DEVELOPMENT COOPERATION NEWS
ISSUE 05
June | July

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Inside Issue

FUTURE DIMENSIONS OF DEVELOPMENT COOPERATION:

OPTIONS AND OPPORTUNITIES FOR AFRICA AND SOUTH AFRICA

FUTURE DIMENSIONS OF DEVELOPMENT COOPERATION: OPTIONS AND OPPORTUNITIES FOR AFRICA AND SOUTH AFRICA

The global landscape of development cooperation is undergoing significant changes for all countries, but especially for middle-income countries (MICs). Traditional bilateral government-to-government grants and loans are being replaced by new partnership with NGOs and the private sector, and new financing instruments. These changes have ushered in a more complex and diverse aid environment characterised by new actors, with government no longer being at the centre of control.

South Africa is technically an upper middle-income country (UMIC) according to the UN classification which is based simply on a country's average gross national income per capita.[1] South Africa achieved this status in 2005. The classification however ignores two critical and fundamental dimensions of poverty: the extremely high levels of income inequality (highest in world) and exceptionally high unemployment levels with youth bearing the brunt of this. About 40% of the population lives on below $ 1 per day. Additionally, middle-income countries are home to five of the world's seven billion people and 73 percent of the world's poor people. At the same time, MICs represent about one third of global GDP and are major engines of global growth. Despite the problems of MICs, donors are shifting their financial support to low-income countries that are in need of assistance. This creates unnecessary competition for development assistance resources from rich countries (which fell in 2018 by 2.7% after adjusting for inflation).[2]

The South Africa government receives only a modest amount of traditional bilateral aid in the form of government-to-government grants and loans, valued at around [0.3] percent of its GDP or close to 1 percent of its budget expenditures.[3] Despite its modest size, it has been very important in certain sectors like health and education. This support is under severe pressure due to global partners redirecting development support.

A new aid regime is being propelled by several changes in the global economy (Figure 1). First is the rise of new development partners like China, India and Turkey, who are beginning to play an important role in the development of the global South.[4] Additionally, new non-state development agents, including the private sector and NGOs, are taking a bigger role without the involvement of government. Finally, development partners are clearly focussed on achieving the UN's 17 Sustainable Development Goals,[5] and MICs are being encouraged to put greater emphasis on mobilizing scarce and over stretched domestic resources for additional development efforts.

[1] *The world's Middle-Income Countries (MICs) are a diverse group by size, population, and income level. They are defined as lower middle-income economies - those with a gross national income (GNI) per capita between $1,006 and $3,955; and upper middle-income economies, with a GNI per capita between $3,956 and $12,235 (2018).*

[2] *http://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm*

[3] *This bilateral aid come Largely from traditional development partners such as the United States, the European Union, Germany and France.*

[4] *See Besharati and Rawhani, 2016*

[5] *https://www.undp.org/content/undp/en/home/sustainable-development-goals.html*

DRIVERS OF GLOBAL DEVELOPMENT COOPERATION POST 2015

POST-2015 DEVELOPMENT COOPERATION LANDSCAPE

New Actors:

- China
- India
- United Arab Emirates
- Turkey
- Russia
- New Multilateral Development Institutions

New Fields of Action:

- Engagement with the private sector
- Rise of the Environmental sustainability agenda
- Promotion of sustainable infrastructure
- Promotion of innovation in science and technology

Shift from MDGs to SDGs:

- Change in terms of approach from Aid effectiveness to Global partnership that mobilises actors on the basis of the agenda for sustainable development
- Partnerships to strengthen efforts of domestic resource mobilisation

Donor responses and Post 2020 engagements:

- EU document: Implementing consensus with middle income countries
- USAID document: Journey to self-reliance - country roadmap

Many low-income countries in Africa and elsewhere are benefiting from new development partners, in particular China. In the 2018 China-Africa Forum for Cooperation (FOCAC), the Chinese government pledged USD$60 billion (R870 billion) to support economic development in Africa. Part of these funds (R57.2 million) will be used to support infrastructure development, especially the Mombasa-Nairobi Standard Gauge railway and the Djibouti-Addis Ababa railway, which will bolster trade between Ethiopia and Djibouti. Similarly, in 2018 India disbursed USD 128 million in support of a Pan-African e-network that connects 48 African states with leading schools and hospitals in India. In 2015, substantial portions of bilateral aid from Turkey (USD 2.6 billion) and the United Arab Emirates (USD 889 million) were directed towards humanitarian assistance in Syria and Somalia.

DRIVERS OF GLOBAL DEVELOPMENT COOPERATION POST 2015

continued:

The private sector has also taken a strong role in financing development cooperation in the Global South. From 2012 to 2015, USD 81.1 billion was mobilized from the private sector by official development finance interventions, according to the OECD. Some prominent examples of private sector investments in Africa include the initiatives led by Transcorp in boosting Nigeria's ailing power sector . The programme is currently producing 20% of total electricity supply in Nigeria and it has contributed towards to job creation, expanding access of electricity and provided an opportunity for small businesses to play an important role in the distribution of electricity in Nigeria (UN, 2017). The private sector has also made substantial investments in financing climate smart initiatives that are geared towards developing the Green Economy in Africa. In 2016, the Deutsche Bank launched the Universal Energy Access Program to finance energy service companies for rural off-grid and mini-grid systems in Benin, Kenya, Namibia, Nigeria and Tanzania. Approximately 50 investments, representing a total volume of USD 500 million, were made available for off-grid electrification through solar-powered home electricity systems, the operation and maintenance of solar mini-grids in rural areas.

What does all of this mean for South Africa as an UMIC. As assistance from traditional partners declines and takes on new forms, the government needs to work with new emerging economy partners from the global South. The government also needs to encourage and facilitate new development agents, like foreign NGOs, private philanthropists and international foundations to assist in the development of the country. But most importantly, the South African government needs to mobilize domestic resources through taxes, private sector, philanthropy, local NGOs and Corporate Social Responsibility programmes to support development. South Africa can also learn from the experiences of other UMICs that have been assisted by the UN and World Bank. The UN has helped countries launch their own integrated national financing framework to obtain the financing needed to achieve the SDGs.

Finally, South Africa has considerable knowledge about African development and could expand its own role as a development partner to less developed countries on the continent. It already supplies some development assistance through its African Renaissance and International Cooperation Fund, and has plans to expand this through the South African Development Partnership Agency. Helping others is often the way to bettering your own life.

[6]Transcorp is a subsidiary of Heirs Holding and focuses on acquiring and managing strategic businesses to create long-term shareholder returns and socio-economic impact.

[7]Stockholm Environmental Institute, 2018

THE EUROPEAN UNION IN SOUTH AFRICA: ACHIEVING AGENDA 2030 TOGETHER

South Africa is the only Strategic Partner of the European Union (EU) in the African Continent, and since 1994, bilateral cooperation grants amounted to €2.850 billion across a spectrum of sectors. The current seven years bilateral programme focuses on three areas of cooperation: a) employment creation, b) Education, Training and Innovation, and c) building a capable and developmental State. Almost half of this multiannual envelope is managed through Budget Support, promoting innovation, allowing for piloting and risk taking, or building capacity.

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The programme entails policy dialogues with Departments that are key in the South Africa transformative agenda like DOJ, DST, DHET. Those exchanges are in turn feeding and complementing the Dialogue structure established under the Strategic Partnership with many services of the European Commission. An example of achievements over the period includes the qualification of more than 800 educators through the Wits Centre for Deaf Studies. The Centre has developed four education qualifications and pathways for Deaf Education and has become internationally recognised as a centre of excellence for research and Deaf Education on the African continent.

In 2017, a new European Consensus on Development was adopted based on the Agenda 2030. The adoption

THE EUROPEAN UNION IN SOUTH AFRICA: ACHIEVING AGENDA 2030 TOGETHER

continued:

of Agenda 2030, with its universal application, has reinforced the need for the EU to cooperate with all countries in order to implement the 17 Sustainable development Goals. The Consensus recognizes that More Advanced Developing Countries are important players at a regional and global level and key in achieving this Agenda. Building future EU cooperation with those Countries upon dialogues based on the SDGs is prone to improve the impact of the EU support.

The EU is keen to see the implementation of the Agenda 2030 accelerated. SDGs constitute more than a developmental issue; it is also a global agenda that requires policy engagement. The EU is also fully committed to a renewed Financing for Development approach. Last September, President Juncker proposed "a new Africa - Europe Alliance for Sustainable Investment and Jobs" which would allow taking our partnership to the next level. The aim is to boost strategic investment and strengthening private sector participation as well as business environment and investment climate. It is also about investing in people, in their education and skills, and tapping the full potential of economic integration and trade. In South Africa, building on our Strategic Partnership, we are already delivering on the Alliance as we have partnered with Government on:

- Unlocking local and international investment;
- Building education and skills for employability, and facilitating the participation of more than 770 South African students and University staff to the Erasmus+ programme over 2015-201; and
- Accompanying the Economic Partnership Agreement in domains that improve the business environment, such as the SPS infrastructure needed by agricultural producers

Implementing the European Consensus for Development in a country like SA will possibly merit a more strategic use of blending and innovative financial instruments and engagement with the private sector, as well as fostering exchange of knowledge and expertise, including through institutional partnerships, exchanges, triangular or (bi)-regional cooperation.

When it comes to investment, the EU is innovating like never before by partnering with business. With an EU budget contribution of €4.1 billion, the External Investment Plan (EIP) is on a path to leverage up to €44 billion of investment by 2020. The EIP sets out a coherent and integrated framework to improve investment in Africa in order to promote decent job creation and inclusive and sustainable development. It uses innovative financial products - such as risk sharing guarantees instruments - and the blending of grants and loans to ensure that investments have a major development impact; while encouraging an enabling investment climate and business environment by promoting structured dialogue with the private sector.

A future programme might also capitalise on South Africa's numerous CSOs which represent a widely accepted player in the country development agenda, as well as build upon the scientific and university capacities of the country.
In 2020, the European Union will be programming its cooperation for the period 2021-2027. Focus areas, guidelines as well as country envelopes will be defined by the incoming European Commission by the end of 2019.

This process also includes a revision of the financial instruments available. One single instrument for financing Development and International Cooperation is sought to replace the various existing ones, with a proposed overall budget for the period 2021-2027 of €89.2 billion, which includes a geographic financial envelope of €32 billion for Sub-Saharan Africa.

THE ROAD AHEAD: THE STATUS OF DEVELOPMENT COOPERATION BETWEEN SOUTH AFRICA AND THE EUROPEAN UNION POST 2020

The European Union (EU) has provided development cooperation to South Africa (SA) since 1985. This was mainly delivered through financial cooperation with the civil society in support of the Special Programme for Victims of Apartheid. The programme channelled € 450 million to more than 700 projects that supported the victims of Apartheid in the following areas:

- Education and Training: was mainly focused on bursary programmes, pre-school education, literacy programmes, non-formal education, specialised training for key needs;
- Humanitarian and Social Projects: was primarily focused on health, community development, urban and rural development, human rights and democracy promotion;
- Legal Assistance: provided assistance in politically motivated legal cases, human rights research and campaign.

Following the transition from Apartheid to Democracy in 1994, the EU formally extended support to the newly elected government and signed the European Programme for Reconstruction and Development (ERPD). The ERPD was closely aligned to the Government's Reconstruction and Development Programme (RDP) and it committed €764 million (1995-1999) for programmes aimed at rebuilding schools, promoting health care and sanitation, building houses and consolidating democracy in South Africa.

In 1999, development cooperation between the EU and SA was strengthened with the signing of the Trade, Development and Cooperation Agreement (TDCA). The Agreement makes provisions for the establishment of a Free Trade Area (between SA and the EU) and strengthening European development cooperation. Under the TDCA, EU development support to South Africa was carried out under a three phased Multiannual Indicative Programmes (MIP). The first phase of the MIP (2000-2006) pledged €886 million towards the support of school infrastructure, primary health as well as supporting the development of the private sector. Furthermore, another key intervention came in the form of the Masibambane water support programme that sought to

THE ROAD AHEAD: THE STATUS OF DEVELOPMENT COOPERATION BETWEEN SOUTH AFRICA AND THE EUROPEAN UNION POST 2020

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The third phase of the MIP (2014-2020) has pledged €214 million towards mainly supporting SA's graduated status from Lower Income Country (LIC) to Middle Income Country (MIC). Part of the pledge will be used to support job creation as well as bolstering SA-EU trade.

improve the quality of life for poor communities by improving access to safe water supply and sanitation services. The second component of the MIP (2007-2013) committed €980 million towards the development of human resources, primary education and job creation. Key interventions that came out of the second MIP (2007-2013) included the Primary Health Care Sector Policy Support Programme and the Primary Education Sector Policy Support Programme.

The third phase of the MIP (2014-2020) has pledged €214 million towards mainly supporting SA's graduated status from Lower Income Country (LIC) to Middle Income Country (MIC). Part of the pledge will be used to support job creation as well as bolstering SA-EU trade. In light of such developments, the European Union has released a document entitled "Implementing consensus with more advanced developing countries: Post 2020". The document proposes a shift from development cooperation to a dialogue that is based on Sustainable Development Goals (SDGs). It further proposes to channel development cooperation resources through:

- Technical assistance: to be provided on areas of scientific cooperation, exchange of knowledge and institutional partnerships;
- Triangular Cooperation: Resources of development cooperation to be channelled to the region; and
- New financial instruments: blended financing and mobilisation of the private sector in development cooperation.

An opportunity exists for South Africa to leverage the opportunities that arise from such delivery models. Instruments of blended finance such as grants, technical assistance, concessional loans and private sector investments could be used to support pipeline programmes that are geared towards infrastructure development in South Africa. While delivering the Medium Term Budget Speech (MTBS) on 24 October 2018, the Minister of Finance, said that many infrastructure programmes are poorly planned and they would be more effectively managed by the private sector. He further pledged that the Development Bank of Southern Africa, the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission will receive R625 million to strengthen project preparation. In order for programmes to be feasible, there would be a need for slight modifications on the current legislation on procurement and competition in order to attract private sector investment (National Treasury, 2018).

Technical Assistance to and between South Africa and the EU may be used for the purposes of knowledge exchange. This form of cooperation can include the sending of EU experts into South Africa to enhance the capacity of public institutions to deliver services, bolstering scientific research or building partnerships with South Africa institutions in order to enhance skills development.

THE ROLE OF PHILANTHROPIC ORGANISATIONS IN HELPING TO PROMOTE DEVELOPMENT COOPERATION

In developing countries, development cooperation is also complemented by the efforts of Private Philanthropic organisations. These organisations play a significant role in, amongst others, supporting the health and agricultural sectors in developing countries.

Philanthropic organisations also provide the third largest source of financing behind the United States and the Global Fund to Fight Tuberculosis, HIV/AIDS and Malaria (OECD, 2018a). From 2013-2017, philanthropic organisations provided USD 23.9 billion in grants, averaging USD 7.96 billion per year. The initiatives led by these organisations continue to shape development assistance in many Africa states. In 2017, the Bill & Melinda Gates Foundation announced a USD 2 million grant geared towards supporting HIV/AIDS preventive measures in Kenya (Bill and Malinda Gates Foundation, 2017).

“Philanthropic organisations also provide the third largest source of financing behind the United States and the Global Fund to Fight Tuberculosis, HIV/AIDS and Malaria (OECD, 2018a).”

In the context of South Africa, the government can partner with foundations to improve and concentrate funds towards educational, health and social justice programmes. New partnerships could ensure efforts that are better aligned to the national programme of action that will benefit a broader range of communities, target and saturate interventions through pooling of resources, and reduce risk of failure for small and medium enterprise development schemes.

A recent study by GastrowBloch Philanthropies (2016) measured annual grant-making by the sector to be between R300 000 to R125 million across the education, health, welfare, social justice entrepreneurship, and arts and culture sectors. The study indicated that 90% of the sample of 21 foundations were interested in collaboration with others, including government. This independent sector has, aligned to international philanthropists, structured frameworks for giving; selecting charities and investment opportunities; investigated not only how but also how far to fund and support innovation. Whilst development cooperation globally is testing and experimenting pooled funding and blended finance instruments, philanthropists in SA indicated an appetite to create a leverage effect in order to attract other funding. 90% of the sample were open to partner and some were active in such collaborative partnerships, focusing on strengths and opportunities.

THE 'IMPACT IMPERATIVE' FOR SUSTAINABLE DEVELOPMENT FINANCE

The Social impact investment markets are growing rapidly both in terms of new entrants as well as in terms of increasing portfolio commitments by those already operating in the market.

According to the Global Impact Investing Network (GIIN) 2018 Annual Impact Investor Survey, of 229 impact investors, the number of impact investors tracked by the GIIN rose from less than 50 pre-1997 to well over 200 in 2017. Survey respondents represented US$ 228.1 billion in assets under management (AUM) and of this, 56%, or US$ 127.7 billion, was allocated to emerging markets. For comparison global official development assistance (ODA) in 2017 was US$ 146.6 billion. While the GIIN survey does not capture the full impact investment market, the data demonstrates the significant role SII plays in emerging economies. The main sectors for impact investments in 2017 were financial services (excluding microfinance), which received 19% of AUM; energy, which received 14%; microfinance, which received 9%; and housing, which received 9%. Furthermore, Pay For Success instruments such as Social and Development Impact Bonds (SIBs and DIBs) are increasingly being applied, while other innovative models are being tested, such as Social Impact Incentives, which directly reward enterprises with premium payments for achieving social results.

While public and private investors engaged in this activity agree that financial and sustainable development returns can go hand-in-hand – and can often strengthen the sustainability of the investment – the challenge lies in defining impact. Public and private organisations measure different elements by different yardsticks. According to a new OECD report, in order to

THE 'IMPACT IMPERATIVE' FOR SUSTAINABLE DEVELOPMENT FINANCE

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harness the full potential of finance for sustainable development, there is an urgent need for what the report calls "the impact imperative": a shared understanding of how we measure the impact of our collective investments in sustainable development.

Evidence, however, presented in the report shows that today, most investors seek market rate returns and the assessment of achieved social outcomes is uneven at best. There is also the fear of impact washing where organisations hide unpopular practices by investing in noble causes. The risk of impact washing is compounded by diverse definitions of impact investing, the lack of internationally comparable data, and underdeveloped impact measurement practices.

The role of governments in this impact imperative framework is therefore diverse. Governments can ensure enabling environments that are conducive to innovation and the growth of financial markets. Public authorities can also contribute to increasing the transparency of investment outcomes by developing standards, both on definitions and data collection. Policy makers can and have also taken other direct and indirect actions to help develop the market, such as supporting market infrastructure and creating investment incentives.

The OECD has set out a four-pillar call to action for the "impact imperative", which aims to better direct investment for sustainable development by 1) ensuring financing is going where it is needed the most; 2) applying innovative approaches to reaching the SDGs; 3) addressing data and measurement challenges; and 4) evaluating the social, environmental and economic results of public initiatives.

> The role of governments in this impact imperative framework is therefore diverse. Governments can ensure enabling environments that are conducive to innovation and the growth of financial markets.

Implications for South Africa

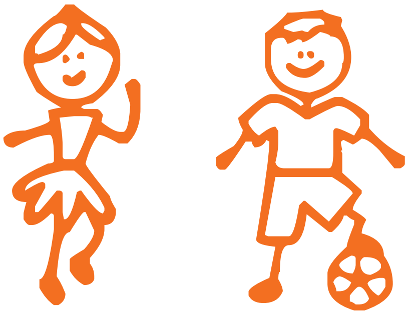
Fortunately, South Africa already has an enabling environment as well as developed capital markets. Unfortunately, the same challenges that are being faced internationally, are evident domestically.

The lack of will to disclose information as well as there being no uniformity in reporting, means that relevant data is not available. Furthermore, Private Sector's participation in Social Impact Investing remains well below desired levels, primarily due to a lack of bankable projects, in addition to the focus on the "risk/return" paradigm.

Regrettably, whilst regulation might enforce the implementation of certain data reporting or financial impact investing requirements, this is not recommended. There needs to be an initial and natural uptake within the market, before regulation should be implemented to ensure that the rest of the market complies with data reporting or impact investing practices.

It should be noted that South Africa has already begun work on an infrastructure project preparation facility programme, to assist in increasing the number of bankable projects that iDFIs and the private sector could invest in.

Source: OECD Report: Social Impact Investment 2019, The Impact Imperative for Sustainable Development



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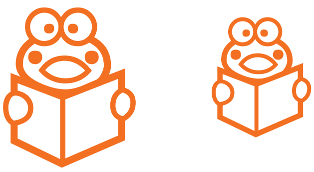

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