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Swiss Confederation

Federal Department of Economic Affairs,  
Education and Research EAER  
**State Secretariat for Economic Affairs SECO**

COUNTRY  
STRATEGY

# Swiss Economic Cooperation and Development **South Africa**

2017–2020



# Abbreviations

<b>AFD</b>	French Development Agency ( <i>Agence française de développement</i> )
<b>ANC</b>	African National Congress
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CHF</b>	Swiss Franc
<b>COSATU</b>	Congress of South African Trade Unions
<b>CO2eq</b>	CO2 equivalent
<b>DA</b>	Democratic Alliance
<b>dti</b>	Department of Trade and Industry
<b>EFF</b>	Economic Freedom Fighters
<b>EFTA</b>	European Free Trade Association
<b>EU</b>	European Union
<b>FDFA</b>	Federal Department of Foreign Affairs
<b>FDI</b>	Foreign direct investment
<b>G-20</b>	Group of Twenty
<b>GDP</b>	Gross domestic product
<b>GHG</b>	Greenhouse gas
<b>IEP</b>	Institute for Economics and Peace
<b>JEC</b>	Joint Economic Commission
<b>KfW</b>	Reconstruction Credit Institute ( <i>Kreditanstalt für Wiederaufbau</i> )
<b>MTSF</b>	Medium Term Strategic Framework
<b>NDP</b>	National Development Plan
<b>NGP</b>	New Growth Path
<b>ODA</b>	Official development assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>O&amp;M</b>	Operation & Maintenance
<b>PEFA</b>	Public Expenditure and Financial Accountability Programme
<b>PFM</b>	Public financial management
<b>SACU</b>	Southern African Customs Union
<b>SADC</b>	Southern African Development Community
<b>SARB</b>	South African Reserve Bank
<b>SDG</b>	Sustainable Development Goals
<b>SECO</b>	State Secretariat for Economic Affairs
<b>SME</b>	Small and medium-sized enterprise
<b>UN</b>	United Nations
<b>UNIDO</b>	United Nations Industrial Development Organization
<b>USD</b>	United States Dollar

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## **State Secretariat for Economic Affairs SECO – Economic Cooperation and Development**

SECO's Economic Cooperation and Development division is responsible for the planning and implementation of economic cooperation and development activities with middle income developing countries, with countries of Eastern Europe as well as the new Member States of the European Union. It coordinates Switzerland's relations with the World Bank Group, the regional development banks and the economic organisations of the United Nations. SECO is part of the Federal Department of Economic Affairs, Education and Research (EAER).

Switzerland's international cooperation efforts as defined in the Federal Council's 2017–2020 Message on International Cooperation aim to reduce poverty and global risks, alleviate suffering, and promote peace and respect for human rights. Accordingly SECO's economic and trade policy measures strive to support sustainable and inclusive growth. The Economic Cooperation and Development division focuses its activities on its specific areas of competence and experience in four target outcomes aligned with the 2030 Agenda for Sustainable Development: 1) effective institutions and services, 2) more and better jobs, 3) enhanced trade and competitiveness and 4) low-emission and climate-resilient economies. Special emphasis is placed on issues related to economic governance and gender.

# Editorial

With the present Country Strategy 2017–2020, SECO reiterates its commitment to contributing to inclusive and green growth in South Africa that will create jobs, ensure resilience and reduce disparities.

Today, poverty remains a crucial issue also for middle-income countries like South Africa. While a number of these countries have experienced significant growth in recent years, the gap between rich and poor has widened in many cases. In an increasingly interconnected world, middle-income countries are often particularly vulnerable to global risks, such as climate change, economic and financial crises, or political instability. It is thus more important than ever to ensure that all sections of the population can benefit from sustainable, resilient economic growth. This is where SECO applies its core competencies and comparative advantages in economic cooperation and development.

In line with the UN 2030 Agenda for Sustainable Development and the Federal Council's 2017–2020 Message on International Cooperation to the Swiss Parliament, SECO aims at fostering sustainable and inclusive growth in its partner countries. Such growth addresses economic as well as social and ecological aspects

and shall not compromise the well-being of future generations. It contributes to reducing poverty and the impacts of global risks. It enables the private sector to create more and better jobs and the state to provide adequate services. Competitive economies and effective institutions are also key to reinforcing the resilience of societies increasingly confronted by different dimensions of fragility.

This Country Strategy defines the following three objectives of the economic and trade policy measures deployed by SECO in South Africa. First, SECO supports an efficient public sector and good financial governance. Second, SECO's measures strive towards a competitive and inclusive economy that fosters sustainable employment and international value chain integration. And third, SECO aims at supporting climate-friendly and green growth through the development of a low-carbon industry.

Building on lessons learnt and the encouraging results achieved in the past cycle 2013–2016, this Country Strategy sets the frame for SECO's continued activities in South Africa for the next four years. Based on the goals and priorities described therein, we firmly believe that we can make a significant contribution to South Africa's further development path.

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1  
Traditional products like the fruits of Morula trees that can be used to produce cosmetics bear great economic potential.

2  
The share of SMEs in total external trade remains small: 93% of export sales come from large firms.

3  
Water is increasingly becoming a scarce resource, exacerbated by early-stage climate change effects.

4  
Urban hubs remain an important contributor to economic development and job creation.

# Country context

## Political and institutional

South Africa's smooth and peaceful political transition to a constitutional democracy remains one of the most iconic political feats of the past century. This political transition brought freedom, civic rights and extended social services to millions of South Africans. Yet, the country is facing significant challenges: its society remains divided and inequalities persist.

**Political landscape:** The African National Congress (ANC), which has been driving the policy agenda since 1994, remains at the head of government. The fifth general elections were held in May 2014, which saw the ANC winning with a majority of 62% of votes and eight out of nine provinces. President Zuma was re-elected for a second term, ending in 2019. Political tension between the parties of the government alliance as well as within the ANC and other political partners and movements has become prominent. Political interests are increasingly affecting state institutions and state-owned enterprises. The contest for municipalities is also fierce: with the 2016 local government elections the opposition took the lead in several metropolitan areas. As they won by a small margin in several municipalities these will be managed by minority councils as no coalitions could be formed. These minority council dynamics are likely to change the way decisions are made at local government level as well.

**Most challenging issues and risks to political stability:** High unemployment, income inequality and poor service delivery remain major

challenges. Fraud and corruption are increasingly raised as concerns by citizens, despite the government's commitment to fight this. The high unemployment rate combined with continued immigration of job-seekers mainly from neighbouring countries add to social pressures, spurring social unrest, strikes and violent attacks, including xenophobic attacks against African immigrants. Nonetheless, South Africa's widely respected Constitution remains a solid foundation that has limited the risk of widespread instability.

**Decentralised government system:** Since 1994, South Africa has made significant progress in building the structures of a democratic state, which saw the consolidation of fragmented governance structures into a system designed to better represent the entire population. Challenges include unequal local government capacity that leads to uneven performance, caused by, amongst others, tensions in the political-administrative collaboration, skills deficits, erosion of accountability and authority.

**South Africa holds a unique position in the region and in Africa.** It is seen as an important regional hub for economic and political collaboration, engaging with other African countries and working closely with African regional blocks including the Southern African Development Community (SADC) and the African Union (AU). South Africa is also active in international fora, being the only African member country of the G-20 and BRICS.

## Economic

After the dismantling of apartheid, South Africa successfully re-integrated into global affairs, substantially strengthening the economy's macroeconomic underpinnings. The economy is well diversified, with key sectors including tourism, financial and business service, energy, transport, trade, telecommunication, mining, automotive, textiles, food processing and agriculture and fisheries. However, South Africa has not yet found an economic policy that could balance economic growth and job creation: previous strategies focused on the achievement of macroeconomic objectives

and stimulating faster economic growth. These, however, fell short in reducing poverty, creating employment and distributing wealth. Subsequent strategies focused mainly on the latter – but are falling short in stimulating the former.

**South Africa faces persisting domestic structural challenges.** The country continues to face the triple challenge of high unemployment, high inequality and high levels of poverty. The unemployment rate in 2015 was 25.4%<sup>1</sup> – the highest among the G-20 and BRICS countries. Challenges, such as skills

shortages and remote settlement structures, continue to characterise the economic landscape. South Africa remains a dual economy with one of the highest inequality rates in the world. With an income Gini of 0.63 in 2011, closing the gap between the two economies is a priority policy and implementation challenge for the government.

**South Africa is facing its fifth consecutive year of slowing growth.** The average income per capita has fallen rapidly in the past five years, and poverty has slightly increased from 36.5% in 2014 to 37% in 2016. GDP per capita based on power purchasing parity has grown only slightly in the past five years. Real GDP grew only 1.3% in 2015, and growth for 2016 was revised down to 0.5%. Growth forecasts for 2017/2018 were revised down to 1.3%.

**The weak economic outlook has made the implementation of appropriate fiscal and monetary policies more challenging.** The country faces current account and fiscal deficits, and debt has almost doubled in the past seven years. The budget deficit is expected to be reduced to 2.4% by 2018/2019, from 3.2% in 2016, while debt is close to 50% of GDP. The South African Reserve Bank (SARB) faces an increasingly difficult task of balancing rising inflation and weak growth. The negative outlook is further exacerbated by China's economic slowdown, the fall in commodity prices and waning business confidence with sovereign debt and credit ratings downgrading. Key priorities include maintaining debt sustainability and fiscal tightening in the face of rising core inflation. Being a widely traded currency, the rand is vulnerable to global uncertainties and perceived political and economic instabilities.

**South Africa's financial sector remains robust despite the global economic downturn.** It has relatively high capital buffers, manageable exposure in the foreign exchange market and has diversified its markets into Sub-Saharan Africa. South African banks remain in a sound position and benefit from a long-term rigorous regulatory framework.

**Weak export performance and competitiveness problems:** With the exception of the mining and automotive industries, South African exports are still weakly integrated into global

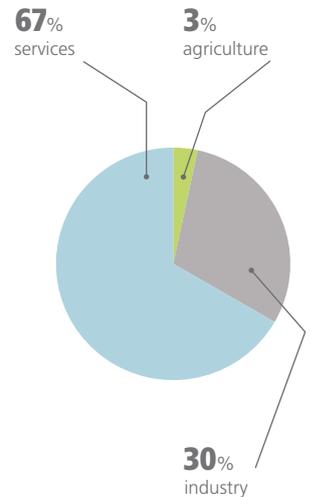
value chains and have suffered from external factors such as energy bottlenecks, limited product market competition and labour market constraints. Exports have slowed down, growing at only about 4% between 2011 and 2014. The share of SMEs in total external trade remains very small – 93% of export sales come from large firms.

**Infrastructure investment has been identified as a way to stimulate the economy.** Municipalities, in particular, are under-spending significantly on both asset development and maintenance in all major infrastructure sectors, while having insufficient capacity to implement effective mechanisms for planning and delivering infrastructure. To improve this would need significant leveraging of private funding through innovative financing mechanisms. The government is reviewing the structuring and functioning of its challenged state-owned enterprises (SOEs) with the aim of making these more efficient and profitable.

**The urban hubs remain an important contributor to economic development and job creation.** With an estimated 78% of the country's population living in urban areas (cities and towns), South Africa's rate of urbanisation is rapid and higher than planned for. This places considerable pressure on local authorities. Urban development can be a driver of economic growth, but there remains a dire need for thorough planning and management to unlock the pivotal potential.

## Economic sectors in South Africa

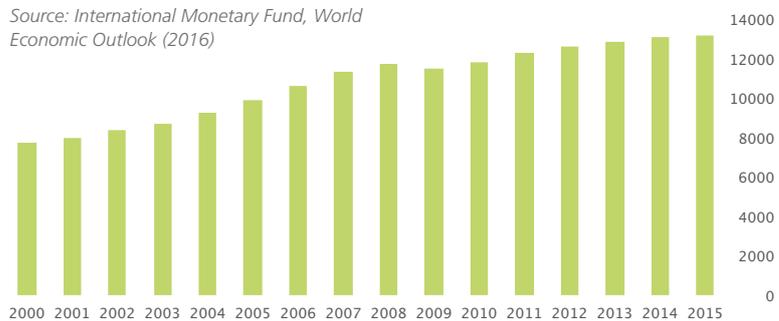
Primary (agriculture), secondary (industry) and tertiary (services) sector in %.  
Source: Central Intelligence Agency, World Factbook (2015)



## GDP growth of South Africa

Gross Domestic Product (GDP) per capita based on purchasing power parity (PPP) in current international dollars.

Source: International Monetary Fund, World Economic Outlook (2016)



1 The inclusion of people no longer looking for work pushes the number to around 34%, and youth unemployment is estimated at around 40–50%.

## Social, humanitarian and security

Although major achievements have been made over the past 21 years, progress on social outcome indicators has been below target. The legacy of low-quality education in historically disadvantaged parts of the education system persists, and many parts of the secondary and further education and training sectors are underperforming; the overall performance of the health system since 1994 has been poor, and inefficiencies and inequities in South Africa's settlement patterns are deeply entrenched.

**Life expectancy, after falling dramatically to 53 years in 2010, recovered to 62 years in 2014.** The recent recovery was largely due to the rapid expansion of the antiretroviral treatment programmes to fight HIV/AIDS. There was a remarkable decline in both adult and infant mortality rates. Yet, the poor remain particularly vulnerable. High HIV/AIDS infection rates and tuberculosis infections (amongst the highest worldwide) have impacted labour supply and productivity, strained the health system and drained the fiscus.

**Gender diversification remains a key priority for the country.** Statistics indicate that the unemployment rate for women is 28.7%. The employment absorption rate for men is higher at all educational levels. The official labour force participation rate is the lowest among black African women, at 49%. There is also a need to attract more women to science, tech-

nology and engineering, although there have been gains: 43.7% of the total researcher workforce in 2012/2013 was female.

**Migration remains a challenge in South Africa.** It is estimated that there are just over two million immigrants living in South Africa. Figures released in 2014 by Statistics South Africa suggest that over two-thirds of immigrants in South Africa are from other African countries, mainly SADC. The continued immigration into South Africa has a great impact on the country's economy, education, and the government's ability to deliver social services.

**Crime is a prominent issue in South Africa.** The Institute for Economics and Peace (IEP) puts South Africa among the 15 countries in the world with the lowest marks of societal safety and security, and ranks it as the eighth most violent, with a murder rate of 31 per 100,000 people. This has significant implications also for both the economy and the cost of doing business.

**Water is increasingly becoming a scarce resource, exacerbated by early-stage climate change effects.** Freshwater systems are impacted mainly by increasing variability in rainfall and rising sea levels. Water losses are also a key concern. South Africa is experiencing water wastage caused by leaks, losing 37% per annum of the natural resource and close to USD 600 million a year.

GINI-coefficient of South Africa

0.63

Degree of income inequality within the population (0 = complete equality; 1 = complete inequality).

Source: World Bank (2011)

## Bilateral economic relations

Owing to its regional hub function and its high economic potential, South Africa is an important gateway for Swiss companies on the African continent. The Swiss Business Hub plays an important role, offering potential linkages with SECO programmes.

With bilateral trade of almost CHF 2.9 billion in 2015, South Africa remains Switzerland's most important trading partner in Africa. Switzerland's trade flows with South Africa represent a quarter (25%) of Switzerland's overall trade with Africa. Switzerland's exports to South Africa amounted to CHF 676 million (-6.6%) in 2015, whereas imports were worth almost CHF 2.2 billion (0.3%). Switzerland's main exports to South Africa are machinery (2015: 26%), pharmaceutical products (2015: 20%) and watches (2015: 9%). While Switzerland's import volume seems to be subject to annual fluctuations, exports have been quite stable over the

past years. South Africa's exports to Switzerland remain largely dominated by precious metals such as gold (2015: 78%) and platinum (2015: 6%). Other metal types such as aluminium and agricultural goods constitute most of the remaining exported products.

Switzerland is among the ten largest investors in South Africa in terms of foreign direct investment (FDI). More than a hundred subsidiaries of Swiss companies operate in South Africa, some with relatively large production plants. Switzerland is also amongst the top 15 European trading partners of South Africa.

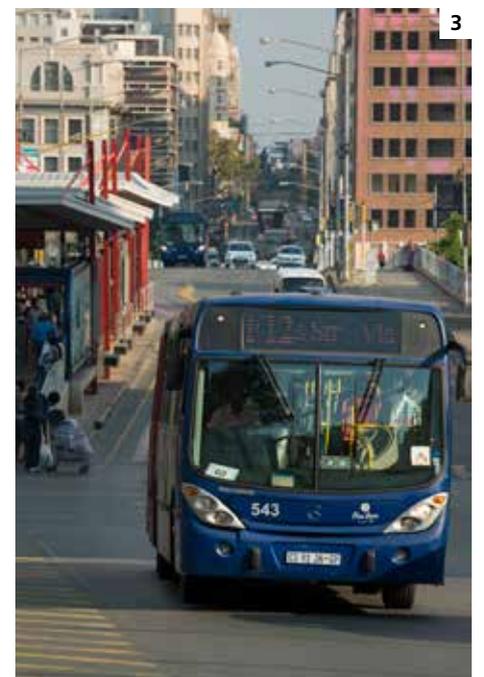
The free trade agreement between EFTA countries and South Africa within the SACU framework has been in force since 1 May 2008, complemented by a bilateral agreement for the agricultural sector between Switzerland and SACU. A Framework Agree-



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1  
Striving entrepreneurship and a competitive private sector are key for job creation.

2  
The South African government seeks to eliminate poverty and reduce inequality.

3  
Improving public transport is a major objective of urban development in South Africa.

ment on development cooperation was signed in 2013. Furthermore, based on the Memorandum of Understanding on “Strengthening Mutual Cooperation” of 2008, resulting from

Switzerland’s foreign economic strategy with South Africa, annual top-level talks (FDFA) and Joint Economic Commissions (JEC, SECO) are held.

# Development cooperation context

## Partner country development strategy

The main strategies relevant for economic development are:

**The National Development Plan (NDP) and Vision 2030 seek to eliminate poverty and reduce inequality by growing an inclusive economy, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.** The plan emphasises the need for a strategy to address poverty and its impacts by broadening access to employment, strengthening the social wage and improving public transport. It calls for private investment to be boosted in labour-intensive areas, competitiveness and exports. It also stresses the need for jobs to be located where people live, for informal settlements to be upgraded, and for housing market gaps to be closed. The plan suggests that public infrastructure investment be set at 10% of the country’s gross domestic product (GDP). It outlines the steps that need to be taken by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption.

**The Medium-Term Strategic Framework (MTSF) 2014–2019 has the aim of guiding planning and resource allocation across the three spheres of government (national, provincial and local) in line with the NDP.** As such, it forms the first five-year implementation phase of the NDP. Similarly, the MTSF has been aligned to the election manifesto of the national governing party and has two over-arching strategic themes – radical economic transformation and improving service delivery. The MTSF outlines 14 development outcomes: high quality basic education; health services; safety and security; decent employment through inclusive growth; a skilled and capable workforce to support the inclusive growth path; an efficient, competitive and responsive economic infrastructure network; comprehensive rural development

and food security; sustainable human settlements; responsive, accountable, effective and efficient local government; protected and enhanced environmental assets and natural resources; an efficient, effective and development-orientated public service; a sustainable social protection system; a diverse, socially cohesive society and a common national identity, and a better South Africa that contribute to a better Africa and world.

**The New Growth Path (NGP) of 2010 is a framework for economic policy and the driver of the country’s job creation strategy.** The aim is to reduce unemployment to 15% by 2020 through the creation of five million new jobs. The New Growth Path has fixed six priority areas for job creation: infrastructure development, agriculture, mining, manufacturing, the green economy, and tourism. The NGP was the first government paper to acknowledge disparities and unemployment as a major challenge to South Africa.

**In addition, a number of sector policies have been formulated and are relevant to SECO’s activities:** the Industrial Policy Action Plan (Department for Trade and Industry), the National Infrastructure Plan (Presidential Infrastructure Coordinating Committee), the Integrated Resource Plan (Department of Energy), the National Skills Development Strategy (Department of Higher Education), the Integrated Urban Development Framework (Department of Cooperative Governance) and the National Climate Change Response White Paper, the Biodiversity Economy Strategy and the National Waste Management Strategy (Department for the Environmental Affairs). The government is continuing to pursue its policy on Broad-Based Black Economic Empowerment (B-BBEE). This policy aims to advance economic transformation and enhance the economic participation of black people in the South African economy.

## Donor landscape

In 2014, gross ODA to South Africa made up the equivalent of just above USD 1 billion, mainly from the United States (USD 501 million), EU Institutions (USD 200 million), Germany (USD 146 million) and France (USD 140 million). During this period, Switzerland was ranked the sixth largest bilateral country donor. The main beneficiary sectors are social and economic infrastructure and multi-sector support.

Economic development assistance to South Africa as an upper middle-income country targets structural and developmental challenges that hamper the country in achieving higher economic growth and employment, and reduced poverty and inequality.

ODA, which South Africa defines as government-to-government support, accounts for less than 1% of the annual budget and must play a more catalytic role in leveraging South Africa's own resources. It is South African government policy that ODA is used to support new, innovative and more effective ways of implementing government policies, to build capacities, to transfer skills and to implement good practices. Institutional capacity, especially at subnational government level, remains critical. SECO's support from 2013 to 2016 has contributed significantly to adding value where South Africa demanded support, such as in the field of energy efficiency, financial sector reform and urban development. In addition, through the Swiss State Secretariat for Education, Research and Innovation (SERI), bilateral cooperation with South Africa was established in 2009 in the fields of nano-, bio- and clean technology, social sciences and humanities, public health and biomedicine. A new partnership was established 2015 to further develop cooperation in the field of vocational and professional education and training.

ODA flows to the country include grants, technical assistance and concessional loans (directed mostly towards state-owned enterprises, parastatals and municipalities). A number of donors have shifted their focus away from bilateral ODA towards economic partnerships, targeted at the Southern African region. In this context, SECO, with its focus on economic development cooperation, and its ability to work with both public and private-sector role-players alike through grants and technical assistance, is well positioned to support the country in achieving its strategic economic objectives and to play an increasingly important role in this regard.

The South African government has a high preference for using country systems as it enables transparent and more effective use of aid, increased ownership, improved alignment and cohesion. Some major donors have shifted to sector budget support by which government systems can be used to disburse ODA funds. Other donors, however, are maintaining a focus on project-type and technical cooperation modalities, committed and disbursed through their own systems.

After initial limited engagement with South Africa, the World Bank Group has increased its technical cooperation activities in South Africa in the areas of financial sector reforms and urban development with the support of SECO. SECO has an established working relationship with the United Nations Industrial Development Organization (UNIDO) in the area of energy efficiency and value chain development. The expansion of SECO's portfolio in niche areas where South Africa demands support offers potential to work with multilateral organisations such as the African Development Bank and other development finance institutions such as Agence française de développement (AFD) and the German Kreditanstalt für Wiederaufbau (KfW).

## Lessons learnt from 2013–2016

SECO's Country Strategy 2013–2016 proved highly relevant to South Africa's national development objectives. It showed that well designed projects can have positive impacts that could be replicated to the benefit of the country. Commitments are on track and successful outcomes are starting to be recorded.

The main successes during this period include establishing new projects in the fields of local economic development, integrated urban development, energy efficient infrastructure and green credit lines to the commercial banking sector, while strengthening support in industrial energy efficiency, financial sector, taxation and domestic resource mobilisation and trade. The launch of the

first Subnational Doing Business reports and Metropolitan Public Expenditure and Financial Accountability (PEFA) survey provided a diagnostic basis for SECO to initiate support activities in the respective fields.

Important lessons that can be drawn from the portfolio include:

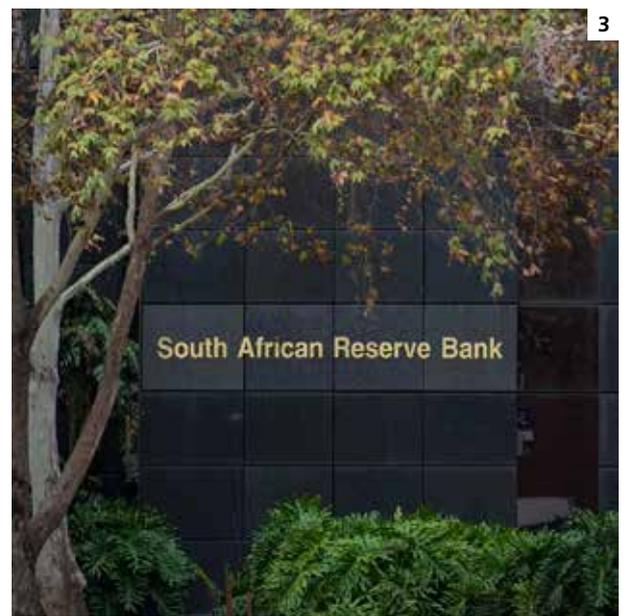
- **Continue going green:** SECO has achieved positive results in its objective to promote climate-friendly and green growth. However, this field also proved challenging due to aspects of green market maturity and uptake, a low tariff environment, competition from various development partners and funding sources, insufficient project design, unclear implementation strategies and subsidies crowding out commercial opportunities.
- **Focus where population density increases:** Recent experience in urban economic development showed that SECO's support could be effectively used to build capacities and to introduce innovative approaches to address challenges faced in the urban environment. Results need to support linkages with policy discussions and design. While large-scale impact could be achieved in the metropolitan environment, there is also demand to address challenges facing the secondary cities in a coordinated and coherent manner through local economic development, public financial management and infrastructure service delivery.
- **Harness regional linkages:** South Africa has an important role to play in the region and opportunities exist to support the country's cooperation with its regional partners. However, such project objectives would need to shift from South Africa to the countries as part of a regional exchange of knowledge, expertise and peer learning.
- **Sustainability anchored in institutional scale-up:** As activities are often on a pilot basis, aspects of institutionalisation and sustainability should be built into project design. Consideration should be given to how best to upscale an initial investment in projects, while positioning project support within a leading government department or strong private sector organisation. This will enable sub-regional or national roll-out.
- **Finding the right modality mix:** A more balanced portfolio is needed to maximise impact and value-added. Consideration should be given to the impact of different modalities on transaction costs and who would carry it. While bilateral projects might increase direct transaction costs, beneficiaries could be better targeted and visibility increased. Experience by SECO and partners have shown that bilateral programmes take longer preparation time with the possibility of lengthy procurement processes and co-funding challenges due to governmental procedures that have to be applied. Stakeholder consultation and ownership are key elements that have to be evaluated carefully for each project.



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- 1  
SECO supports the development of an efficient public financial management system and know-how exchange within the continent.
- 2  
Enhanced market access for biotrade products can contribute to a green economy and creates employment.
- 3  
A stable and inclusive financial sector is a prerequisite for sustainable economic development.
- 4  
Reliable energy supply is crucial for a sustainable development.

Overall objective

**Inclusive and green growth that will create jobs, ensure resilience and reduce disparities**

Objective 1

**An efficient public sector and good financial governance**

Objective 2

**A competitive and inclusive economy that fosters sustainable employment and international value chain integration**

Objective 3

**Climate-friendly and green growth through the development of a low-carbon industry**

## Development challenges and SECO's response

The overall objective of Switzerland's economic cooperation and development is to contribute to inclusive and green growth that will create jobs, ensure resilience and reduce disparities.

Based on the context analysis, the challenges and the alignment with South African development strategies identified in Chapter 2, Switzerland's economic cooperation and development programme with South Africa responds to these main development challenges with three specified main objectives.

## Objective 1:

# An efficient public sector and good financial governance

### Challenges

Together with its main responsibility of providing public services and infrastructure, the public sector needs to be able to utilise public resources efficiently at all three levels of government and increase domestic resource mobilisation. Constraints in creating a stable and inclusive financial sector and implementing a stability-orientated macroeconomic policy framework underlie the country's persistent income inequality and modest growth. In addition, capacity constraints are evident in implementing the country's rigorous, transparent and well-designed public financial management system, especially at subnational government level. Given the current reform trajectory, there is demand for support in aspects such as, inter alia, revenue and asset management, internal controls and audit, supply chain management, risk management and capacity building.

The apartheid-legacy spatial divide continues to dominate the economic and physical landscape and determine life opportunities, especially for the poor. While the urban centres dominate the economy, increased urbanisation puts pressure on service delivery, infrastructure development and environmental management. Persistent bottlenecks in the public sector and large spatial inequalities obstruct inclusive and integrated urban development. Challenges range between poor alignment and coordination of spatial planning and investment, weak capabilities for spatial decision-making and administration, non-alignment of various institutional roles and responsibilities, relatively low densities and extensive sprawl that increase transport costs, under-investment and maintenance in infrastructure, inefficient property markets, insufficient funding for capital investments, maintenance backlogs and fragmented governance of infrastructure.

### Focus

SECO's contribution aims to strengthen public institutions so as to improve efficiency of the use of public resources, reduce inequality, promote financial sector stability and improve access to and the quality of public service delivery in the urban environment.

### Proposed SECO measures

- Strengthen financial sector integrity and stability.
- Develop an efficient public financial management system, including debt and risk management and capacity building, at all three spheres of government.
- Support sustainable urban service delivery, including energy, water, solid waste management and urban connectivity and mobility, support to reduce spatial disparities in service delivery, efficient planning and urban management, institutional development, environmental management and urban infrastructure financing and investment.

**Regional dimension:** South Africa has a crucial role to play in the region to contribute to peer learning, knowledge sharing and institution-to-institution support. SECO's economic development cooperation programme supports South African and regionally-based initiatives in the areas of public financial management and financial sector stability.

### Contribution to South Africa's country development objectives

SECO's contribution addresses priorities and demands identified by the South African government in various strategic frameworks and policy papers to build a state that is capable of playing a developmental and transformative role. Priorities include strengthening local government, improved spatial planning to eliminate social inequality and economic inefficiency, establishing liveable, safe and resource-efficient cities and towns, and maintenance and expansion of the electricity, water and transport infrastructure to support economic growth and social development goals. The government also wants to create an efficient, competitive and responsive economic infrastructure network, and a responsive, accountable, effective and efficient developmental local government system, together with an efficient, effective and development-oriented public service.

SECO contributions

#### First priority

- Transparent resource mobilisation and reliable public financial management
- Stable and deep financial sector
- Integrated urban development

#### Second priority

- Reliable basic public services

## Objective 2:

# A competitive and inclusive economy that fosters sustainable employment and international value chain integration

### Challenges

Unemployment remains one of South Africa's most critical challenges. Given the right conditions, an innovative, competitive and more inclusive private sector could become an important source of employment for the most marginalised in the country's labour market, and accelerate economic growth. The Global Entrepreneurship Monitor report indicates that around 93% of South African's entrepreneurs are below 35 (considered "youth" in South Africa), offering prospects for entrepreneurship as an engine to spur private-sector innovation and employment. Overall, the government recognises the importance of the private sector, but efforts have not been sufficient to unleash its full potential for job creation.

The South African private sector faces important challenges in terms of skills mismatch and training, business environment, access to long-term capital, market access, value-chain development, and international competitiveness of SMEs. Policies and approaches need to be implemented to support SME innovation, promote entrepreneurship, sector diversification and economic inclusion.

The 2015 Doing Business Report assessed that SMEs face a wide array of business obstacles including inefficient and complex red tape to registering property and trading across borders. Further challenges include loosening rigid labour laws, improving the quality of education, and adopting investor-friendly laws to grow the economy.

South African SMEs are yet to take full advantage of global and regional integration opportunities in trade in goods and services. Strengthened international and regional supply chain integration, focusing on sustainability aspects, could significantly contribute to inclusive economic growth in South Africa and the neighbouring countries.

Moreover, South Africa is the third-most biologically diverse country in the world, after Indonesia and Brazil. The conservation of biodiversity is high on the government's agenda, and there are opportunities to create linkages with green growth and employment creation through enhanced market access for sustainable value chains in high growth potential sectors, such as biotrade.

### Focus

SECO's contribution aims to create more and better jobs, and enhance trade and competitiveness.

### Proposed SECO measures

- Support measures to create dynamic entrepreneurship and strengthened expertise and skills through innovative sector-specific projects.
- Strengthen access to long-term capital with a focus on a resource efficient and inclusive private sector and green jobs.
- Improve an efficient business environment by supporting implementation of reforms at the local government level; and greater international competitiveness of SMEs and facilitated market access through integration into international and regional value chains and by focusing on voluntary sustainability standards.

**Regional dimension:** The South African economy plays an important role in the region, for instance, for integrated international and regional value chain development but also as a centre of expertise, for peer learning, knowledge sharing and institution-to-institution support in different areas related to private-sector development. Whenever possible, this dimension is taken into account by SECO's support.

### Contribution to South Africa's country development objectives

SECO's contribution addresses priorities and demands identified by the South African government in various strategic frameworks and policy papers to eliminate poverty and reduce inequality, raise levels of employment and, through productivity growth, the earnings of working people. To achieve this, the government places jobs and decent work at the centre of its economic policies and prioritises employment creation in infrastructure development, agriculture value chains, green economy, manufacturing sectors and tourism and high-level services. Supportive actions to achieve more inclusive economic growth include, among others, the elimination of regulatory burdens, skills development, SME support, and research, development and innovation.

### SECO contributions

#### First priority

- Dynamic entrepreneurship, strengthened skills and flexible labour market
- Greater international competitiveness of SMEs and facilitated market access

#### Second priority

- Access to long-term capital
- An efficient business environment

## Objective 3:

# Climate-friendly and green growth through the development of a low-carbon industry

### Challenges

South Africa is among the world's top ten countries for coal production capacity, consumption and exports, and is one of the world's top 20 emitters of greenhouse gases (GHGs). GHG emissions per capita are high compared to China or Brazil, but below the OECD average. The energy sector is the largest and a growing source of CO<sub>2</sub> emissions, reflecting the coal-dominant structure of energy (74%) and electricity supply (94%) and the under-pricing of this fossil fuel. South Africa has been experiencing an energy crisis, with power supply shortages that have affected production and business confidence and could potentially impact the inflow of long-term capital. It offers, however, potential to increase energy efficiency and renewable energy resources in the country. In 2011, the government approved the Integrated Resource Plan for the energy sector – a 20-year projection on electricity demand and production where, amongst others, about 42% of new electricity generation capacity must come from renewable resources by 2030. There has been strong growth in the renewable and hydro energy sectors, with a procured mix of 16% in 2015. Rising electricity tariffs, increasing water scarcity and unutilised waste surplus present opportunities for climate-friendly and green growth initiatives.

South Africa made a commitment to the development of a green economy as a priority public policy area through the Green Economy Accord in 2011. Transition to a low-carbon, resource-efficient and equitable economy will require substantial investments in energy, transport, and environmental infrastructure, emphasising the need to mobilise both local and foreign markets. However, green markets and their investment potential in South Africa remain poorly understood, especially with respect to job creation, SME, entrepreneurship and skills development, and improved systems and standards. Further efforts are needed to mobilise markets and thus realise the potential of the country's green economy for sustainable growth and prosperity. Poor institutional

coordination and the organisational landscape (across spheres of national and local government, amongst donors and the private sector) represent a challenge, as do competitive and sustainable finance, and the creation of a critical pool of technical expertise.

### Focus

The focus is on accelerating South Africa's transition to climate-friendly and green growth, using mitigation measures in key infrastructure sectors and the energy sector. South Africa's collaboration and role in the regional context provides opportunities for project activities on a regional scale.

### Proposed SECO measures

- Support the creation of a low-emission and climate-resilient economy by strengthening more competitive and sustainable businesses, public institutions and manufacturing production processes.
- Provide green finance.
- Promote sustainable and clean technologies, especially in energy, but also water and waste; energy efficiency and cleaner production.

### Contribution to South Africa's country development objectives

SECO's contribution addresses priorities and demands identified by the South African government in various strategic frameworks and policy papers to support its transition to an environmentally sustainable, climate-change resilient, low-carbon economy and a just society. In order to protect and enhance its environmental assets and natural resources, the government's priorities include protection of ecosystems, efficient use of natural resources, the implementation of an effective climate change mitigation and adaptation response, an environmentally sustainable, low-carbon economy resulting from a well-managed and just transition, enhanced governance systems and capacity, and sustainable human communities. In line with these priorities, the government supports employment creation in the green economy.

SECO contributions

#### First priority

- Resource-efficient private sector

#### Second priority

- Sustainable energy supply

# Programme implementation and management

## Implementation modalities

SECO's international cooperation seeks to deliver inclusive sustainable growth. To reach this objective, the 2030 Agenda for Sustainable Development and the Addis Ababa Financing for Development Action Plan provide a common language and direction, whereas international aid and development effectiveness principles provide the common ground on which SECO and its international partners cooperate.

**SECO uses an appropriate mix of modalities for its development cooperation**, consisting of financial aid, technical assistance and capacity building at an individual, organisational and institutional level.

**Partnership and dialogue are necessary to promote reforms as well as to develop and implement policies.** This dialogue involves players on several levels that can contribute to coherent and synergistic solutions to development challenges: governments, private and civil society players as well as other donors and multilateral institutions. SECO balances bilateral and multi-bi cooperation and has established guidance to help implement the principle of alignment, harmonisation, and accountability and, when appropriate, the use of national systems.

**Partner strategies:** SECO's operational activities to deliver inclusive sustainable growth in partner countries are aligned with national development strategies, thereby applying the principles of national ownership and partner focus. The activities are harmonised with those of other donors and rely on the principle of mutual accountability. SECO's local experts are systematically involved.

**SECO increasingly provides targeted impulses to mobilise resources.** A relatively modest, yet very specific, Swiss contribution can go a long way. For instance, to leverage the impact of Swiss ODA, SECO supports partner countries in developing framework conditions that foster domestic resource mobilisation and private enterprise. Similarly, innovative programme and project approaches as well as innovative financing mechanisms are very effective instruments to stimulate new forms of collaboration and increase effectiveness.

**SECO's activities include sharing of Swiss knowledge and facilitation of technologies.** Specificity, high quality and effectiveness are the hallmarks of SECO's international cooperation.

## Cross-cutting issues

To meet its objectives, SECO focuses on two transversal topics: **gender equality and economic governance.** Making a highly relevant contribution to inclusive sustainable growth, gender equality and economic governance are systematically integrated into all SECO activities.

**Gender equality:** SECO considers gender equality an important element of poverty reduction, social inclusion and economic development. Therefore, it is essential to systematically address the gender dimension (social norms, legal provisions and gender-specific risks) in its economically oriented projects. No projects should place either women or men at a disadvantage.

**Economic governance:** Strengthening economic governance is another essential component of SECO's commitment to promoting inclusive sustainable growth. It is a subset of good governance and refers to the entire set of economic rules and frameworks accounting for a transparent and accountable public and private sector. It is a prerequisite for a stable economy and success in the fight against corruption, which undermines inclusive economic development.

The gender and economic governance dimensions are taken into account regarding the project design, implementation, risk assessment and monitoring in order to contribute to the greater effectiveness and sustainability of SECO's projects.

## Accountability and monitoring

The country strategy will be monitored annually for the following purposes (cf. also chapter on Results monitoring):

- **Steering:** Data and information for evidence-based decision-making
- **Risk mitigation:** Identification of relevant risks and mitigation measures
- **Learning:** Identification of factors for success and failure, challenges, gaps and good practice
- **Accountability:** Data and information for accountability towards SECO headquarters, the Swiss government, the Swiss public, and the partner country

The country strategy is aligned with the partner country's development goals and strategies as well as with the SDGs. Therefore, the annual monitoring ensures that SECO's portfolio does indeed contribute to the achievement of the partner country's goals.

In the case of major changes in the country context or development goals, the results framework for the country strategy will be adapted.

A country portfolio assessment will be performed at the end of the Country Strategy period to evaluate the relevance of SECO's goals and objectives in the South African context and the relevance, effectiveness and efficiency of the SECO instruments.

## Financial resources

SECO's activities under this strategy will be financed through the **Swiss framework credit 2017–2020 for economic and trade policy measures within development cooperation**. The final allocation of funds to individual countries, programmes and projects will depend on the identification of suitable interventions, the absorption capacity as well as the efficiency and effectiveness of the cooperation with the relevant partners in each priority country.

Accordingly, the following information on planned commitments for the four-year period of this strategy is indicative. It

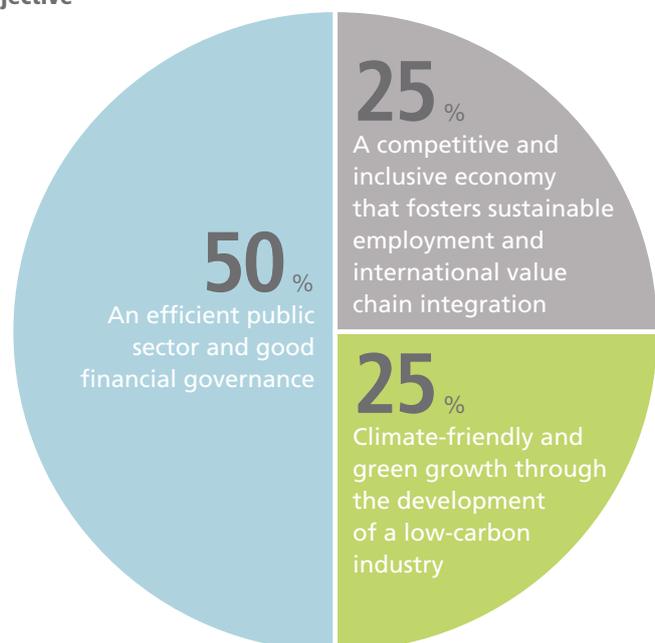
cannot be considered a firm commitment or claimed as such by the partner country. This information serves merely as a basis for the forward spending plans that are reviewed each year by the Swiss Parliament. Actual disbursements will depend on various factors, such as the changes in the project portfolio and the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament. Portfolio and planned disbursements are regularly discussed with the partner authorities.

Planned commitments for South Africa 2017–2020:

**55** CHF million\*

\*South Africa also benefits from regional and global initiatives financed by SECO. When these measures cannot be earmarked to a specific country, they are not accounted for in the financial projections mentioned above.

**Projected funds allocated to objective**



# Results monitoring

The following table contains the results framework for Switzerland's economic cooperation and development programme with South Africa. It will be monitored under the SECO quality management system, which is based on international standards (results-based management). These are aligned with the country development objectives as well as with the SDGs and will be monitored at outcome level.

The results framework covers the overall economic cooperation and development portfolio. However, the proposed indicators will be measured only in relevant projects and will provide a selection of key data for steering and accountability.<sup>2</sup>

The results framework allows for focused monitoring, reporting and evaluation of key issues identified by and agreed between SECO and the partner country counterpart. Both are committed to results orientation and the highest possible effectiveness of economic cooperation. Both want to learn about factors for success and failure as well as about risk management and mitigation in order to continuously improve results. Even though the results framework should contribute to efforts to capture and assess SECO's contribution to achieving the partner country's development objectives, it is not meant for measuring the partner country's achievements as a whole.

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2 For the systematisation of results measurement and the collection of aggregated data, SECO has formulated so-called Standard Indicators which are part of Country Results Frameworks and most project logframes. The Standard Indicators also allow for the collection of results information on cross-cutting issues (see also Chapter 4.2.). With regard to economic governance, many Standard Indicators require the collection of relevant data. Regarding gender, the Guidelines on Results Reporting with SECO Standard Indicators explain in detail which kind of relevant information (e.g. gender disaggregated data) should be collected per Indicator.

## Overview

SECO overall objective in South Africa:

**Inclusive and green growth that will create jobs, ensure resilience and reduce disparities**

SECO objectives	SECO contributions			
<p>Objective 1</p> <p><b>An efficient public sector and good financial governance</b></p>	<p>First priority</p> <p>Transparent resource mobilisation and reliable public financial management</p> <p>Stable and deep financial sector</p> <p>Second priority</p> <p>Reliable basic public services</p>			<p>First priority</p> <p>Integrated urban development</p>
<p>Objective 2</p> <p><b>A competitive and inclusive economy that fosters sustainable employment and international value chain integration</b></p>		<p>First priority</p> <p>Dynamic entrepreneurship, strengthened skills and flexible labour market</p> <p>Second priority</p> <p>Access to long-term capital</p>	<p>First priority</p> <p>Greater international competitiveness of SMEs and facilitated market access</p> <p>Second priority</p> <p>An efficient business environment</p>	
<p>Objective 3</p> <p><b>Climate-friendly and green growth through the development of a low-carbon industry</b></p>				<p>First priority</p> <p>Resource-efficient private sector</p> <p>Second priority</p> <p>Sustainable energy supply</p>
	<p>Effective institutions and services</p>	<p>More and better jobs</p>	<p>Enhanced trade and competitiveness</p>	<p>Low-emission and climate-resilient economies</p>

### SECO's target outcomes

Economic and trade policy measures deployed by SECO in its development cooperation efforts with its partner countries are targeted towards achieving the above-mentioned four outcomes.

**First priority**

**Transparent resource mobilisation and reliable public financial management**

Economic policy reforms and an improved financial policy lead to more transparent and efficient resource mobilisation and more reliable public financial management.

**Selected indicators:**

- Measures for improving public financial management
- Key PFM indicators as per the PEFA framework
- Measures for improving capacity development
- Resources mobilised

**Stable and deep financial sector**

Better regulation and supervision of the financial sector contribute to a stable, diversified and competitive financial market and strengthen the international financial system.

**Selected indicators:**

- Measures for financial market regulation and supervision

**Integrated urban development**

Improved planning criteria and selective measures promote sustainable urban development in partner countries.

**Selected indicators:**

- Number of inhabitants benefiting from sustainable urban development projects
- Number of cities with urban development measures (including for improving governance) in the sectors of public transport, energy efficiency and natural disaster risk management
- Greenhouse gas emissions saved or avoided in t CO<sub>2</sub>eq

**Second priority**

**Reliable basic public services**

Through technical and financial support, public utilities are better placed to offer a reliable and affordable public service.

**Selected Indicators:**

- Number of persons with access to better (basic) services
- Proportion of O&M costs recovered through charges
- Measures for improving capacity development
- Leverage effect of SECO's financing in USD

Build a state that is capable of playing a developmental and transformative role, including:

- Strengthen local government.
- Respond systematically to entrenched spatial patterns that exacerbate social inequality and economic inefficiency.
- Maintain and expand electricity, water, transport and telecommunications infrastructure to support economic growth and social development goals. (NDP 2030)

An efficient, competitive and responsive economic infrastructure network (MTSF Outcome 6)

Sustainable human settlements and improved quality of household life, including adequate housing and improved quality living environments, a functionally equitable residential property market and enhanced institutional capabilities for effective coordination of spatial investment decisions (MTSF Outcome 8)

Responsive, accountable, effective and efficient developmental local government system (MTSF Outcome 9 12) and an efficient, effective and development-oriented public service (MTSF Outcome 12)

Liveable, safe, resource-efficient cities and towns that are socially integrated, economically inclusive and globally competitive, where residents actively participate in urban life (Integrated Urban Development Framework)

Support economic growth and development, good governance, social progress and rising living standards through the accountable, economic, efficient, equitable and sustainable management of South Africa's public finances, maintenance of macroeconomic and financial sector stability, and effective financial regulation of the economy. (National Treasury Strategic Plan, 2015–2019)

## Objective 2:

# A competitive and inclusive economy that fosters sustainable employment and international value chain integration

## Partner objectives

### First priority

#### Dynamic entrepreneurship, strengthened skills and flexible labour market

The promotion of entrepreneurship and skills together with improved framework conditions for the labour market and the social partnership help to create new jobs and retain existing (better) jobs.

##### Selected indicators:

- Number of jobs created and retained
- Number of persons under-going training or continuing education (entrepreneurs, producers, staff)
- Measures for improving working conditions

#### Greater international competitiveness of SMEs and facilitated market access

More efficient work processes by producers and SMEs improve their productivity and promote international competitiveness. Sustainable standards facilitate access for partner countries' goods and services to the Swiss and EU markets.

##### Selected indicators:

- Increase in trade volumes (as a % and in USD million) of sustainably certified commodities (soya, coffee, cocoa, cotton, timber, palm oil, tea, BioTrade products) from developing countries
- Number of jobs created and retained
- Increase in export volumes (as a % and in USD million) of sustainable goods and services (textiles, furniture, tourism, etc.) from developing countries
- Productivity increase in export value chains
- Percentage of producers with better living conditions

### Second priority

#### Access to long-term capital

Easier access of companies to long-term investment capital through innovative and more efficient financial instruments as well as public-private partnerships creates new jobs.

##### Selected indicators:

- Number of companies with access to capital
- Capital mobilised (loans, participation, etc.) in USD
- Number of jobs created and retained
- Measures for improving working conditions

#### An efficient business environment

Improving the business environment through less bureaucracy and more effective regulation promotes the growth and competitiveness of businesses.

##### Selected indicators:

- Direct compliance cost savings (mio. USD)
- Investments generated (mio. USD)

Eliminate poverty and reduce inequality, raise levels of employment and, through productivity growth, the earnings of working people. (NDP 2030)

Decent employment through inclusive economic growth, including, inter alia:

- Productive investment in infrastructure build
- Increased production & employment in productive sectors
- The elimination of regulatory burdens
- Workers' education and skills meet economic needs
- Macroeconomic conditions
- Growth and development in small businesses (MTSF Outcome 4)

A dynamic industrial, globally competitive economy, characterised by inclusive growth and development, decent employment and equity, built on the full potential of all citizens. (dti Strategic Plan 2015–2020)

Place jobs and decent work at the centre of economic policy and prioritise employment creation in infrastructure development, agriculture value chains, mining value chains, green economy, manufacturing sectors and tourism and high-level services. (New Growth Path)

Improve access to financial services for SME's to ensure their growth and sustainability to support job creation and contribution to economic growth. (NDP 2030)

## Objective 3: Climate-friendly and green growth through the development of a low-carbon industry

## Partner objectives

### First priority

#### Resource-efficient private sector

Promotion of a resource-efficient private sector.

##### Selected indicators:

- Number of jobs created and retained
- Greenhouse gas emissions saved or avoided in t CO<sub>2</sub>eq
- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Increased resource efficiency
- Green investments additionally triggered in USD and financing instruments supported

### Second priority

#### Sustainable energy supply

By including sustainable and climate-compatible aspects, SECO contributes to improving the energy policy as well as reforms and investment measures and to increasing energy efficiency and supply (e.g. by promoting renewable energy).

##### Selected indicators:

- Kilowatt hours saved through energy-efficiency measures and kilowatt hours additionally produced from renewable energy
- Greenhouse gas emissions saved or avoided in t CO<sub>2</sub>eq

Transition to an environmentally sustainable, climate-change resilient, low-carbon economy and just society. (NDP 2030)

Protect and enhance environmental assets and natural resources:

- Ecosystems are sustained and natural resources are used efficiently
- Effective climate change mitigation and adaptation response
- An environmentally sustainable, low-carbon economy resulting from a wellmanaged just transition
- Enhanced governance systems and capacity
- Sustainable human communities (MTSF Outcome 10)

Support employment creation in the green economy; catalyse direct economic benefits in terms of industrial development and job creation, 300,000 newly created direct jobs in the green economy by 2020. (New Growth Path)

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