORTANCE OF ODA

2.5.1 The main thrust of the first five years of democratic government has been the development of sustainable and equitable policies and strategies. As a result, the bulk of ODA during that period was targeted at overall government policy and strategy development.

2.5.2 Since then, there has been an increasing emphasis on government service delivery. The utilisation of ODA has followed this trend, with an increasing emphasis on capacity-building in support of service-delivery, and an increased decentralisation of support.

2.5.3 ODA to South Africa currently amounts to between 1 and 1.5% of its annual budget. However, taking into account the large share of the budget devoted to personnel costs, social security grants and other non-discretionary programmes, ODA plays a significant role in key development initiatives of Government.

2.5.4 There is an increasing realisation in Government and amongst the international donor community that development co-operation can play an even greater role in the massive task of reconstruction and development delivery[3].

2.5.5 However, in order to reap maximum benefit from the ODA resources at South Africa's disposal, all ODA will have to be fully aligned to South Africa's core development priorities, and managed effectively and efficiently in a manner that supports South Africa's chosen development path to the fullest extent possible.

2.5.6 South Africa's ODA policies are outlined in the next chapter, followed by an explanation of the ODA management system and support processes.

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3 The second Development Co-operation Report (DCR II) for the period 1994 to 1999 creates the impression that South Africa does not sufficiently regard or is ambiguous about ODA as a significant resource in support of its reconstruction and development efforts. It must be stated unequivocally that ODA is regarded as a vital resource. Its value is only diminished as a result of non-alignment to core development priorities and/or poor management.

CHAPTER 3

THE OVERALL POLICY AND LEGISLATIVE FRAMEWORK PERTAINING TO ODA

3.1 GENERAL POLICY OBJECTIVES FOR ODA

3.1.1 The global ODA environment

The global development and ODA environment is characterised by certain core issues and trends that require policy responses by ODA role players globally, namely:

(1) increasing global inequality, with the income gap having doubled over the past 40 years and almost half the world's population living on less than $2 per day, despite unprecedented global economic prosperity;

(2) poor progress in the attainment of the agreed Millennium Development Goals[4] (MDGs), despite the increased emphasis on development outcomes, particularly the MDGs;

(3) declining ODA, on average amounting to around 0.24% of GDP, despite repeated commitments by donor countries to meeting the accepted target of 0.7% of GDP;

(4) increased realisation of the need for the developing world to meet governance, democratisation, rule of law, socio-economic development and trade-related preconditions/requirements;

(5) debilitating debt problems amongst developing countries;

(6) prevailing inequality in the "partnership" between the developing and developed worlds – both in terms of ODA management relationships and institutional arrangements; and

(7) continued use of ODA to further non-developmental policy objectives of donors.

South Africa's policy positions regarding these issues can be summarised as follows:

(1) Sustainable global development – and therefore the eradication of poverty and inequality – is at the heart of lasting peace and prosperity. As such, this should be the shared overall global development goal. It has to be stressed that, if the majority of the

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4 The MDGs (International Development Targets – IDTs) are to reduce the proportion of people living in extreme poverty by half by 2015; to enrol all children up to the age of 14 in primary school in all countries by 2015; to make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2025; to reduce infant and under-5 child mortality rates by two thirds by 2015; to reduce maternal mortality rates by 75% by 2015; to provide access through the primary health care system to reproductive health services to all individuals of appropriate ages with a view to lowering birth rates, ASAP but no later than 2015; and to implement national strategies for sustainable development in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

world's population remains marginalised and economically disenfranchised, globalisation will fail.

(2) The agreed IDTs provide a sound basis for translating the goal of sustainable global development into measurable outcomes, and for unifying the efforts of global development partners.

(3) Developing nations have to accept ownership of their own development and integration into the world economy, and take full responsibility for meeting the preconditions required.

(4) However, developing nations alone cannot ensure that they benefit from global growth. They are dependent on the efforts of their developed counterparts to complement and sustain their own.

(5) ODA is an essential instrument in support of this partnership for sustainable global development, and in providing impetus for more fundamental change in the broader global economic order.

(6) The focus of ODA should be on the eradication of poverty and inequality, and the strengthening of recipients' development management capacity.

(7) Without adequate development resources, our shared goal and the agreed outcomes (IDTs) can never be achieved. In this regard, the failure of most donor partners to meet the 0.7% of GDP target for ODA is inexcusable. ODA flows, particularly to HIPCs, will have to be increased dramatically.

(8) Future ODA flows must not be tied to current and future debt relief measures. Existing commitments to debt relief have to be honoured. Such efforts will also have to be strengthened considerably, with wealthy countries bearing a larger debt reduction burden.

(9) ODA management reform has to be strengthened, with specific reference to the following:
- untying of ODA;
- focusing of ODA on recipient-defined development policies and priorities;
- decentralised/in-country ODA management, with recipients leading the partnership for sustainable development; and
- fundamental institutional reform, particularly of the OECD DAC and the Bretton Woods Institutions, to give a stronger voice to the developing world.

3.1.2 **Increasing ODA to South Africa**

3.1.2.1 The OECD DAC uses per capita GDP to determine the forms and extent of ODA that developing countries qualify for. Most donors subscribe to this approach in determining ODA allocations. South Africa qualifies for grant assistance only as a "country in transition", a special provision made by the OECD DAC to assist developing countries undergoing fundamental societal transformation.

3.1.2.2 South Africa's position is that per capita GDP is an extremely simplistic mechanism for determining the forms and extent of ODA. It does not recognise or take into account societal realities and development challenges faced by particular nations. It is a mechanism that opts for uniformity and ease of application, rather than dealing with the difficult task of seeking solutions to particular problems. South Africa's argument is that the existing mechanism should be strengthened by means of, *inter alia*, measurements of inequality such as the Gini co-efficient.

3.1.2.3 Therefore, in the context of the massive inequalities that have to be addressed while fostering a stable and democratic society, the Government aims to strengthen its efforts in increasing the aid allocation for the benefit of the poor, and to further bolster its own reconstruction and development efforts.

3.1.3 **Partnership and ownership**

3.1.3.1 ODA to South Africa should essentially be a South African-driven partnership for sustainable development between the donor community and South Africa.

3.1.3.2 South Africa accepts full ownership of donor-supported interventions, both at a macro- and sectoral level, and in all spheres of government. This is the only way to ensure that such interventions are aligned to South Africa's reconstruction and development priorities to the fullest extent possible.

3.1.3.3 Ownership begets responsibility. South Africa accepts full responsibility for meeting, and even exceeding, the governance, policy and capacity requirements that would enable it (together with its partners) to achieve sustainable development.

3.1.3.4 With specific reference to ODA, South Africa, in partnership with the international donor community, is responsible for establishing and maintaining an effective and efficient ODA management system.

3.1.4 **Maximum alignment to the MTEF and the budget**

3.1.4.1 Foreign borrowing by Government is used for deficit financing and, as such, is fully integrated into the budget. Only the Minister of Finance can borrow abroad on behalf of Government, and decision-making occurs in consultation with National Treasury and the relevant line department(s). The procedure for concessional loans management is outlined in Chapter 10.

3.1.4.2 Grants and technical assistance (including training and capacity-building) are regarded as additional to Parliamentary appropriations for departmental programmes and activities.

3.1.4.3 However, such assistance has to be integrated into the budget insofar as recurrent expenditure is concerned, and where counterpart contributions from Government are required.

3.1.4.4 Maximum alignment of ODA to the MTEF and the annual budget is essential to ensure that ODA is utilised in support of core government development priorities, that ODA-supported interventions are South African driven, and that ODA-supported interventions are sustainable.

3.1.5 **Reprioritisation of the budget**

3.1.5.1 ODA should complement and encourage the process by means of which South African sectors and implementing agencies reprioritise their budgets towards the country's reconstruction and development goals.

3.1.5.2 The utilisation of ODA resources in line with government development priorities to the greatest extent possible is essential in this respect. Consultation and negotiation efforts should be directed towards achieving maximum coherence between the development goals and priorities of South Africa and donors.

3.1.6 **Strategically focused ODA**

3.1.6.1 South Africa has a decentralised system of government, with accountability vested strongly in implementing agencies in all three spheres of government.

3.1.6.2 In such a context, one of the most difficult challenges is the consolidation of a coherent set of development priorities to guide the programming of ODA.

3.1.6.3 Such a strategic framework for the programming of ODA can only be derived as part of the normal MTEF/budgetary planning and prioritisation process, and based on strategic frameworks developed at sector/implementing agency level in accordance with the requirements of the Public Finance Management Act (PFMA).

3.1.7 Sustainability

3.1.7.1 Donor-supported programmes and projects should enhance the long-term sustainability of Government's reconstruction and development efforts.

3.1.7.2 South Africa is primarily responsible for ensuring that all donor-supported interventions are sustainable, *inter alia* by ensuring that:

(1) all ODA-supported interventions are core SA development priorities;
(2) all such interventions are South African driven;
(3) all such interventions are fully funded and financially sustainable beyond donor involvement (this includes counterpart contributions, other resource requirements such as counterpart staff, and recurrent operations and maintenance expenditure); and
(4) the management of such interventions is integrated with normal government functioning to the fullest extent possible.

3.1.8 Effective and efficient management

3.1.8.1 The South African Government is responsible for establishing and maintaining an ODA management system that ensures the optimal utilisation of the limited ODA resources at its disposal in support of sustainable reconstruction and development.

3.1.8.2 In addition to alignment to the MTEF and support to the process of budgetary reprioritisation, effective and efficient management of ODA entails the following:

(1) Strong central ODA management in dealing with ODA management policies and procedures, the overall strategic prioritisation, programming, monitoring and evaluation of ODA, macro co-ordination of ODA delivery, and other issues pertaining to ODA macro-management – globally, regionally and locally.
(2) Strong ODA co-ordination at sector and implementing agency level for purposes of operational ODA management that is fully integrated with line function delivery systems.
(3) South Africa should seek co-ordination and coherence of various donor-supported programmes and projects. This includes taking maximum advantage of international development experience and the comparative advantages offered in various sectors by donor countries and institutions.

3.1.9 Policy and technology choices

3.1.9.1 In the management of ODA, policy and technology choices relating to reconstruction and development initiatives will be determined by the South African Government.

3.1.9.2 Donor involvement in South African development programmes and projects should contribute to the achievement of the country's development policies and strategies.

3.1.9.3 In the same manner, technology utilised should be appropriate to the needs of the country.

3.1.10 **Transparency and accountability**

3.1.10.1 Government will give effect to the principles of "Batho pele" (people first) in the management of ODA, in pursuit of transformation towards improved service-delivery.

3.1.10.2 Particular emphasis will be given to transparency and accountability for the utilisation of ODA resources.

3.2 LEGISLATION

3.2.1 The following legislation has a bearing on the management of ODA:

(1) Constitution of the Republic of South Africa (Act No 108 of 1996) – Art 231(2)
(2) RDP Fund Act (Act No 7 of 1994) and RDP Fund Amendment Act (Act No 79 of 1998)
(3) Public Finance Management Act (PFMA), Act No 1 of 1999, as amended, and accompanying Treasury Regulations
(4) Value-added Tax Act (Act No 89 of 1991) – as amended
(5) Customs and Excise Act (Act No 91 of 1964) – as amended
(6) Income Tax Act (Act No 58 of 1962) – as amended
(7) Preferential Procurement Policy Framework Act (No 5 of 2000)
(8) Aliens Control Act (Act No 96 of 1991)

3.2.2 The relevant legislative provisions will be dealt with in the subsequent chapters. However, in general terms, it is important to note that ODA has to be managed within the context of South African policy and legislation, bearing in mind the restrictions imposed by each of the donor governments.

CHAPTER 4

OVERVIEW OF THE SOUTH AFRICAN ODA MANAGEMENT SYSTEM

4.1 INTRODUCTION

4.1.1 The ODA management system refers to structures/institutional arrangements, mechanisms, processes and roles and responsibilities for the management of ODA to South Africa, with specific reference to grants and technical co-operation (see Chapter 10 for ODA loans management).

4.1.2 The design of the system is premised on the following:

(1) Recognition of the importance of ODA in support of sustainable development of South Africa.
(2) South Africa's ODA policies, with specific reference to ownership, sustainability and accountability.
(3) The need for strong co-ordination, particularly in the context of a decentralised system of government.
(4) The need for effective and efficient delivery of ODA.

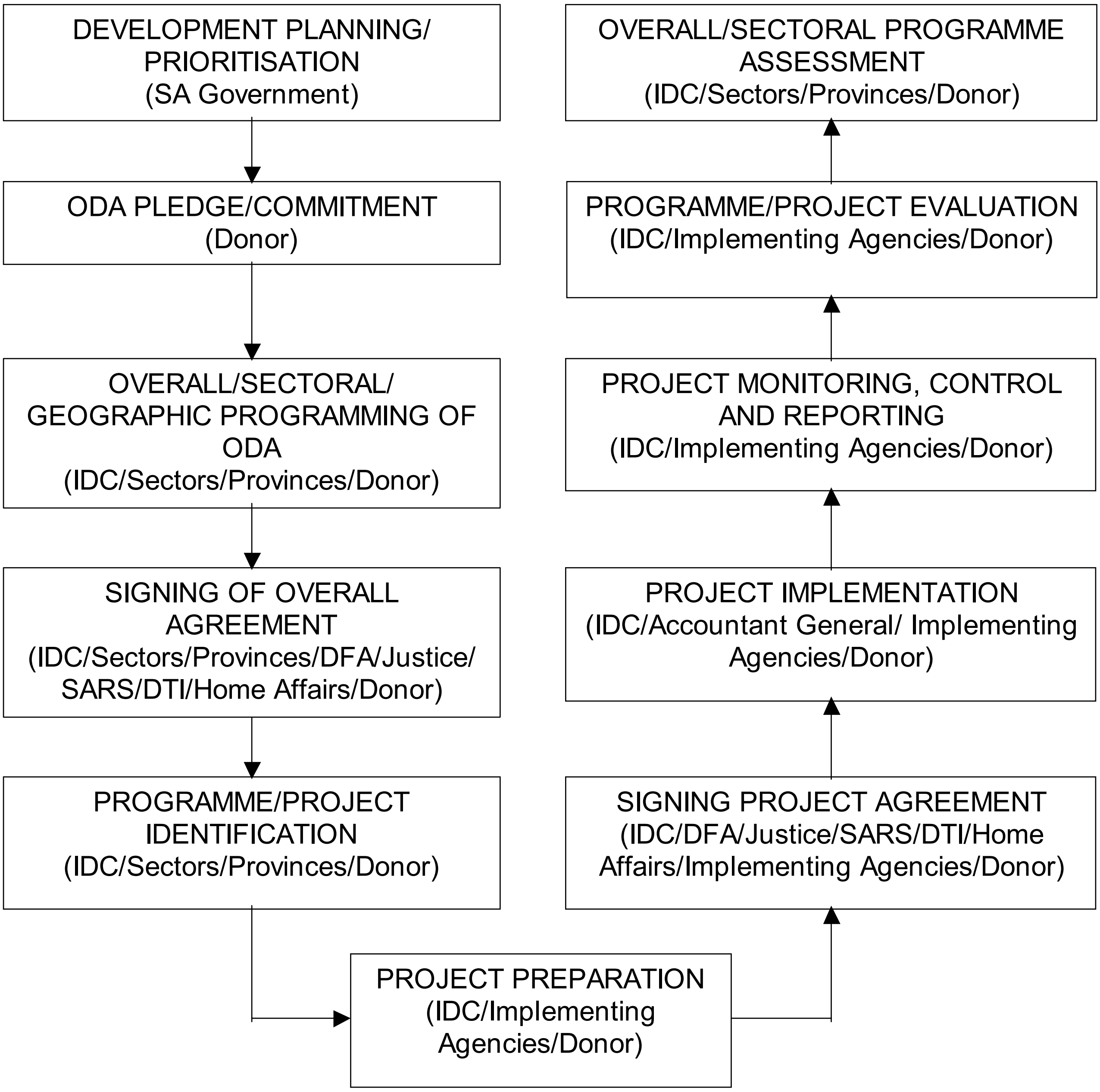
4.2 ODA MANAGEMENT PROCESS

4.2.1 The ODA management process, when it comes to grants and technical co-operation, generally involves the following components:

(1) Development planning/prioritisation
(2) ODA pledges and commitments
(3) Overall/sectoral/geographic programming of ODA
(4) Negotiation and signing of an overall/framework agreement
(5) Identification of programmes and/or projects
(6) Programme/project preparation (including assessment and planning)
(7) Negotiation and signing of programme/project agreements
(8) Programme/project implementation, including the flow of funds
(9) Programme/project monitoring, control and reporting
(10) Programme/project evaluation
(11) Project closure

4.2.2 This overall process, with the main role players, is illustrated below. The detailed steps in each of the component processes are described in Chapters 5 – 9.

4.2.3 The key function of ODA co-ordination is dealt with separately (see Sections 4.4 and 4.5).



4.3 <u>INSTITUTIONS, ROLES AND RESPONSIBILITIES</u>

4.3.1 The roles and responsibilities of the key South African role players in the management of grants and technical assistance are summarised in the table below.

4.3.2 These detailed roles and responsibilities of ODA role players are dealt with in subsequent chapters, together with the detailed process discussion. The roles and responsibilities of key players in ODA co-ordination are discussed under Sections 4.4 and 4.5.

INSTITUTION	ROLES AND RESPONSIBILITIES
Deputy Minister of Finance	Political responsibility for the overall management of ODA. Interpretation and articulation of overall development priorities.
IDC: National Treasury	Consolidation and articulation of core priority framework for ODA. Overall/macro-management of ODA (incl policies & procedures). Co-ordination of consultation and decision-making regarding ODA. Facilitating and strengthening sectoral ODA management.
Budget Office: National Treasury	Co-ordination of medium term expenditure planning/prioritisation.
Accountant- General	Provision of financial management (PFMA) regulations pertaining to ODA funds. Accountable for RDP Fund. Transfer of RDP funds to implementing agencies as per agreement.
Department of Foreign Affairs	Ensuring that ODA is dealt with in accordance with South Africa's foreign policy and the overall relationship with the relevant donor. Strategic management of overall relationships with the donor community. Assisting IDC to process agreements and to co-ordinate ODA.
DFA: Chief State Law Advisor	Assessment of all agreements to determine whether they are in accordance with international law.
Dept of Justice: Legal Advisor	Assessment of all agreements to determine whether they are in accordance with domestic legislation.
Presidency	Provision of Presidential authorisation for the signing of agreements. Policy co-ordination
Cabinet/NCOP/MinCom Bud/BC/FOSAD	Strategic policy and expenditure prioritisation Policy co-ordination
SARS	Approval of VAT and Income Tax exemptions, and administration of customs and excise duties. Determining whether tax provisions in agreements are acceptable.
Department of Trade and Industry: International Trade Administration	Consideration of requests for customs and excise duty rebates, and issuing of rebate certificates. Determining whether customs and excise duty provisions in agreements can be adhered to.
Department of Home Affairs	Issuing of work permits to technical assistants under Aliens Control Act. Assessment of agreements containing provisions on the status of technical assistants.
Accounting Officers of implementing agencies	Sectoral development planning/prioritisation – medium term expenditure planning/prioritisation. Accountable for their ODA supported programmes/projects.
Financial managers/Chief Financial Officers in implementing agencies	Medium term expenditure planning/prioritisation Budgeting for SA resource requirements on ODA supported projects. Financial management and reporting on ODA projects.
Line function officials in implementing agencies	Medium term expenditure planning/prioritisation Negotiations on inter- and intra-sectoral programming of ODA. Conclusion of programme/project agreements. Operational programme/project management (planning, implementation, monitoring) in accordance with agreements.
ODA Co-ordinators in implementing agencies	Consolidation and articulation of core development priorities for ODA at sector/implementing agency level. Sector/implementing agency level ODA co-ordination/monitoring. Sector/implementing agency level ODA information management.
Parliamentary officers	Submission of signed agreements to Parliament for information purposes.

4.4 ODA CO-ORDINATION

4.4.1 ODA co-ordination is a core function in the management of ODA to South Africa, and involves the process of ensuring integration of ODA management to the fullest extent possible with South Africa's development priorities, strategies and delivery systems.

4.4.2 The requirements for effective and efficient ODA co-ordination are the following:

(1) Sufficient capacity at central and sector/implementing agency level for ODA co-ordination.
(2) Strong institutional linkages between the IDC: National Treasury and co-ordination units at sector/implementing agency level.
(3) Integration of ODA co-ordination units at sector/implementing agency level with core government operations, particularly core line functions, financial management sections and senior management structures.
(4) Integration of ODA planning, prioritisation and programming with the development planning and prioritisation processes of Government.
(5) Sound ODA information management.
(6) Operational integration of ODA-supported interventions with normal government development delivery operations.

4.4.3 The IDC: National Treasury is responsible for ODA co-ordination at a macro/supra-sectoral level, and assisting in ODA co-ordination at sector/ implementing agency level as required. As such, it is responsible for:

(1) managing the overall development co-operation relationships with South Africa's donor partners;
(2) developing policies and procedural guidelines for the management of ODA in South Africa, and ensuring alignment of operational ODA management mechanisms, procedures and processes in implementing agencies to these guidelines;
(3) managing the overall processes of interaction between South Africa and the donor community (macro co-ordination workshops, annual consultations, mid-term and programme review meetings);
(4) consolidating and articulating the core development priority framework for the programming of ODA, on the basis of overall government prioritisation and medium term expenditure planning at sector/implementing agency level;
(5) ensuring the overall alignment of ODA to South Africa's core development priorities;
(6) negotiating/signing overall development co-operation strategies and framework agreements;
(7) overall ODA monitoring and evaluation;
(8) centralised ODA information management; and
(9) institutional capacity-building for ODA management at sector/implementing agency level.

4.4.4 South African sectors/implementing agencies are responsible for ODA co-ordination at that level, which involves:

(1) developing operational ODA management mechanisms, procedures and processes in line with the overall ODA management policies and procedures developed by IDC;
(2) consolidating and articulating development priority frameworks for the programming of ODA in the sectors/implementing agencies, on the basis of their prioritisation and medium term expenditure planning;
(3) ensuring the alignment of ODA in their sectors to South Africa's development priorities;
(4) negotiating/signing sector-specific development co-operation strategies and technical co-operation agreements;
(5) sector-specific ODA monitoring and evaluation; and
(6) sector-specific ODA information management

4.4.5 Donor co-ordination refers to the process by means of which donors themselves harmonise their efforts in South Africa. This should be distinguished from the concept of ODA co-ordination, which is a South African Government responsibility. South Africa supports donor co-ordination efforts and regards them as valuable for purposes of sharing information, discussing best practices, developing consolidated donor positions on South African development policies and strategies and strengthening ODA information management.

4.4.6 However, South Africa is opposed to such efforts substituting ODA co-ordination by South Africa at any level. Weaknesses in ODA co-ordination should be addressed by means of positive support interventions, rather than the establishment of parallel co-ordination mechanisms.

4.4.7 The key process mechanisms used for ODA co-ordination are the following:

4.4.7.1 <u>Utilisation of strategic forums</u>

(1) ODA to South Africa cannot be dealt with in isolation. It has to be managed in the broader context of South Africa's foreign policy and relations, as well as South Africa's development planning and prioritisation mechanisms and processes. Thus, IDC has the responsibility of ensuring that ODA is reflected on the agenda of key strategic forums such as Government's cluster forums, particularly the International Relations, Peace and Security (IRPS) cluster, the Chief Financial Officer (CFO) Forum, intergovernmental forums, etc.

(2) South Africa has also established a number of forums for high-level interaction with its international partners (mostly under the auspices of the Department of Foreign Affairs). In such cases, development co-

operation is also dealt with in the context of the work programmes of these forms.

4.4.7.2 Annual donor events

The DCR II report articulates the need for strong South African leadership in setting overall development priorities and the optimal utilisation of ODA in support of these priorities. IDC intends to host annual events with the donor community to address this need[5]. These events will coincide with the release of the Medium Term Budget Policy Statement (MTBPS), and inputs will be prepared as part of the normal MTEF/Budgetary planning process.

4.4.7.3 Macro co-ordination meetings and workshops

IDC has established a forum for development counsellors and heads of donor agencies, as well as a forum for ODA co-ordinators in South African implementing agencies at national and provincial level. Both of these forums are aimed at strengthening the overall co-ordination of ODA and addressing strategic issues in the management of ODA to South Africa. This includes overall policy and procedural matters that impact on the optimal utilisation of ODA.

4.4.7.4 Annual consultations on development co-operation (ACs)

(1) ACs involve all relevant South African sectors/implementing agencies (ODA co-ordinators), the Department of Foreign Affairs (desk officers) and representatives of a particular donor, and are convened by the IDC.

(2) Their purpose is to:
- discuss strategic issues pertaining to ODA management from the perspective of South Africa and of the donor;
- review the development co-operation programme between South Africa and the donor strategically, in terms of issues such as alignment to South Africa's priorities, the programme's impact, South African ownership, etc;
- agree on new programmes or projects to be

5 These events would not be aimed at programming ODA (like CG meetings), but would provide a high-level forum for articulating South Africa's overall priorities, and discussing the contribution of ODA in addressing these priorities in an optimal manner. In the context of South Africa's decentralised system of government, substantive prioritisation and programming of ODA will continue to occur at sector/implementing agency level.

supported by the donor;
- commit funds; and
- resolve any outstanding issues pertaining to the development co-operation relationship with the donor.

(3) The output of ACs is a set of agreed minutes, which is used to manage the ODA programme and to review implementation progress during the following year.

(4) Therefore, the agreed minutes should clearly reflect all the relevant information relating to donor assistance programmes, issues to be resolved, actions to be taken and time frames.

4.4.7.5 Mid-term review meetings (MTRs)

(1) These meetings are dealt with in the same manner as ACs, but generally on a smaller scale, and are focused primarily on resolving matters outstanding.

(2) Minutes of these meetings are attached to the AC minutes.

4.4.7.6 Programme review meetings with donors

(1) Programme review meetings are held between the IDC and donors, as required. The purpose of these meetings is to assess the implementation of ODA programmes on a regular basis, so as to avoid problems only being identified at ACs or MTRs.

(2) Action lists are prepared to address any issues arising from these meetings.

4.4.7.7 Sectoral/implementing agency ODA co-ordination meetings

(1) Line departments/sectors/clusters and provinces are responsible for hosting regular ODA co-ordination meetings with the donor community, particularly with regard to multi-donor programmes.

(2) The intention is to:
- provide sectoral fora for detailed articulation and discussion of South Africa's priorities;
- discuss and agree on the detailed programming of ODA in support of these priorities;
- ensure that such programmes are integrated into government priorities, budgets, and the overall

policies and strategies of these sectors and implementing agencies;

- ensure that South Africa retains ownership/control of donor-supported programmes in partnership with the donors involved;
- align the support provided by various donors, and to avoid areas of overlap/duplication; and
- to review progress with the implementation of these programmes and agree on corrective actions where required.

(3) The results of these meetings should feed into programme review meetings, MTRs and ACs.

4.4.7.8 Programme/project management meetings

(1) These meetings are hosted by line functionaries responsible for ODA supported programme/project management (planning, implementation, control, monitoring, reporting and evaluation), and involve all relevant stakeholders.

(2) The results of these meetings should feed into sectoral ODA co-ordination meetings.

4.5 STRENGTHENING ODA CO-ORDINATION

4.5.1 Inadequate ODA co-ordination is one of the core issues that South Africa and its partners will have to address in ensuring effective and efficient ODA management.

4.5.2 In addition to its established ODA co-ordination mechanisms and its efforts in improving their efficacy, IDC has embarked on the following interventions aimed at enhancing ODA co-ordination:

(1) improving ODA information management by means of an interactive management information system for ODA – the Development Co-operation Information System (DCIS), which will be accessible via the National Treasury website; and

(2) strengthening ODA management capacity at sector/implementing agency level through the provision of training and technical support.

CHAPTER 5

DEVELOPMENT PRIORITISATION, ODA PLEDGES AND COMMITMENTS, OVERALL PROGRAMMING OF ODA AND CONCLUSION OF OVERALL/FRAMEWORK AGREEMENTS

5.1 INTRODUCTION

5.1.1 The processes of development prioritisation, pledging and committing ODA, programming ODA per sector and geographic area, and concluding overall/framework agreements are closely related and therefore, are dealt with together.

5.1.2 Although the process of development prioritisation is not strictly part of the ODA management process, it is included because South Africa's development priorities have to guide ODA programming to the greatest extent possible.

5.2 DEVELOPMENT PRIORITISATION

5.2.1 South Africa's decentralised system of government means that development priorities cannot be determined by a single central authority.

5.2.2 It is a strongly iterative process that involves all three spheres of government and both the legislative and executive authorities.

5.2.3 The process is inextricably linked to the medium term expenditure planning process, which (at national level[6]) involves the following key steps:

(1) Political consideration of and guidance on the government's medium term strategic policy and expenditure priorities that provide the parameters for resource allocations in forthcoming budgets. The prioritisation process also provides for extensive consultation between the Minister of Finance and his provincial counterparts (Budget Council), and the review and consideration of FFC recommendations on the division of revenue. The process runs between May and August each year.

(2) Preparation of budget submissions for the Medium Term Expenditure Committee (MTEC) by August.

(3) Cabinet consideration of the macroeconomic and fiscal framework and the division of revenue amongst the three spheres of government between August and September (these decisions are

6 Similar processes occur at provincial and local level.

integral to the political prioritisation stage).

(4) MTEC hearings, resulting in recommendations for medium term budget allocations.

(5) The preparation and release of the Medium Term Budget Policy Statement (MTBPS) at the end of October each year. The MTBPS is a significant step forward in public transparency and accountability. As the outcome of the above-mentioned processes, it sets out Government's medium-term macro-economic and fiscal position, and its broad policy and spending priorities over the following three-year period.

(6) Decision-making on the medium-term allocation process and preparation for the actual budget, resulting in the tabling before Parliament of the Estimates of National Expenditure (ENE) in February of each year. Provincial budgets are tabled before their respective legislatures during February and March.

(7) Subsequent to the release of the MTBPS, IDC shares South Africa's priorities as reflected in the MTBPS with its development co-operation partners in a consolidated manner. The purpose is to provide a coherent priority framework that will set clear parameters for the medium term programming of ODA. The macro co-ordination meetings and workshops referred to in Section 4.4.7.2 and 4.4.7.3 will be utilised for this purpose. See also Section 6.3 for a discussion on Sector/implementing agency strategic frameworks that will have to feed into a consolidated national framework.

5.3 ODA PLEDGES AND COMMITMENTS

5.3.1 ODA pledges refer to the process through which donors indicatively make available ODA resources. Pledges are generally broad and non-specific, but should provide the following information:

(1) Goal/purpose of support.
(2) Extent of support: Usually, a monetary value is attached to the pledge.
(3) Duration of support.
(4) Nature/form(s) of support: Instruments/types of ODA, and whether support is offered bilaterally, regionally and/or through multilateral institutions.
(5) Areas of support: Sectors.
(6) Conditions: Could include cross-cutting themes such as gender or environment, or donor rules, regulations and procedures, etc.

5.3.2 Commitments differ from pledges in the sense that the former tends to be closely linked to the donor country's budgetary cycle, in which specific amounts are voted for ODA purposes. In addition, commitments are usually tied in much more closely with specific areas of support, programmes and projects.

5.3.3 Generally, commitments are formalised through the mechanism of annual consultations, which are managed by the IDC and involve the relevant sectors, South African implementing agencies and the donor.

5.3.4 From a South African perspective, the main objectives during this phase are to:

(1) develop a full understanding of the pledges and commitments made;

(2) assess the assistance offered in terms of South Africa's overall needs and priorities, as well as its policies, rules and regulations pertaining to ODA;

(3) assess the extent to which donor-specific conditions can be met; and

(4) renegotiate assistance offered if it cannot be utilised due to unacceptable terms and conditions.

5.4 OVERALL PROGRAMMING OF ODA

5.4.1 Overall programming entails agreeing with donors on sectors and geographic areas of support, and largely coincides with the process of annual commitments. The IDC is primarily responsible for facilitating decision-making in this regard.

5.4.2 The basis for discussion and decision-making are the following:

(1) the preferred or mandatory areas of support of the donor;

(2) South Africa's reconstruction and development priorities;

(3) intra-sectoral priorities, policies and strategies; and

(4) geographic realities (e.g. HDI-ratings, distribution of wealth, capacity, etc).

5.4.3 The mechanisms used are primarily ACs or separate consultative workshops/ planning sessions.

5.4.4 The key is that the process should give effect to the concept of development co-operation as a true partnership.

5.4.5 The ideal outcome is a joint development co-operation strategy or overall framework agreement that is fully aligned to South Africa's development priorities (see Chapter 2) and ODA policy principles (Chapter 3); and that will guide all future development co-operation between South Africa and a particular donor.

5.5 CONCLUSION AND SIGNING OF AN OVERALL/FRAMEWORK AGREEMENT[7]

5.5.1 In most cases, the process of concluding and signing an overall development co-operation agreement with a donor takes place in conjunction with discussions on pledges, commitments and overall programming.

5.5.2 The IDC (sometimes the Department of Foreign Affairs) is responsible for concluding overall agreements with the international donor community.

5.5.3 Prior to signing, the IDC has to:

(1) ensure that the agreement reflects the outcome of the negotiations on development co-operation between South Africa and the donor;

(2) obtain a legal opinion from the Law Advisor: Department of Justice, and from the Chief State Law Advisor: Department of Foreign Affairs;

(3) have the agreement certified by the Chief State Law Advisor: Department of Foreign Affairs; and

(4) obtain Presidential authorisation for the signing of the agreement (the detailed procedure is discussed in Chapter 7).

5.5.4 After signing, the agreement must be tabled in Parliament for information purposes by the parliamentary officer of the National Treasury or Foreign Affairs, depending on which department processed the agreement for signing. The agreement must also be sent to the Treaty Index Section in the Department of Foreign Affairs for inclusion in the Treaty Register and for safe-keeping.

5.5.5 The signed agreement, together with the jointly developed development co-operation strategy, forms the basis for all further discussions and decision-making on development co-operation between South Africa and a particular donor.

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7 Details on issues such as VAT exemption, customs and excise duties, the implications of the RDP Fund Amendment Act for the signing of agreements, etc are discussed in Chapter 7: The Conclusion and Signing of Programme/Project Agreements

CHAPTER 6:

SOLICITING ODA

6.1 INTRODUCTION

6.1.1 In South Africa, ODA is generally provided on a project-basis, but tends to be programme-oriented in the sense that there is general acceptance of the need to align ODA to South Africa's priorities, and to integrate ODA into the normal functioning of Government.

6.1.2 The processes of identifying programmes or projects for ODA support and seeking agreement on the support for such programmes/projects are closely linked, and are often incorporated under the more general process of soliciting donor assistance.

6.1.3 In the context of a decentralised system of government and the absence of a central decision-making body that determines the allocation of ODA, any department, province or local authority can legally approach the donor community directly to solicit ODA.

6.1.4 However, there are numerous reasons why a strictly "free-for-all" approach is not advisable[8]:

(1) It assumes that the capacity to solicit and manage ODA effectively and efficiently exists, while this is not the case in all implementing agencies.

(2) It undermines a coherent, co-ordinated approach to ODA management.

(3) It undermines South African ownership of ODA.

6.1.5 Therefore, South African implementing agencies and the donor community should adhere to the processes outlined below, in order to ensure that South Africa's objectives with regard to ODA can be achieved. The IDC is at the disposal of South African implementing agencies if assistance is required.

6.2 OUTLINE OF THE ODA SOLICITATION PROCESS

6.2.1 The ODA solicitation process to be followed by South African sectors/implementing agencies can be illustrated as follows:

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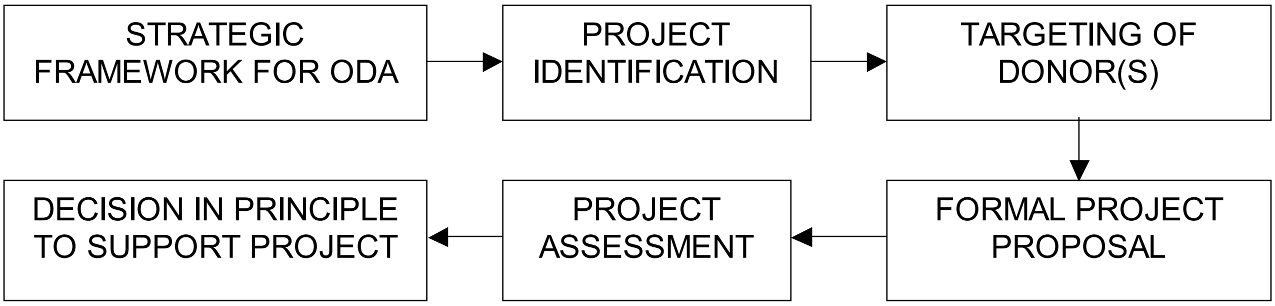
8 See DCR Report.



6.2.2 These processes are discussed in greater detail in the sections that follow.

6.3 DEVELOPING A STRATEGIC FRAMEWORK FOR ODA (Also see Section 5.2)

6.3.1 ODA cannot be managed in isolation or used to fund "wish-lists" that would not be viewed as core priorities. Government has to avoid an *ad hoc* approach to seeking ODA, simply because the budget is inadequate, or because a donor is interested in providing support.

6.3.2 Therefore, implementing agencies/sectors should develop a strategic framework for ODA[9] that addresses the following issues:

(1) The core priorities, policies and strategies of the sector/cluster, and how these contribute to addressing South Africa's overall development needs.

(2) The implementation/delivery of these priorities, including their funding by means of the MTEF/budgets. There should be particular emphasis on addressing resource gaps and ensuring long-term sustainability.

(3) The contribution of ODA in realising these sectoral priorities, policies and strategies (integrating ODA into core sectoral functioning).

(4) ODA co-ordination/management mechanisms, processes and institutional arrangements, including accountability, decision-making, planning, implementation, reporting and information-management.

6.3.3 Most sectors and implementing agencies already have an ODA framework, even if it has not been formalised. In addition, most sectors have an established relationship with the donor community and may feel that the development of such a framework would be superfluous.

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9 The DCR advocates the establishment of an overall/national strategic priority framework to guide the programming of ODA. The reality is that substantive planning and prioritisation occurs at sector and implementing agency level. The strategic frameworks referred to above will have to feed into a consolidated framework to effectively guide ODA programming.

6.3.4 However, an explicit strategic framework is essential for the coherent management of ODA at sector level. The Public Finance Management Act requires all departments to draft a medium term strategic framework, which should also facilitate the preparation of a strategic ODA framework.

6.4 PROJECT IDENTIFICATION, DONOR TARGETING AND FORMAL SUBMISSION OF PROJECT PROPOSAL

6.4.1 In the context of South Africa's overall priorities and ODA policy and legislative framework, as well as sectoral strategic ODA frameworks, sectors need to:

(1) identify projects that could be supported by donors;
(2) prioritise these projects on the basis of criteria (see below);
(3) target donors that are/could become active in the sector for support (match projects with donors); and
(4) formally submit a project proposal to the donor for consideration.

6.4.2 Generally, projects identified for donor support should conform to the following criteria:

(1) ODA policy: The projects should be aligned to the overall policy principles governing ODA (Chapter 3).
(2) Strategic importance/alignment: The sector must prove that the project is a significant priority for government, and specifically for the sector, by means of integration into the relevant implementing agency's medium term strategic framework.
(3) Counterpart contribution/MTEF/budget: Most donors require a counterpart contribution before considering support, which means that budgetary provision has to be made. Integration of projects into the MTEF is also essential for long-term sustainability purposes.
(4) Recurrent cost implications, VAT and duties: These costs have to be budgeted for before a project agreement can be signed (see Chapter 7).
(5) Optimal impact: Attempts should be made to identify projects that would ensure the optimal utilisation of scarce ODA resources.

6.4.3 A formal project proposal[10] seeking donor support for a project has to include at least the following information:

(1) Project name
(2) Short background (strategic framework)
(3) Project description, scope, aim and objectives, and duration
(4) Main beneficiaries
(5) SA counterpart (accountability and implementation responsibility)
(6) Nature of support required

10 The project proposal does not refer to the detailed implementation plan for the execution of the project to be drawn up after a thorough project assessment. It is a concise project concept that allows the donor to understand the nature and context of the project, as well as the form(s) and extent of support required.

(7) Cost (preliminary budget)
(8) SA contribution to be provided and donor contribution sought

6.4.4 The project proposal has to be submitted under covering letter of the relevant accounting officer and the political office-bearer responsible, as well as the head of the relevant national line department and national minister in the case of the implementing agency being a provincial department, a local authority or a parastatal[11].

6.4.5 The proposal should be submitted through IDC to the relevant donor, in order that the project can be recorded on the database, and to ensure that IDC is aware of the submission of a formal request for support. In many cases, donors require proposals to be submitted through IDC.

6.5 PROJECT ASSESSMENT

6.5.1 Project assessment/appraisal (including pre-feasibility and feasibility studies) is an essential requirement for proper project planning, and can be undertaken jointly by the SA implementing agency and the donor, or by the donor. The outcome of the process is a preliminary indication that the donor would support the project, with or without certain conditions.

6.5.2 Key considerations in terms of which projects are assessed, include the following:
(1) Whether the project is a core priority for South Africa.
(2) Whether the project falls within the scope of the donor's mandate/area of operation in South Africa.
(3) Whether the donor believes it best positioned to provide the support required (comparative advantage/expertise).
(4) Whether the donor can fulfil the requirements expected (e.g. form and extent of support, procurement conditions etc).
(5) Whether the project is realistic/feasible/sustainable.
(6) The extent to which donor conditions can be met (e.g. gender, environmental considerations, procurement, etc).
(7) Whether the project represents "value for money", i.e. whether it would ensure the optimal utilisation of resources.
(8) Whether there are significant overlaps and/or funding gaps that would impact on the project.

11 The reason for this is that provinces and local authorities are not allowed to sign international agreements (see Chapter 7). In the case of parastatals, most donors require a government-to-government agreement that will govern project implementation.

6.6 DECISION REGARDING DONOR SUPPORT[12]

6.6.1 Because of significant costs involved in detailed project planning and preparation, an early indication is sought from donors as to whether they would support proposed projects. While decision-making about support for particular projects can occur on an *ad hoc* basis, the ideal is that these decisions be taken within the framework of the institutionalised processes developed for that purpose, i.e. ACs, MTRs and sectoral co-ordination meetings.

6.6.2 The reasons for this are that most donors commit funds on an annual basis, which means that there is extremely little scope for considering *ad hoc* support outside of the established decision-making process. In addition, South Africa insists on joint decision-making about ODA support, which is undermined if projects are submitted in isolation of the broader consultative and decision-making processes between the donor community and government.

6.6.3 In summary, decision-making about donor support involves:

(1) preparation of priority projects in a sectoral/regional development policy/strategy context (SA decision);
(2) the formal submission of a project proposal for consideration by a donor;
(3) assessment of the project (jointly or by donor); and
(4) joint decision-making about support for a project within the process mechanisms developed for that purpose.

12 A final decision about support may not possible at this stage. From a legal perspective, both parties can be fully committed to a particular project only upon signing a technical assistance agreement to that effect. However, the decisions taken at this stage tend to be respected as binding by both the donor and the Government, particularly if these decisions are formalised in agreed minutes/records of discussions of annual consultations. It is also an accepted principle that both parties will explicitly state if, for some reason, they cannot commit to a final decision.

CHAPTER 7:

CONCLUDING A PROJECT AGREEMENT

7.1 INTRODUCTION

7.1.1 All ODA must be provided in terms of lawfully concluded agreements, referred to as technical assistance agreements[13]. Such agreements are regarded as international agreements and, in terms of the Constitution [Section 231(3)], are the responsibility of the National Executive (the President and Cabinet). All such agreements have to be signed by the President, or a person delegated to sign on his behalf (by means of Presidential authorisation).

7.1.2 These agreements are the principal instruments governing the implementation of donor supported projects.

7.2 THE PROCEDURE FOR CONCLUDING PROJECT AGREEMENTS[14]

7.2.1 The procedure for negotiating and signing project agreements is as follows[15]:

(1) The implementing agency and/or the donor prepares a draft project agreement.

(2) If an overall agreement exists, the project agreement is regarded as a subsidiary agreement. In such cases, the procedure differs slightly (see Section 7.2.3). The project agreement should refer explicitly to the overall agreement and be drawn up in accordance with its provisions.

(3) The designated person(s) (ideally, the ODA co-ordinator in the relevant national implementing agency) seeks line function approval in the form of a letter of support from the accounting officer(s) and political office bearer(s) responsible, as well as the institutional mechanism established for sectoral co-ordination. In cases where the implementing agency is a provincial department, a local authority or a parastatal, the relevant Director-General and Minister at national level must also approve the agreement[16].

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13 In terms of the RDP Fund Amendment Act, a technical assistance agreement means an international agreement contemplated in Section 231(3) of the Constitution, in terms of which a foreign state or international organisation grants development aid to South Africa.

14 See Manual on Executive Acts of the President of the Republic of South Africa.

15 IDC can assist in negotiating and signing project agreements if any problems are experienced.

16 Provinces and local authorities may not sign international agreements. Only National Ministers can be authorised to sign international agreements on behalf of the President. The early involvement of the relevant national departments is important, because their approval and commitment are required for the signing of a project agreement.

(4) The ODA co-ordinator seeks the necessary approvals required in order for South Africa to fulfil its financial and other obligations under the agreement (see Section 7.4 below).

(5) The ODA co-ordinator submits the agreement to the State Law Advisor: Department of Justice for scrutiny in terms of consistency with domestic law and appropriate and correct legal drafting.

(6) The ODA co-ordinator submits the agreement, through the relevant Foreign Affairs Desk Office, to the Chief State Law Advisor (DFA) for scrutiny in regard to its consistency with international law, South Africa's international relations and other obligations, and for certification of the agreement.

(7) The ODA co-ordinator submits the agreement through the office of the Director-General and Minister of that department to the Presidency to obtain signing authorisation. The authorisation, countersigned by the relevant national minister, has to be accompanied by the President's minute, explanatory memo and the original agreement or an authenticated copy.

(8) The person duly authorised by the President signs the agreement.

(9) The ODA co-ordinator submits the original or a certified copy of the signed technical co-operation agreement to the Treaty Index Section of the Department of Foreign Affairs, for inclusion in the Treaty Register and for safe-keeping.

(10) The Parliamentary officer in the national line department responsible submits the signed agreement to Parliament for information purposes. It should be noted that this step is also a Constitutional requirement.

7.2.2 The duration of the entire process is generally 3 – 4 months, depending on the extent of substantive agreement on the provisions in the agreement. However, the process can be shortened considerably if the IDC is involved in the process to assist, and if one person is made explicitly responsible for driving the process on the South African side.

7.2.3 In the case of the conclusion of project agreements under a framework agreement, the National Executive may, by means of a Cabinet decision, delegate the authority to negotiate and sign the project agreements to a Minister without the President's prior approval in respect of each of these project agreements. Therefore, the only step that is not required in such cases is 7.2.1(7) – Presidential authorisation. All the other steps still have to be followed.

7.3 THE FORMAT OF PROJECT AGREEMENTS

7.3.1 It has not been possible to develop a generic/standard agreement in respect of donor supported projects, due to different formats used by different donors. Again, the format is much less important than the substance of the agreement.

7.3.2 Generally, project agreements are structured as follows:

(1) Heading (name of agreement and parties)
(2) Preamble (overall goals of co-operation, reference to other agreements, etc)
(3) Scope and objectives of the agreement (project-specific)
(4) Accountability, responsibility for implementation and decision-making
(5) Donor contribution, rights/privileges and obligations
(6) South African Government contribution and obligations (mostly relating to counterpart contributions, exemptions from taxes and duties, ownership of assets, etc)
(7) Procurement
(8) Funding flows (results from financial accountability decision, and also involves accounting and auditing procedures)
(9) Reporting
(10) Communication, monitoring and evaluation
(11) Settlement of disputes, entry into force, termination and amendments

7.4 CORE ISSUES PERTAINING TO TECHNICAL CO-OPERATION AGREEMENTS

A number of core issues relating to the management of ODA are addressed, in a more or less explicit and detailed manner, in technical co-operation agreements. It is essential for South African counterparts negotiating and signing these agreements to understand these issues and, in particular, the obligations imposed on the South African Government in terms of these agreements.

7.4.1 Parties to agreements

7.4.1.1 All technical co-operation agreements governing ODA are entered into between a donor government or a multilateral organisation and the South African Government, or between agencies duly nominated to act on either of their behalf.

7.4.1.2 As stated, only political office bearers at national level can be authorised to sign international agreements.

7.4.1.3 Because of the fact that implementing agencies (recipients of ODA) are often provincial departments, local authorities or parastatals, mechanisms had to be developed to deal with the practical difficulties of agreements being signed by organs of state/institutions other than the implementing agencies actually responsible for project implementation.

7.4.1.4 These mechanisms are the following:

(1) Specifying all the role players and their respective obligations, roles and responsibilities in the technical co-operation agreement itself.

(2) Ensuring that the implementing agency is fully aware of its obligations under the agreement and formally agrees to meeting these obligations.

(3) Providing for contracts/implementation plans (governing operational issues) to be prepared between the implementing agency and the donor and/or contractor/service provider.

7.4.2 <u>Responsibility and decision-making</u>

7.4.2.1 Technical co-operation agreements (and/or subsidiary documents) should spell out clearly who is responsible for what when it comes to the implementation of the agreement.

7.4.2.2 Again, the crucial principle is that donors and implementing agencies should be jointly responsible for donor-supported projects.

7.4.3 <u>Communication, monitoring and evaluation</u>

7.4.3.1 Technical co-operation agreements should make explicit provision for channels and forms of communication, mechanisms for the monitoring of project implementation, and project evaluation processes.

7.4.3.2 Because of the variety of mechanisms and processes that exist, implementing agencies should seek optimal alignment between these and established sectoral/departmental processes, in order to minimise duplication of effort.

7.4.3.3 In addition, implementing agencies should ensure that monitoring and evaluation criteria are decided by mutual agreement, and that the processes are dealt with jointly.

7.4.4 <u>Financial management of ODA funds and related issues</u>

The sound financial management of donor assistance is at the heart of the optimal utilisation of ODA. Due to the specialised nature of issues relating to the financial management of ODA, these are addressed in depth in **APPENDIX A**. The section in the text provides a brief overview of the relevant issues for the benefit of ODA role players. Individuals responsible for aspects of the financial management of ODA need to familiarise themselves fully with the rules, regulations and procedures outlined in **APPENDIX A**.

7.4.4.1 <u>Financial accountability and funding flow mechanisms</u>

(1) In terms of the RDP Fund Amendment Act, the accounting officers of South African implementing agencies are accountable for donor-supported projects in their implementing agencies in any of the three spheres of government.

(2) When it comes to financial accountability[17], financial managers have a crucial role to play and, therefore, need to be fully involved in the planning and execution of donor-supported projects.

(3) Financial accountability determines the funding flow mechanism utilised. There are three forms of financial accountability, namely:
- donor accountability, in which case no funds flow through the RDP Fund or any account of the South African Government, and the donor pays directly for the procurement of goods and services;
- South African Government accountability, in which case the funding flow mechanism is via the RDP Fund, as prescribed by the RDP Fund Amendment Act (see procedure in **APPENDIX A**); and
- third party accountability, in which case so-called fund managers are used to implement donor-supported projects.

7.4.4.2 <u>VAT, Customs and Excise Duties and Personal Income Tax</u>

(1) It is a firmly established principle that donor funding not be utilised for the payment of the recipient country's duties and taxes.

(2) However, this does not mean that donor-supported projects are automatically exempted from local duties and taxes.

(3) The necessary exemptions or rebate approvals have to be obtained prior to the signing of a technical co-operation agreement and, in cases where rebate applications are not approved, South African implementing agencies are responsible for the payment of such taxes and duties.

17 This refers to accountability for expenditure in accordance with a technical assistance agreement.

(4) This has important budgetary implications that necessitate the early involvement of financial managers in the implementing agencies.

7.4.4.3 Procurement of goods and services

(1) In most cases, the rules and procedures for the procurement of goods and services[18] for projects are clearly described in technical co-operation agreements.

(2) The reason for this is that procurement conditions are an important element of the conditions attached to ODA and/or the donor country's rules and regulations.

(3) South African implementing agencies should ensure that procurement conditions meet South Africa's needs with regard to technical specifications, terms of reference for consultants/technical assistants, criteria for evaluating tenders, value for money, local capacity-building, use of local expertise, etc.

(4) The RDP Fund Amendment Act makes it possible to agree on a procurement procedure, or even to specify the contractor/service-provider. For purposes of transparency and equity, a proper tendering procedure providing for joint decision-making and fair competition, should be agreed to.

(5) South African tender procedures have to be followed only in cases where no procedure has been specified in the technical co-operation agreement.

7.4.4.4 Accounting, auditing and financial reporting

(1) This is only relevant in cases where the RDP Fund is used, i.e. where South African implementing agencies are accountable for financial management.

(2) In order to promote standardisation, normal South African accounting and auditing procedures are followed.

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18 Other terms are sometimes used by donors to refer to categories of goods and services, such as supplies and works. In this document, goods and services encompass all forms of resources that can be procured under technical assistance agreements.

(3) Financial reporting has to occur in accordance with relevant technical co-operation agreements, as well as the provisions of the Public Finance Management Act and the RDP Fund Amendment Act.

7.4.4.5 Counterpart contributions

(1) In most cases, the South African Government is expected to provide counterpart contributions for ODA projects. This principle is supported for the simple reason that it promotes sustainability through alignment to South African priorities and Government expenditure.

(2) Again, the crucial issue is for the implementing agency to make the necessary budgetary provision for such contributions.

7.4.4.6 Recurrent cost implications

(1) A critical issue that could impact on the viability/ sustainability of ODA projects, is recurrent expenditure that will be incurred as a result of their implementation.

(2) The implementing agency has to formally confirm that it has provided for recurrent expenditure on the MTEF, or formally undertake to do so if recurrent expenditure will only become a reality after more than three years.

(3) The implementing agency's ability to absorb recurrent financial implications within existing/projected MTEF ceilings is central to deciding on a particular project.

7.4.5 **Rights and privileges of technical assistants**

7.4.5.1 The rules, regulations and procedures governing the rights and privileges of technical assistants are determined by the following:

(1) The Diplomatic Immunities Act, in cases where these individuals have diplomatic status. This involves the least administration (approval by the Department of Foreign Affairs), but requires donor countries to accord such individuals diplomatic status, which is not always feasible.

(2) The Aliens Control Act, in cases where these individuals are foreign nationals with normal citizenship. In terms of the Aliens Control Act, technical assistants have to obtain a work permit at the South African mission closest to their country of origin, before they commence with their work in South Africa.

(3) A technical co-operation agreement that spells out their rights and privileges. This is the best option in the longer term, particularly in relation to standardising rights and privileges. Such an agreement has to be concluded between the donor country and the Department of Foreign Affairs.

7.4.5.2 Donors and implementing agencies should ensure that all the requirements allowing technical assistants to commence with their work are met before they arrive in the country.

7.4.5.3 Provisions in technical co-operation agreements relating to the rights and privileges of technical assistants have to be submitted to the Department of Home Affairs and Foreign Affairs for formal approval before signing of the agreement.

7.4.6 **Subsidiary implementation documents**

7.4.6.1 In most cases, some form of operational documentation governing the detailed implementation of donor-supported projects is required. The principle, which needs to be reflected in the technical co-operation agreement, is that these documents form an integral part of the agreement.

7.4.6.2 Such documents are usually referred to as business plans, implementation plans, work plans, annual plans, etc[19]. While implementation plans tend to differ in form and substance from donor to donor, their purpose is usually the same, namely to address all the details pertaining to the implementation of projects in accordance with the relevant technical co-operation agreement(s).

7.4.6.3 The issue of implementation planning is addressed in detail in the subsequent chapter.

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19 For purposes of these guidelines, such documents are referred to under the generic term implementation plans. However, implementing agencies should note that numerous variations exist. The donor and the TAT (IDC) can assist in ensuring that the implementation plan conforms to the necessary criteria.

CHAPTER 8:

IMPLEMENTATION PLANNING

8.1 INTRODUCTION

8.1.1 The technical co-operation agreement is the key project reference document. The implementation plan and any other documentation relating to the implementation of the project should refer clearly to the relevant provisions in that agreement.

8.1.2 While the preparation of detailed implementation plans is not required by all donors, detailed implementation planning is crucial for the success of any project. Therefore, it is strongly suggested that such implementation plans be prepared, irrespective of whether the donor, the South African implementing agency and/or a third party are accountable for project implementation.

8.1.3 The implementation/project planning process does not begin after the signing of the technical co-operation agreement. These processes run concurrently. The reason why the implementation plan is discussed here is that, as an output of the planning process, it is subsidiary to the technical co-operation agreement.

8.2 THE FORMAT OF IMPLEMENTATION PLANS

8.2.1 The most commonly used approach to planning for project-based donor support is the so-called logical framework approach (LFA)[20]. The process for developing a logframe is not dealt with in detail in this document. Donors that utilise the logframe are familiar with the process and the IDC is also available to assist implementing agencies that are unfamiliar with the approach.

8.2.2 Alternative formats can be used, either to feed into the LFA process, or in cases where the LFA is not required (see APPENDIX B for an example).

8.3 STEPS IN THE PLANNING PROCESS

A planning workshop, involving all the key role players in the project, is commonly used as mechanism for the planning process. The basis for discussion is information on the sector, the project concept, feasibility study outcomes, problems, etc (see Project Assessment, Chapter 6).

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20 The Logical Framework Approach has certain key weaknesses, the most important being a tendency towards rigidity, and the need for all parties to understand the methodology. The lack of knowledge in South African implementing agencies about the LFA could have a negative impact on the extent to which they feel a sense of ownership of projects and their implementation.

The steps followed in the LFA planning process are the following:

8.3.1 Participation analysis: Developing a comprehensive picture of the needs, interests, problems, strengths and weaknesses, expectations and relationships/linkages of all role players involved in/affected by the project, and prioritising these.

8.3.2 Problem analysis: Identifying core existing problems and cause-and-effect relationships, in order to identify the focal/central problem.

8.3.3 Objective analysis: Developing objectives on the basis of the problem analysis, by reformulating problems into positive desirable conditions, focusing on means-end relationships.

8.3.4 Alternatives analysis: Developing alternative project options through various means-ends ladders, and assessing and prioritising the options on the basis of cost, benefits to priority groups, probability of achieving objectives, social risks and other criteria identified by the participants. The outcome should be the selection of one option as the project strategy.

8.3.5 Project elements: Defining the development objective (long-term objective/ project justification), the immediate objective (project purpose), outputs (objectives), activities (processes to achieve objectives) and inputs (resources – funds – including cash flow forecasts, personnel, goods).

8.3.6 External factors/preconditions: Identifying events, conditions or decisions that are necessary for project success, but that are beyond the control of project management, and weighting them according to importance and probability of occurrence. Unimportant and highly probable factors are eliminated. Killing factors, which require redesign or abandoning of the project, refer to crucial factors that are highly unlikely to occur.

8.3.7 Indicators: Identifying the performance standards required achieve the outputs, the immediate objective and the development objective. These could be qualitative, quantitative or behavioural, and should specify target group, quantity, quality, time and location. Indicators provide a basis for monitoring and evaluation. Means of verification should be checked in order to determine viability, reliability, accuracy and cost.

8.4 CHECKING PROJECT DESIGN

Once the project has been designed, it is essential that the information be checked on the basis of key criteria. This is set out below:

8.4.1 Target group: Target groups have to be:
(1) precisely defined; and
(2) specified at the right level.

8.4.2 Development objective: The development objective has to:
(1) be consistent with the development policies of the recipient;
(2) be consistent with the donor's policy guidelines for ODA (and those of South Africa);
(3) represent a sufficient justification for the project;
(4) not be too ambitious;
(5) define the target groups explicitly;
(6) be expressed as a desired end (not a means to an end);
(7) be expressed in verifiable terms; and
(8) not contain two or more objectives that are causally linked.

8.4.3 Principal objective: The principal project objective should:
(1) be a single objective;
(2) specify the target groups of the project;
(3) contribute significantly to fulfilment of the development objective;
(4) be realistic;
(5) be outside the immediate control of the project itself;
(6) be formulated as a desired state; and
(7) be precise and verifiable.

8.4.4 Outputs: Ensure that:
(1) all key outputs needed to achieve the project objective are listed;
(2) only the outputs that can be guaranteed by the project are included;
(3) each output can be regarded as a necessary means of achieving the immediate objective;
(4) all outputs are feasible within the resource limitations; and
(5) the outputs are precisely and verifiably defined.

8.4.5 Activities: Ensure that:
(1) all key activities needed for producing the outputs are listed;
(2) all activities contribute directly to the output level above;
(3) only those activities to be performed by the project are included;
(4) activities are stated in terms of actions;
(5) the time available for each activity is realistic; and
(6) the activities are appropriate to the situation in the partner country.

8.4.6 Inputs: Ensure that:
(1) the inputs can be related directly to the specified activities;
(2) the inputs are necessary and sufficient conditions for undertaking the activities;
(3) the level of detail is adequate but still understandable;
(4) the inputs are precisely and verifiably defined (quantity, quality and cost); and
(5) the resources are appropriate to the situation in the partner country.

8.4.7 External factors: Ensure that:
(1) they are formulated as positive, desirable conditions;

(2) they are linked to the correct project level;
(3) unimporant and highly likely factors are excluded;
(4) no killing factors exist (if so, the project must be redesigned or abandoned); and
(5) the remaining factors are precisely and verifiably defined.

8.4.8 Indicators: Ensure that:
(1) they are specific in terms of quantity, quality, time, location and target group;
(2) the means of verification (statistics, observation, records) are available, or can be generated at a reasonable cost;
(3) the means of verifications are reliable and up-to-date;
(4) the indicators are relevant as a measurement of achievement of objectives; and
(5) the collection, preparation and storage of information are project activities, and that the necessary inputs have been specified.

CHAPTER 9:

PROJECT EXECUTION

9.1 INTRODUCTION

9.1.1 Project execution involves implementation, monitoring, evaluation, reporting and closure. These processes should all be agreed as part of concluding and signing a technical co-operation agreement and preparing a detailed implementation plan.

9.1.2 Irrespective of the quality of preparation and planning, the implementation, monitoring and evaluation processes are crucial to the success of individual projects and the proper utilisation of ODA resources from an overall perspective.

9.2 THE DESIGN OF AN IMPLEMENTATION, MONITORING AND EVALUATION SYSTEM

9.2.1 Due to the variety of mechanisms that can be utilised for purposes of implementation, monitoring[21] and evaluation[22], the focus in this section is on the provision of generic guidelines or criteria, rather than specific options.

9.2.2 Because of the fact that most donors utilise the LFA, the substantive progress and financial indicators reflected in the completed logframe should be used as the primary tools for measuring progress and results.

9.2.3 Key questions that need to be answered in project monitoring and evaluation are the following:

(1) Are project activities being executed according to plan?
(2) Are outputs and objectives being achieved in accordance with indicators?
(3) Is the project staying within budget, according to cash flow forecasts?
(4) Are the beneficiaries of the project receiving the assistance foreseen?

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21 Monitoring refers to the continuous process of assessing and tracking the progress of a project to ensure that it proceeds according to plan. The monitoring function is performed by the programme manager and ODA co-ordinator in the implementing agency, together with the donor.

22 Evaluation refers to the formal process of assessing the results/impact of a project or particular project elements, as well as adherence to the technical assistance agreement. This occurs during the course of implementation, and upon project completion, in accordance with the technical assistance agreement and the implementation plan. Ideally, evaluation should be done independently. The cost of independent evaluation has to be factored into the planning process.

(5) Are cross-cutting issues, such as capacity-building, gender and the environment, being addressed according to plan?
(6) Is the sustainability of the project being monitored?
(7) Is updated project information continuously available?

9.2.4 In order to answer these questions adequately, project management should establish a project implementation, monitoring and evaluation system that, in generic terms, conforms to the following guidelines:
(1) Integrate the system with the sectoral/regional/departmental and overall ODA co-ordination/ODA management systems, including institutional linkages and information management systems.
(2) Integrate the system as far as possible with departmental systems, in order to avoid duplication of effort.
(3) Ensure that the system promotes key ODA objectives, particularly South African ownership. Empowerment/capacity-building of implementing agencies should be a crucial component of all ODA projects.
(4) Ensure that individual responsibility is assigned for all tasks.
(5) Ensure that the programme manager is sufficiently empowered to ensure compliance with decisions taken.
(6) Ensure that the system allows early identification of problems or deviations from the implementation plan.
(7) Ensure that the system allows for rapid decision-making on, and implementation of, corrective actions if required.
(8) Ensure that the system will be effective and cost-efficient.
(9) Ensure that the system allows for adequate representation of key stakeholders, without becoming unmanageable.
(10) Ensure that the system gives practical effect to agreements reached, as reflected in the technical co-operation agreement and implementation plan.

9.3 <u>OVERALL MONITORING AND EVALUATION</u>

9.3.1 In addition to project-level monitoring and evaluation, it is important to assess the impact of ODA, in a sector or geographic region, from the perspective of a particular donor’s programme in South Africa, and in respect of all ODA to South Africa. Overall programme monitoring and evaluation can take place during the course of implementation or upon completion of a particular phase in development co-operation.

9.3.2 Irrespective of the frequency, form or scope of overall/broad programme monitoring and evaluation processes, the principles that are important from a South African perspective, are the following:
(1) The agreements governing development co-operation between South Africa and the donor(s) should form the basis of assessment.
(2) The process must be undertaken independently, but with the full involvement of the relevant role players.
(3) The outcome must reveal the impact of ODA in addressing South

Africa's development priorities.
(4) The outcome must reveal weaknesses/problems in the management of ODA.
(5) The outcome must inform decision-making regarding future ODA.

9.4 REPORTING[23]

9.4.1 Reporting constitutes the process by means of which project managers communicate project progress or a lack thereof (results of monitoring and evaluation) to the relevant accounting officer and the donor, in accordance with the requirements of the technical co-operation agreement and implementation plan.

9.4.2 Generally, reports consist of narrative and financial sections, and involve the following, although formats could differ:
(1) Type of report: Progress report or final report.
(2) Reporting period: From … to … (quarterly, six-monthly or annually).
(3) Recipients: Accounting officer, ODA co-ordinator, donor and IDC.
(4) Project information: Name, codes (FMS/BAS and donor code), project manager details, accounting officer details, etc.
(5) Brief project description, aims and objectives.
(6) Project progress/status report (against plan).
(7) Achievements/highlights/media events etc.
(8) Problems and solutions/corrective actions.
(9) Financial statements reflecting amounts received, itemised expenditure/ time, accumulated expenditure, etc. (audited if required).
(10) Graphic illustration of cash flow to date.
(11) Asset inventory.

9.5 PROJECT CLOSURE

9.5.1 Upon completion of the project, a number of key tasks have to be undertaken, again in accordance with the technical co-operation agreement and implementation plan.

9.5.2 Generally, these tasks involve the following:
(1) Finalisation of project inventory and disposal of assets as per agreement.
(2) Settlement of all accounts and identification of accounts outstanding.
(3) Final auditing of accounts, including calculation of interest accrued.
(4) Closure of departmental accounts dedicated to the project.
(5) Dealing with unspent funds in accordance with the technical co-

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23 See Chapter 7 for accounting, auditing and financial reporting procedures to be followed in respect of donor-supported projects.

operation agreement.

(6) Final project evaluation as per agreement.

9.5.3 The project closure date should be specified in the technical co-operation agreement and/or implementation plan. Project continuation beyond this date has to be agreed between the donor and implementing agency in accordance with the manner prescribed in the technical co-operation agreement.

CHAPTER 10:

THE MANAGEMENT OF ODA LOANS

10.1 INTRODUCTION

10.1.1 Since 1994, the international community has contributed to South Africa's reconstruction and development efforts through ODA in various forms, including concessional loan financing and other forms of credit offered to the government, parastatals and the private sector.

10.1.2 As with other forms of ODA, Government involvement in the management of ODA loans is determined by the extent to which it is responsible and/or accountable for the management of such resources.

10.1.3 Therefore, the arrangements set out below apply only to concessional project lending facilities made available to Government or parastatals by international financial institutions under the auspices of government-to-government ODA[24].

10.2 PROJECT LOANS AND GOVERNMENT BORROWING

10.2.1 Project loans used to finance departmental expenditure are treated as part of Government's overall borrowing[25]. As such, project loans have to be dealt with in accordance with its overall borrowing strategy, and its debt and financial risk management policies. In addition, the South African Government is fully responsible for managing and co-ordinating project-based borrowing.

10.2.2 The South African government returned to the international capital markets in 1994 to re-establish its name as a borrower of foreign currency denominated loans. To achieve this, Government has been guided by the strategic objectives of:

(1) establishing liquid benchmarks in major currencies;
(2) maintaining a balanced portfolio of foreign currency denominated debt;
(3) broadening and improving the quality of the government's investor base; and
(4) extending the maturity profile of the debt portfolio.

10.2.3 Given these objectives, Government strives to borrow at the most cost-effective rates.

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24 Commercial lending and support to the private sector (e.g. export credits or credit guarantees) are excluded. In the latter case, Government's involvement is governed by issues outside the scope of ODA management.

25 Borrowing is used to fund the budget deficit and does not add to the expenditure envelope of the MTEF. Therefore, the consideration of loan financing for particular programmes or projects is also pursued within the expenditure envelope of the MTEF.

10.2.4 In terms of the Public Finance Management Act, only the Minister of Finance may borrow on behalf of the national government. Provincial governments may not borrow from foreign sources.

10.2.5 The terms and conditions of such loans are assessed in relation to Government's debt management and financial risk management policies, and in terms of their concessionality in comparison with other facilities available to government, taking account of grants, technical support and capacity-building included in the loan package (complementary measures), as well as the broader contribution of the project to South Africa's social, economic and developmental objectives.

10.2.6 Cabinet has approved that consideration be given to project lending from international financial institutions when:

(1) the expenditure to be financed forms part of a department's medium term expenditure allocations;
(2) the terms and conditions of the loan are acceptable; and
(3) technical expertise, additional grant funding and/or capacity-building are provided as part of a broader partnership relationship.

10.3 LOAN FACILITIES OF INTERNATIONAL FINANCIAL INSTITUTIONS

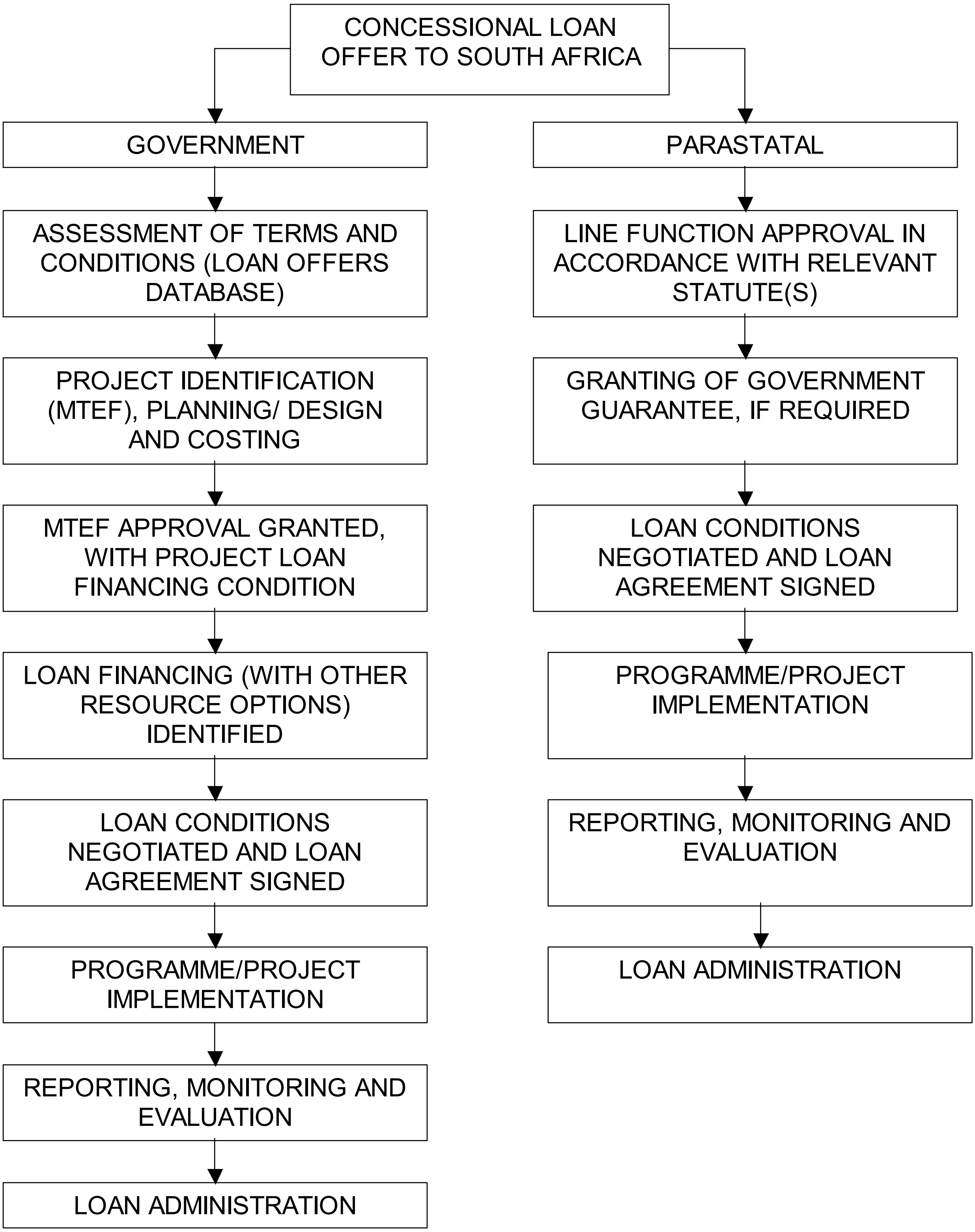
10.3.1 South Africa has established relationships with several multilateral and bilateral international development finance institutions, including the World Bank, African Development Bank, the European Investment Bank, the French Treasury and French Development Agency (AFD), the German Development Bank (KfW), the Japanese Bank for International Co-operation (JBIC), the OPEC Fund, the Nordic Development Fund and the Nordic Investment Bank.

10.3.2 These institutions offer finance on varying terms and offer various kinds of collateral institutional support or specialist expertise.

10.4 PROCEDURE FOR THE UTILISATION OF PROJECT LOAN FACILITIES

The procedure outlined here aims to keep project co-ordination and management fully integrated into normal departmental functioning. Projects have sometimes failed in the past because their management was located in special-purpose agencies and inadequate provision was made for ongoing maintenance and operations. Departments will accordingly have full responsibility for the development, planning, implementation and monitoring of international loan financed projects.

However, because of the fact that only the Minister of Finance can borrow internationally on behalf of Government, and borrowing does not increase the expenditure envelope, the Budget Office and the Asset and Liability Management Branch in the National Treasury also have a central role to play in the utilisation of project loan facilities. A summary of the processes to be followed in the case of the government or parastatals taking up such loan facilities is set out below:



10.4.1 **Borrowing by Government**

10.4.1.1 MTEF programme/project planning/design and costing

(1) All government programmes or projects should be properly designed and costed by the respective line departments responsible, prior to their inclusion in the MTEF. The design and costing process should include not only projected expenditure over the life of the project and particularly over the three-year MTEF-period, but also the projected resource mix that would enable departments to implement projects as envisaged.

(2) The resource mix could include normal baseline MTEF allocations, grants and/or technical assistance secured from the international donor community as supplementary resources, and/or possible loan financing within the project expenditure envelope. Discussions between the national lead department, the Budget Office, A&LM, and IDC and IDF are essential at this early stage to ensure that:
- project planning/design and costing are done accurately;
- the most appropriate and realistic resource mix is identified at an early stage; and
- loan financing can be secured for outlying years on the MTEF.

10.4.1.2 Conditional MTEF approval and identification of loan financing sources

(1) Where a project or development programme is developed for possible inclusion in the MTEF, the Budget Office should consider the possibility of international loan financing as a feasible resourcing option, as part of the process of considering inclusion of the project on the MTEF.

(2) Agreement will have to be reached with the relevant line function on the utilisation of project loan financing as condition for inclusion on the MTEF.

(3) The outcome of the process should be a decision in principle (by Minister of Finance and Cabinet) on:
- utilisation of a loan to finance the project;
- the loan amount that is likely to be affordable and appropriate; and
- the best loan source(s) at Government's disposal.

(4) In order to ensure appropriate programme co-ordination, a "project oversight committee" should be convened to give effect to the political mandate provided.

(5) The committee should consist of representatives of the national lead department, the National Treasury, A&LM, IDC or IDF (depending on which lending institutions are involved) and provincial lead departments and Treasuries, where provincial expenditure is involved.

(6) The committee would be responsible for the management of the loan-financed project from the stage that the decision is taken in principle to utilise such a loan to finance the project (the roles of the respective committee representatives are discussed in the sections that follow).

(7) The committee would report through its representatives to the relevant accounting officers at national and provincial level.

(8) A&LM should assess the best possible sources of international project loan financing for the project, in the context of its policies and strategies. The outcome of the process should be a decision in principle on the best loan source(s) at Government's disposal.

(9) Negotiations on additional donor resources (grants and TA) should also be entered into between the national lead department and the relevant donor(s), in conjunction with IDC and IDF.

(10) Early donor commitment on resource allocations is essential to determine whether the projected budgetary expenditure commitments required for ensuring successful project implementation have been determined accurately.

10.4.1.3 Loan negotiations and signing of loan agreement

(1) The committee should enter into negotiations with the preferred lender(s) as early as possible. In some cases, specific project loan offers are made by lenders, which means that this phase will run concurrently with 10.4.1.2.

(2) The lender has to be made aware that discussions at this stage do not involve any commitment on the part of Government to take up project loans, irrespective of any expenditure incurred by the lender.

(3) The negotiations with the lender will be around:
- the terms and conditions of the loan (currency denomination, interest rate, grace and repayment periods, etc.);
- complementary measures in the form of grants and/or technical assistance;
- lender-specific conditionalities regarding project preparation, implementation, reporting, monitoring and evaluation and loan administration; and
- time frames.

(4) Project-specific negotiations should be complemented by continuous negotiations with lending institutions for purposes of obtaining more favourable terms and conditions (even with its extraordinary high Gini-coefficient, South Africa does not qualify for the most concessional ODA project loans available).

(5) Negotiations with lenders should be accorded high priority, for the simple reason that agreements reached during this stage will impact only once implementation has started, at which stage it is difficult to effect changes.

(6) Upon satisfactory completion of project-specific loan negotiations, a loan agreement is prepared for signing by the Minister of Finance.

(7) The signing of the loan agreement constitutes the first commitment made by Government in respect of taking up any loan offer.

(8) As an international agreement, the process for the signing of international agreements should be followed (see Chapter 7).

10.4.1.4 <u>Project implementation, reporting, monitoring and evaluation</u>

(1) The national lead department will be fully responsible for project implementation, reporting, monitoring and evaluation, in accordance with the loan agreement signed.

(2) The ideal scenario from a Government perspective would be full alignment to Government procedures, rules and regulations pertaining to implementation, reporting and M&E, with little or no lender interference. In most cases, this would be an unrealistic expectation, but still represents the ideal.

(3) Where provincial expenditure is involved, the funding provided by the project loan will be conveyed to provinces via a conditional grant or agency payment from a national lead department.

(4) In terms of the RDP Fund Act, as amended, expenditure of grants received by government departments through the RDP Fund under an international development co-operation agreement is no longer appropriated through a Parliamentary vote.

(5) However, Departments will be required to show projections of project expenditure in their medium term expenditure estimates, and to report such expenditure in their annual accounts.

(6) A summary of project loans and progress with implementation will be included in the annual *Budget Review.*

10.4.1.5 Loan administration

(1) A&LM will be responsible for all matters pertaining to loan administration, including draw-downs, interest payments and payment of other finance charges, and loan repayments.

(2) Project finance will be shown in the financial accounts of Government as part of the financing of the budget deficit. For the purposes of the Budget and the appropriation accounts:

- Interest payments and other finance charges will be shown as direct charges on the National Revenue Fund, associated with the Finance vote;
- Loan redemptions will be recorded as debt repayments and will be the responsibility of the National Treasury;
- Project expenditure will be recorded on the budget vote of the responsible department.

10.4.2 **Borrowing by parastatals**

10.4.2.1 Borrowing by South African parastatals has to occur in accordance with the Public Finance Management Act, as well as statutes governing particular institutions.

10.4.2.2 The involvement of government in borrowing by parastatals is therefore restricted to the following:

(1) borrowing approval in accordance with relevant statutes;
(2) conclusion of government-to-government agreement, if required (see 10.4.1.3); and
(3) issuing of a government guarantee (if required).

10.4.2.3 The critical issues pertaining to borrowing by parastatals, from a government perspective, are the principles of reducing its contingent liabilities, and of limiting risk.

10.4.2.4 Government has initiated a process of reducing the dependence of parastatals on government transfers, and of increasingly exposing them to borrowing on the strength of their own balance sheets. For this reason, government strictly evaluates any application for a government guarantee and, if granted, charges a guarantee fee that will be increased gradually.

10.4.2.5 International donors, offering concessional loan financing to parastatals under government guarantees only, are also urged to review these policies, in support of South Africa's efforts to develop stronger, independently functioning parastatals that do not contribute to government's financial burden.

1st Edition: October 2003

APPENDIX A:

FINANCIAL MANAGEMENT OF ODA PROJECTS AND RELATED ISSUES

1st Edition: October 2003

FINANCIAL MANAGEMENT OF ODA AND RELATED ISSUES

1. INTRODUCTION

1.1 The appendix outlines the rules, regulations and procedures relating to the financial management of ODA-funded projects and related issues[26].

1.2 These issues include:

(1) donations to the state;
(2) counterpart contributions;
(3) local taxes and duties;
(4) recurrent cost implications;
(5) funding flow procedures, based on financial accountability (with specific reference to the RDP Fund mechanism);
(6) procurement procedures;
(7) accounting procedures;
(8) auditing; and
(9) financial reporting.

2. DONATIONS TO THE STATE

2.1 ODA in the form of grants or technical assistance is regarded as a donation to the state. As such, approval for its acceptance needs to be dealt with in accordance with Section 76(1)(I) of the PFMA and Treasury Regulation 21.2. The accounting officer of the relevant implementing agency is authorised to approve the donation.

2.2 It should be noted that such support is extra-budgetary (not part of National Revenue). In terms of the RDP Fund Amendment Act, all cash donations have to be paid into the RDP Fund Account at the South African Reserve Bank, from where transfers will be made to the relevant implementing agency's Paymaster-General Account (see Section 6.3 for a discussion on the RDP Fund mechanism).

2.3 All such donations received during the course of a financial year must be stipulated as a separate note to the annual financial statements.

2.4 All donations must be declared in writing to the relevant Chief Financial Officer and provisioning administration.

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26 These issues have to be addressed prior to the signing of technical assistance agreements (see Chapter 7)

2.5 The Chief Financial Officer will keep a register of all donations.

2.6 All such donations received during the course of a financial year must be stipulated as a note on the annual financial statements of the RDP Fund of the relevant spending agency and be reported on in its annual report.

3. COUNTERPART CONTRIBUTIONS

3.1 In cases where the South African Government is expected to provide counterpart contributions for donor-supported projects, either in cash or in kind, implementing agencies (specifically accounting officers with their chief financial officers) have to ensure that budgetary provision is made for such contributions.

3.2 If a cash contribution is sought, the implementing agency (accounting officer/ chief financial officer) has to:

(1) ensure that it can meet the obligation required, and renegotiate its contribution if it cannot meet its obligations;
(2) ensure that the contribution has been budgeted for (if not, funds must be negotiated with National Treasury through the MTEF budget process);
(3) confirm in writing that budgetary provision has been made for the counterpart contribution required; and
(4) include this formal confirmation in the package of documents required before the agreement can be signed (see signing of agreements).

3.3 If a contribution in kind is required, e.g. in the form of personnel, office space, equipment, etc, the implementing agency has to:

(1) ensure that it fully understands and accepts the nature and extent of its contribution (if not, it has to renegotiate its contribution with the donor);
(2) ensure that the contribution has been budgeted for, if it has any additional expenditure implications (if the contribution has not been budgeted for, funds must be negotiated with the National Treasury through the MTEF budget process);
(3) confirm in writing that budgetary provision has been made for the counterpart contribution required; and
(4) include this formal confirmation in the package of documents required before the agreement can be signed.

4. VAT, CUSTOMS AND EXCISE DUTIES AND PERSONAL INCOME TAX

It is a firmly established principle that donor funding not be utilised for the payment of the recipient country's duties and taxes. The relevant taxes and duties in South Africa are:

(1) Value-added Tax (VAT), administered by the South African Revenue Services (SARS) in terms of the Value-added Tax Act, No.89 of 1991, as amended;

(2) Customs and Excise Duties; and

(3) Personal income tax, also administered by SARS in terms of the Income Tax Act of 1962, as amended.

4.1 Value-added tax

4.1.1 Value-added tax is payable on all goods and services procured locally or internationally, subject to certain exemptions, exceptions, deductions and adjustments.

4.1.2 So as to avoid departments having to budget for VAT on grant-funded ODA projects, the Value Added Tax Act was amended through the addition of sub-section 11(2)(q) to the Act[27]. The sub-section reads as follows:

> "q the services are in terms of section 8(5) deemed to be supplied to a public authority or local authority to the extent that the payment contemplated in that section is made from donor funds granted under any international agreement to which the Government of the Republic is a party."

4.1.3 Section 8(5) reads as follows: "For the purposes of this Act a vendor shall be deemed to supply services to any public authority or local authority to the extent of any payment made by the authority concerned to or on behalf of the vendor in respect of the taxable supply of goods or services by the vendor to any person."

4.1.4 The implications of this amendment are that ODA grants are subject to VAT at a zero rate, and that any VAT paid in respect of ODA grant-funded projects can be reclaimed from SARS. This would also include VAT on in-country payments in respect of technical assistance provided by the international donor community.

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27 A circular on VAT as it pertains to ODA has been sent to all chief financial officers. Copies of the circular or additional information can be obtained from SARS, attention K P van der Merwe, Tel: (012) 422 5100, Fax: (012) 422 5135.

4.1.5 This will require that projects be registered as VAT vendors with SARS, in order that VAT can be refunded.

4.1.6 The chief financial officer of the spending agency concerned will be responsible for the VAT obligations of the project.

4.1.7 Actual expenditure should be allocated against the project objective, while the VAT levied should be allocated to a VAT control account. VAT refunds will in due course be credited against the latter account.

4.1.8 SARS has recommended that departments responsible for the financial management of more than one donor-supported project, should obtain only one VAT registration for all these projects. This will avoid having to register and de-register each individual project. The same procedure should be followed in cases where donors are responsible for the financial management of projects.

4.1.9 The VAT registration process is as follows:

(1) A person who is required to register must complete an 'Application for Registration' form – VAT 101, which can be obtained from the Receiver of Revenue. The form must be applied for within 21 days of the person's becoming liable for registration.

(2) The VAT 101 form requires certain documentation to be attached, e.g. a certified copy of the person's identity number in the case of an individual or a copy of the grant agreement, article of association, or constitution in the case of other entities.

(3) A copy of the circular distributed to financial managers (available from IDC as well) must accompany the application for VAT registration.

4.2 Personal income tax

4.2.1 Personal income tax for the benefit of South Africa's National Revenue Fund is not payable on "any salary or emoluments payable to any subject of a foreign state, or a person employed by an international organisation, who is temporarily employed in the Republic, provided the exemption of such salary or emoluments is authorised by an agreement entered into by the government of the foreign state, or the international organisation, and the government of the Republic"[28].

28 Section 10(1)(c)(v) of the Income Tax Act, 1962, as amended.

4.3 Customs and excise duties

4.3.1 Customs and excise duties are payable on all goods procured internationally, subject to certain rebates.

4.3.2 With reference to ODA, the relevant exemptions/rebates are the following:

(1) Customs and Excise Tariff Rebate Items 406.02 and 406.05: Goods for the official use by a diplomatic or consular mission, and goods for the personal or official use by diplomatic or consular representatives, and members of their families (certified by the Department of Foreign Affairs).

(2) Customs and Excise Tariff Rebate Item 406.03: Goods for the personal or official use by members, agents, officers, delegates or permanent representatives of, to or with an organisation or institution, and the members of their families, with which South Africa has concluded a formal agreement providing for such rebate facilities (certified by the Department of Foreign Affairs).

(3) Customs and Excise Tariff Rebate Item 406.07: Goods (excluding food, drink and tobacco in any form) imported by administrative and technical representatives accredited to diplomatic or consular missions, on their first entry on appointment by their governments, for personal or official use, subject to the approval of the Department of Foreign Affairs.

(4) Customs and Excise Tariff Rebate Item 412.11: Goods imported under any technical assistance agreement, subject to the issuing of a certificate issued by the Director-General: Trade and Industry (Board of Tariffs and Trade), and provided that the goods shall not be sold or disposed of to any party who is not entitled to any privileges under the rebate item without the permission of the Director-General: Trade and Industry.

5. RECURRENT COST IMPLICATIONS

5.1 One of the most important issues that could impact on the viability of donor-supported projects, is recurrent expenditure that will be incurred as a result of implementing such projects. It is also an important factor in determining long-term sustainability.

5.2 The South African implementing agency has to:
(1) accurately determine the recurrent cost implications for all donor-supported projects;
(2) include these cost calculations in the agreement and/or implementation plan;
(3) ensure that it has provided for recurrent expenditure on the MTEF/ budget;
(4) formally indicate in writing that recurrent expenditure implications have been budgeted for, or formally undertake to do so if recurrent expenditure will only become a reality after more than three years;
(5) include this formal undertaking in the package of documents required before the agreement can be signed.

5.3 The implementing agency's ability to absorb recurrent financial implications within existing/projected budgetary limitations is one of the most important criteria for deciding on a particular project.

5.4 It needs to be stressed that a donor-supported project cannot be allowed to continue if the implementing agency cannot absorb recurrent costs.

6. FUNDING FLOW REGULATIONS AND PROCEDURES

The three ODA funding flow mechanisms are discussed below, together with the issues of investing donor funds, dealing with interest accrued on donor funds, and with unspent funds at the end of a financial year and upon conclusion of a project.

6.1 Direct payment by donor

6.1.1 In some cases, donors accept full responsibility for the financial management of donor-supported projects. This means that no funds flow through the RDP Fund or any account of the South African Government. The donor pays directly for the procurement of goods and services.

6.1.2 This occurs mostly when ODA is provided in the form of technical assistance, but also in certain instances where grant assistance is provided.

6.1.3 While the accounting officer of the implementing agency remains accountable for obligations imposed under the relevant technical co-operation agreement, the donor is solely accountable for project expenditure.

6.1.4 In some cases, such payments are only authorised upon receipt of a letter of authority from the South African counterpart. However, such letters of authority relate to the satisfactory provision/delivery of goods or services, and do not imply that the South African Government is accountable for expenditure.

6.1.5 While this mechanism relieves the administrative burden of South African implementing agencies to some extent, it is not the preferred option from the perspective of fostering South African control/ownership, capacity-building, sustainability and integration into normal departmental functioning.

6.1.6 This mechanism should be utilised only in instances where the implementing agency is incapable of proper financial management. Unfortunately, certain donor governments have rules and regulations that preclude the use of any other form of financial accountability.

6.1.7 In cases where this mechanism has to be used, the donor and the South African implementing agency involved should agree on a financial reporting procedure by means of which the donor can inform the implementing agency about the utilisation of project funds.

6.2 **<u>Financial management by a third party</u>**

6.2.1 In some cases, so-called fund managers are used to implement donor-supported projects, mostly to circumvent real or perceived inefficiencies in the RDP Fund mechanism. This mechanism should not be used simply to bypass the RDP Fund.

6.2.2 However, it can be useful in public private partnership cases, where other institutions are better positioned to deliver than government, or where strong civil society involvement is deemed to be essential for the success of a project.

6.2.3 The complicating factor under such an arrangement is the fact that a tripartite agreement or an additional implementation contract has to be signed, which can create difficulties for proper management, control and accountability.

6.3 **<u>RDP Fund mechanism</u> (also see Section 8: Accounting procedures for the RDP Fund)**

6.3.1 The RDP Fund is a central account into which donor funds for government projects are paid, and from which transfer payments are made to South African implementing agencies.

6.3.2 The RDP Fund mechanism is used in cases where the South African Government, specifically the implementing agency responsible for the particular project, is responsible for the financial management of a donor-supported project.

6.3.3 The funding flow mechanism is prescribed by the RDP Fund Amendment Act, Act No.79 of 1998 (also Sections 13(1)(e) and 22(1)(c) of the PFMA Act, Act No 1 of 1999, as amended).

6.3.4 In terms of Section 6 of the RDP Fund Act, as amended, the Accountant-General in the National Treasury is the accounting officer responsible for the administration of the RDP Fund. As such, the Accountant-General's Office has to control the fund, keep a proper record of all the financial transactions, assets and liabilities of the fund, and annually prepare financial statements in accordance with generally recognised accounting principles (GRAP).

6.3.5 The steps to be followed in respect of funding flows via the RDP Fund, in the case of pre-payment, are as follows:

(1) The donor deposits funds into the RDP Fund account at the South African Reserve Bank (SARB), Account No 8030-175-4.

(2) The donor notifies the Process Manager: IDC (Denise Marais) and the programme manager in the relevant implementing agency of the deposit, clearly indicating the information required on the proforma attached as **ANNEXURE A**. This step is essential and should **not** be ignored. Very often, amounts are paid into the RDP Fund without any information apart from an amount. This makes it extremely difficult for the IDC to track payments made. The information provided will also make it easier for transfer payments to be made without delay. If possible, a copy of the deposit slip should be attached.

(3) Upon receipt of the notification of payment into the RDP Fund, the Process Manager: IDC notifies the Office of the Accountant-General, and forwards a letter of acknowledgement to the donor.

(4) The Process Manager: IDC also notifies the financial section of the relevant implementing agency. An RDP Fund requisition form (attached as **ANNEXURE B**) accompanies the notification.

(5) The implementing agency's chief financial officer completes the RDP Fund requisition form and submits it to the Accountant-General's Office (for attention Director: Financial Reporting Services, National Treasury). The requisition form is the authorisation instructing the Accountant-General to make a transfer payment to the implementing agency. This step is an essential requirement to ensure proper financial control. The requisition form has to be completed in accordance with the provisions in the technical co-operation agreement governing financial management. The requisition form, together with a copy of the relevant agreement, must be delivered to the Office of the Accountant-General before disbursement can be effected. No faxes will be accepted as authorisation for the processing of transfer payments.

(6) Simultaneously to steps 3 and 4, the Process Manager: IDC verifies the provisions in the relevant technical agreement in accordance with which the transfer payment is to be made.

(7) The Accountant-General makes the transfer payment to the spending agency's Paymaster-General's (PMG) account[29] as specified in the requisition form.

(8) Once the transfer payment has been made, the Process Manager: IDC notifies the implementing agency accordingly.

6.3.6 The only difference in the funding flow procedure in the case of reimbursement is that the implementing agency uses budgeted funds for project expenditure (with the necessary approval), and subsequently claims back these expenditures from the donor in accordance with the manner prescribed in the relevant agreement. For cash flow management purposes and to prevent unnecessary borrowing to cover these expenses, it is advisable to avoid reimbursement arrangements.

6.3.7 The entire process, from payment into the account at the Reserve Bank to the transfer payment into the implementing agency's account should take no longer that one week at most.

6.3.8 However, without proper notification of payment by the donor, the process will be significantly delayed. Donors and implementing agencies are urged to ensure that the Accountant-General's Office has all the information required to make transfer payments.

6.4 Investment of RDP Funds

29 In the case of a province, the transfer payment is made to the provincial revenue account managed by the provincial treasury, from which provincial implementing agencies must do their draw-downs.

6.4.1 An important issue relating to the management of the RDP Fund is the issue of investing these funds for purposes of accruing interest. Section 8 (1) of the RDP Amendment Act states that:

> **"subject to the provisions of any technical assistance agreement any money in the fund which is not required for immediate use may be invested with the Public Investment Commissioners or with a financial institution approved by the Minister"**

6.4.2 It should be noted that the Accountant-General is compelled to deal with donor funds paid into the RDP Fund in accordance with the relevant technical co-operation agreement.

6.4.3 The funds will be invested if no provisions to the contrary appear in a technical co-operation agreement, or if payments are made into the Fund for discretionary use by the South African Government.

6.4.4 Donors and implementing agencies are urged to specify exactly how funding flows should occur, including the investment of funds for purposes of accruing interest, if this is allowed.

6.4.5 If the technical co-operation agreement does not prohibit the investment of donor funds, a default procedure will be followed, in terms of which the funds will be invested in call accounts opened with the Public Investment Commissioner until they are needed for purposes of project implementation. Interest will be accrued and separately accounted for by project or programme in the books of the RDP Fund.

6.4.6 **It needs to be stressed that the intention is to promote sound cash flow management. At no time will funds required for timely project implementation be invested, or in any other way withheld from implementing agencies.**

6.4.7 The Office of the Accountant-General will instruct the SARB to transfer any funds not required by the implementing agency for purposes of project implementation to the Public Investment Commissioner (PIC). The funds requisition form is used as authorisation in this regard. The procedure works as follows:

(1) The chief financial officer of the implementing agency completes the funds requisition form in accordance with the project's cash flow requirements.

(2) The Accountant-General authorises the transfer of the amount requisitioned to the implementing agency's PMG account or provincial revenue account in the normal manner.

(3) The Accountant-General instructs the SARB to transfer the balance of the deposit to the PIC for investment purposes.

(4) Subsequent transfer payments to the implementing agency are made as per section 6.3.5 (1) to (8).

6.5 Dealing with interest accrued

6.5.1 Interest accrued on donor funds, by means of the investment of these funds, has to be utilised in accordance with the provisions of the technical co-operation agreement.

6.5.2 Where no provision is made with regard to interest, formal written agreement has to be reached between the donor and the implementing agency.

6.5.3 In the absence of such an agreement (in the form of a letter stipulating how interest accrued should be dealt with), any interest accrued will be returned to the donor upon closure of the project or programme.

6.5.4 Should the interest be required the same process applies as in section 6.3.5 (1) to (8) above,

6.6 Dealing with unspent funds

6.6.1 A final issue relating to the flow of funds is how unspent amounts at the end of a financial year or upon conclusion of the project will be utilised.

6.6.2 Again, the relevant technical co-operation agreement is the primary reference document in this regard. It is strongly suggested that such a procedure be spelt out very clearly in the agreement.

6.6.3 If no such provision is made, unspent funds have to be returned to the RDP Fund at the end of each South African financial year[30]. Such funds will be carried over to the following financial year and can again be requested.

6.6.4 Unless otherwise agreed in writing, unspent funds at the end of a project have to be returned to the donor.

7. PROCUREMENT OF GOODS AND SERVICES

30 In terms of Section 5 of the RDP Fund Act, as amended.

7.1 The provisions in the technical co-operation agreement have to be followed.

7.2 South African tender procedures have to be followed if no procurement provisions appear in the agreement.

8. ACCOUNTING PROCEDURES FOR THE RDP FUND[31]

8.1 Introduction

8.1.1 In terms of Section 6 of the Reconstruction and Development Programme Fund Act (Act number 7 of 1994) as amended, the Accountant-General is the accounting officer responsible for the administration of the RDP Fund.

8.1.2 The Office of the Accountant-General has to manage the fund, keep a proper record of all the financial transactions, assets and liabilities of the fund, and annually prepare financial statements.

8.1.3 While donor funds do not form part of the National Revenue Fund, the aim of these procedures is to standardise accounting procedures, code structures and/or the description of donor-supported projects in order to ensure conformity in accounting and reporting processes throughout government.

8.1.4 Separate Vote / Fund structures, (as described below), must be opened for RDP related projects and programmes within the accounting systems of departments.

8.1.5 The practice of recording and analysing donor-funded projects in separate suspense or control accounts, must be discontinued with immediate effect.

8.2 Vote/Fund Structure

8.2.1 One "RDP Grant Account", and "General Account of the RDP" per donor must be maintained by every Department for RDP Fund purposes, in addition to the existing accounts for normal voted funds.

8.2.2 Balances on the RDP Expenditure Accounts, as well as balances of the General Account of the RDP must close to the RDP Grant

31 These procedures are extracted from an accounting practice note prepared by the Office of the Accountant-General (Accounting Practice Note 16 of 2001, Ref SX 8/1). The note was distributed to all CFOs during October 2001.

Account at year-end closure.

8.2.3 Any funds remaining at year-end closure should not be paid into the RDP Fund if such funds are subject to a technical assistance agreement that provides for the funds to be retained.

8.2.4 Opening journal procedures will apply in these instances.

8.2.5 The Director: Financial Reporting Services in the National Accounting Office: National Treasury will be responsible for maintaining the Vote / Fund code list and will assist users in obtaining new codes. This is to ensure the standardised extraction of summarised information by donor country, project and programme across national and provincial departments.

8.2.6 The National Treasury will be responsible for the provision and maintenance of new codes / descriptions for projects. The available code structure for Objectives / Responsibilities / Items will be under the control of departments and should be utilised to satisfy donor reporting requirements. Departments using BAS or FMS and sharing the same General ledger with one or more departments (e.g. Free State: Provincial Government) will also be responsible for maintaining the Fund Code Structure.

8.3 Accounting transactions

8.3.1 Scenario 1

Where RDP funds are received by the spending agency at the commencement of the project, the accounting transactions will be as follows:

1. Notification of Donation (available for relevant financial year)

	Dr	Cr
RDP Grant Account: e.g. EU Fund	x	
General Account of the RDP: e.g. EU Fund		x

2. Request for funds

	Dr	Cr
Fund Requisition Account	x	
RDP Grant Account: e.g. EU Fund		x

3. Transfer of funds from the RDP Fund

	Dr	Cr
Departmental PMG Account (Bank account)	x	
Deposit Account (FMS) / Adjustment Account (BAS)		x

4. Allocation of funds received

	Dr	Cr
Deposit Account (FMS) / Adjustment Account (BAS)	x	
Fund Requisition Account		x

5. Allocation of Expenditure payment

	Dr	Cr
Expenditure Accounts	x	
Orders Payable		x

6. Interface of debit on bank statement

	Dr	Cr
Orders Payable	x	
Departmental PMG Account (Bank account)		x

7. Closing of the financial year: with the total amount of the expenditure

	Dr	Cr
RDP Grant Account e.g. EU Fund	x	
Expenditure Accounts		x

8. Closing of the financial year: with the total of the donation received (Computer generated transaction)

	Dr	Cr
General Account of the RDP: e.g. EU Fund	x	
RDP Grant Account: e.g. EU Fund		x

9. Opening balance for the new financial year where the remaining amount was not surrendered

	Dr	Cr
RDP Grant Account: e.g. EU Fund	x	
General Account of the RDP: e.g. EU Fund		x

For all subsequent transactions during the new financial year the accounting transactions will be the same as number 1 to 8.

8.3.2 Scenario 2

Where donors require departments to fund RDP project expenditure and then submit claims for reimbursement, the accounting transactions will be as follows:

1. Allocation of Expenditure payment

	Dr	Cr
Expenditure Accounts	x	
Orders Payable		x

2. Interface of debit on bank statement

	Dr	Cr
Orders Payable	x	
Departmental PMG Account (Bank account)		x

Once the claim is submitted for reimbursement and the funds are received, the accounting transactions will be the same as number 1 to 4 as described under scenario 1.

Should the reimbursement amount still be outstanding at the end of the financial year, a computer generated transaction at the end of the financial year will result in the RDP Grant Account being in "overdraft". This "overdraft" will be cleared once the donation is received in the new financial year.

8.3.3 Scenario 3

In the case where a project is completed, the contract will determine whether interest and outstanding capital must be refunded or if such funds can be utilised for another project. If the contract does not clearly specify how these funds are to be dealt with, a confirmation must be obtained from the donor indicating the treatment of the interest and outstanding capital.
To request these funds, the donor's instructions must accompany the request for funds and National Treasury must be specifically instructed to close these projects.

The following steps must be taken to request outstanding capital and interest earned:

a) Unspent capital and interest to be utilised by the department

The accounting transactions will be the same as number 1 to 8 as described under scenario 1.

b) Unspent capital and interest to be returned to the donor

The accounting transactions are as follows:

1. Request for capital/interest

	Dr	Cr
Fund Requisition Account	x	
RDP Grant Account: e.g. EU Fund		x

2. Transfer of funds from the RDP Fund

	Dr	Cr
Departmental PMG Account (Bank account)	x	
Deposit Account (FMS) / Adjustment Account (BAS)		x

3. Allocation of funds received

	Dr	Cr
Deposit Account (FMS) / Adjustment Account (BAS)	x	
Fund Requisition Account		x

4. Refund of capital/interest

	Dr	Cr
RDP Grant Account: e.g. EU Fund	x	
Orders Payable		x

5. Interface of debit on bank statement

	Dr	Cr
Orders Payable	x	
Departmental PMG Account (Bank account)		x

8.4 System procedure for Departments using FMS

8.4.1 Identification of Donors (Vote/Fund)

(a) FMS departments not sharing General Ledger

The designated Vote / Fund code list will be maintained by the FMS Project. These code structures were copied to all FMS departmental databases with a status indicator of "Deleted". The user will have the option to activate these codes, using the normal code file maintenance processes. The following functions will be available to users: DELETE, INQUIRIES and RE-INSTATE. No other changes will be allowed on this specific structure.

(b) FMS departments sharing General Ledger

The Vote / Fund structure will be utilised for the identification of Vote / Fund codes, but is under the control of the FMS system controller. The system controller of each department must ensure that the standard descriptions are used when opening a Vote / Fund structure. The user support team will assist users in ensuring standard descriptions.

8.4.2 Identification of Projects

The designated Project List will be maintained by the FMS project. These code structures were copied to all FMS departmental databases with a status indicator of "Deleted". The user will have the option to activate these codes, using the normal code file maintenance processes. The following functions will be available to users: DELETE, INQUIRIES and RE-INSTATE. No other changes will be allowed on this specific structure.

8.4.3 Securing the use of standard codes

The Objective create program has been changed to validate when an Objective collation code is coupled to an Objective structure with a vote reference 96xx, a project code must be included. This validation implies that a project code must be instated before an Objective collation code can be created.

8.4.4 Budget Allocations

The FMS provides for two methods of budget allocations *i.e.* the Bottom-up, and Top-down methods. For the purpose of allocating budgets for the above-mentioned codes, only the Top-down method can be used.

New donors or projects for which codes do not exist should be brought to the attention of the Director: Financial Reporting Services.

8.5 System procedure for Departments using BAS

8.5.1 Identification of Donors

The Vote / Fund structure will be utilised for the identification of Vote / Fund codes, but is under the control of the BAS system controller. The system controller of each department must ensure that the standard descriptions are used when opening a Vote / Fund structure. The user support team will assist users in ensuring standard descriptions.

8.5.2 Project Codes

Objective codes will be utilised to identify projects in the BAS environment, but are under the control of the BAS system controller. The system controller of each department must ensure that the standard descriptions are used when opening an Objective structure. The User Support team (USP) will assist users in ensuring standard descriptions.

8.6 **Procedures for Departments not using FMS or BAS**

8.6.1 Identification of Donors

The designated Vote / Fund code list must be utilised for the identification of related data. The system controller of each department must ensure that the standard descriptions are used to facilitate that the electronic data downloaded to the Vulindlela warehouse is correct.

8.6.2 Project Codes

The designated Project List must be utilised for the identification of related data. The system controller of each department must ensure that the standard descriptions are used and must inform the Office of the Accountant-General: "Vulindlela" Division as to the relevant code structure that should be read when data is electronically submitted to the data warehouse.

8.7 **Request for RDP funds** (Also see Section 6.3.5)

8.7.1 The implementing agency's Chief Financial Officer must sign the RDP Fund requisition form attached as **ANNEXURE B** and submit it to the Office of the Accountant-General (for attention Director: Financial Reporting Services, National Treasury).

8.7.2 The requisition form is the authorisation instructing the Accountant-General to make a transfer payment to the implementing agency.

8.7.3 This step is an essential requirement to ensure proper financial and internal control.

8.7.4 The requisition form has to be completed in accordance with the provisions of the technical assistance agreement governing financial management.

8.7.5 The requisition form must be delivered to the Office of the Accountant-General before disbursement can be effected and no faxes will be accepted as authorisation for processing.

8.8 **Financial reporting requirements**

8.8.1 Reporting on the individual financial systems will be restricted to reporting per user department.

8.8.2 The data warehouse "Vulindlela" will manage the consolidated reporting by donor country or project across departments.

8.8.3 To enable Vulindlela to set up the mapping tables, the donor and project code lists as maintained for the FMS departments must be used as the standard.

8.8.4 To identify data from BAS and other financial systems mapping tables must be drawn to these specific tables.

8.8.5 The responsibility to ensure that data maps to the designated donor and project lists is vested in the system controllers.

8.9 **Annual Financial Statements and Auditing**

8.9.1 The requirements of the RDP Fund and the format of the financial statements will be distributed to Spending Agencies in a separate practice note.

8.9.2 However, the Technical Assistance Agreements may require additional reporting which must be strictly adhered to by Spending Agencies.

8.10 **Implementation date**

8.10.1 The implementation date for the above procedure is 1 April 2001.

8.10.2 The necessary journals must be passed in the books of the Spending Agency to ensure that the above procedures are complied with for all funds received between 1 April 2001 and 30 September 2001.

8.10.3 For all projects in progress as at 31 March 2001 and which were accounted for by means of suspense accounts the following should be done.

8.10.4 The balance of the suspense account at 1 April 2001 must be cleared by a journal.

1. Notification of Donation (available for

relevant financial year)

	Dr	Cr
RDP Grant Account: e.g. EU Fund	x	
General Account of the RDP: e.g. EU Fund		x

2. Clearing of the suspense account

	Dr	Cr
Suspense Account	x	
RDP Grant Account: e.g. EU Fund		x

8.10.5 The procedures outlined in this manual must be utilised for all funds received and payments made from 1 April 2001.

ANNEXURE A:
PROFORMA: PAYMENTS MADE INTO RDP FUND

TO: IDC: NT (DENISE MARAIS) FAX NO: (012) 324 2456

NAME AND ADDRESS OF DONOR: ________________ ________________ ________________	DONOR CONTACT PERSON: NAME: ________ TEL NO: ________ FAX NO: ________
NAME AND ADDRESS OF SA RECIPIENT/ IMPLEMENTING AGENCY: ________________ ________________ ________________	IMPLEMENTING AGENCY CONTACT PERSON/PROJECT OFFICER: NAME: ________ TEL NO: ________ FAX NO: ________
NAME OF PROGRAMME/PROJECT: ________________ ________________	PAYMENT MADE IN ACCORDANCE WITH ARTICLE ____ OF ________ ________ (AGREEMENT), SIGNED ON ________ (DATE)
MULTIPLE PRE-PAYMENTS: Currency and total amount allocated: ________ Currency and amount deposited into RDP Fund: ________ Payment No ______ of ______ Payment frequency: ________	SINGLE PRE-PAYMENTS: Currency and amount deposited into RDP Fund: ________________
REIMBURSEMENTS: Currency and amount deposited into RDP Fund: ________ Payment No ____ of _____ (to date)	DATE DEPOSITED: ________________
PROVISIONS RELATING TO INTEREST ACCRUED: ________________ ________________ ________________	PROVISIONS RELATING TO UNSPENT AMOUNTS AT THE END OF EACH FINANCIAL YEAR: ________________ ________________ ________________
PAYMASTER-GENERAL ACCOUNT OF SA IMPLEMENTING AGENCY: BANK: ________ BRANCH: ________ ACC NO: ________	COMMENTS/OTHER PROVISIONS: ________________ ________________ ________________ ________________ ________________

ANNEXURE B:
RDP FUND REQUISITION SCHEDULE

TO: NATIONAL TREASURY
ATT: DIRECTOR FINANCIAL REPORTING SERVICES

PROGRAMME/PROJECT:

DEPARTMENT:

Please credit our PMG account with the amount indicated in column six below

PMG account details are as follows:

Bank: South African Reserve
Branch: Paymaster General
Account No:

Date	Donor	Amount deposited	Paid to date	Available	Requisition

	SPENDING AGENCY		NATIONAL TREASURY Approved by
	Requested by	Approved by (CFO of Department)	
Name			
Rank			
Signature			
Date			

APPENDIX B:

GENERIC GUIDELINE FOR IMPLEMENTATION PLAN FORMULATION

GENERIC GUIDELINE FOR IMPLEMENTATION PLAN FORMULATION[32]

NAME OF PROJECT

IMPLEMENTATION PLAN

FOR ____ / ____ (PERIOD)

Submitted by (name and address of implementing agency)

Submitted to (name and address of donor)

32 Please note that implementing agencies are not compelled to use this format. The format is simply a guideline that covers most of the issues required by the international donor community, as well as matters that have to be addressed in terms of domestic legislation.

EXECUTIVE SUMMARY

Complete the executive summary using the five headings as guidelines:

INTRODUCTION: STRATEGIC CONTEXT
PROJECT DESCRIPTION
SCOPE OF PROJECT
FINANCES AND RECURRENT EXPENDITURE
MONITORING AND EVALUATION

IMPLEMENTATION PLAN

1. **INTRODUCTION**

Provide an overview of the core problems facing the sector, department or province, and the policies and strategies developed to address these. Describe how the project relates to these policies and strategies – how it will contribute to addressing core problems. This section should clearly identify the overall need for the project, where the project fits into your strategic framework, and what you want to achieve by the end of the project.

If you are working in a programme with a number of discrete projects that are linked to the programme, give a description of the programme and the list of projects.

2. **ACCOUNTABILITY**

2.1 **Implementing Agency**

Specify the South African implementing agency responsible for the project and its address. Specify the lead department in the case of a project involving more than one department. List other departments involved.

2.2 **Accounting Officer**

Provide details and signatures, with dates, of:

- accounting officer;
- financial manager; and
- Project Manager

2.3 **Decision-making process**

Clearly outline how decisions on the implementation of the project will be taken (mechanisms/processes), and specify who will be involved from the South African implementing agency, other institutions and the donor. Clearly identify the project manager.

How will the management structure ensure that the aims and objectives are achieved and that money allocated to the service is spent in the most efficient manner?

Include information concerning the proposed project management team and how the team will integrate into the spending agency's organisational structure and functioning.

3. PROJECT

3.1 Project description

Specify the aim of the project, by answering the question, "*What do I intend doing?"*

3.2 Scope of the project

Give a short description of the scope of the project, by answering the question, *"What and who will be involved and what is the extent of that involvement"*.

3.3 Project objectives (outcomes)

The objectives of the project must be stated. The objectives can be formulated by answering the question, *"What aspects must be addressed to achieve our aim?"* Objectives must be output-oriented (rather than process), concise, measurable and achievable within the project's resource constraints.

3.4 Key performance indicators

The key question that needs to be answered is *"How do we know whether we have been successful in achieving our objectives?"* The ability to measure project performance is essential for monitoring and evaluation purposes and, therefore, has to be addressed.

Supply details of programmes to improve standards. This must include mention of building plans, training, participation, co-operation, and specific plans to address problems hampering the efficient delivery of services.

3.5 Implementation milestones

Give details of the progress milestones in the implementation of the project. **These are the stages against which progress will be measured.** State the estimated duration of the project.

4. FINANCIAL MANAGEMENT

4.1 Resources

The project needs certain resources to ensure success, these must be quantified and checked against the available finances. Where resource costs exceed the budget, then these resources must be prioritised, decreased or the planning must be revised. Alternatively the time frame can be increased.

The following resources must be included

- ♦ Personnel costs
- ♦ Equipment costs
- ♦ Infrastructure costs
- ♦ Overhead costs
- ♦ Agency costs
- ♦ Professional services
- ♦ Total Costs

4.2 **Cash flow**

This is a breakdown of the money received and when the money will be spent. The information received in this section will be one of the indicators against which the service will be evaluated.

THIS CASH FLOW SCHEDULE DOES NOT CHANGE, AND ANY DEVIATION FROM THE CASH FLOW MUST BE MOTIVATED. IN THIS WAY, THE PROJECT MANAGER CAN TAKE CORRECTIVE ACTION IF IT IS FOUND THAT THE DEVIATION (from the original) IS TOO GREAT.

Time interval	1	2	3	4	5	6	.	.	.	n
Planned cash flow										
Actual cash flow										
Deviation										
Reason for deviation										
Corrective Action										

4.3 **Recurrent expenditure**

THIS DETAIL IS REQUIRED BY THE NATIONAL TREASURY. WITHOUT THIS DETAIL, TREASURY WILL NOT AUTHORISE THE EXPENDITURE.

Describe, in detail, the plans to meet the recurrent expenditure in the coming years. This is essential for purposes of sustainability.

Give details of how the project is going to proceed in the future, particularly its implementation beyond the phase of donor involvement.

5. DEVELOPMENTAL ASPECTS

This section can be completed by answering the question, *"What does this project/service mean to the community?"* Provide a summary of community-based activities that will emanate from this project/service.

6. COMMUNICATION

Communication with stakeholders is essential to impart information, services and skills, while gathering and collating information relevant to the project. Detail how the communication channel will be established. These plans should include -

♦ objectives
♦ people responsible
♦ line of authority
♦ time frame
♦ budget
♦ support material needed

7. CROSS CUTTING PROGRAMME

In the case of cross-cutting programmes, involving more that one sector/department, provide details about initiatives to involve all stakeholders in a meaningful manner. Cross-cutting themes such as gender and the environment are also relevant.

8. **PROJECT MONITORING, EVALUATION AND REPORTING**

As we are using public and grant funds, we have a responsibility to ensure that we can account for the money and that we spend the money in the most efficient way. Describe the project monitoring and evaluation processes and mechanisms that will be used, and specifically how you intend to use the INDICATORS to measure project performance.

AS TIME IS A CONSTANT, WHAT IS THE CURRENT COST AGAINST TIME AND THE MILESTONES AGAINST TIME. THIS IS COMPARED TO THE CASH FLOW AND MILESTONES.

Any deviation from the stated cash flow and milestones at that period of time must be explained.

Also explain the type, format and date/frequency of reports, as well as the reporting line.

SPECIAL CONDITIONS

Where special conditions (as specified in contracts or from donors) are to be met, such conditions should be included in this business plan.

Supply the name of the evaluation officer.

Signed ______________________ Date _________

OFFICE OR DEPARTMENTAL REFERENCE

State the reference number, file number or location of any departmental information that has a bearing on the project. This ensures easy access to information if it is needed.

SUMMARY

A brief summation covering any points of importance.