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Swiss Confederation

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

Swiss Economic Cooperation and Development

South Africa Country Strategy 2013-2016

State Secretariat for Economic Affairs (SECO)

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 and the Commonwealth of Independent States (transition countries) 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 organizations of the United Nations. SECO is part of the Federal Department of Economic Affairs, Education and Research (EAER).

The overriding objective of Switzerland's international cooperation is sustainable global development that will reduce poverty and global risks. Accordingly, SECO's economic and trade policy measures strive to integrate its partner countries into the global economy and foster economic growth that is both socially responsible and environmentally friendly. The Economic and Development Division bases its activities on its specific areas of competence and experience in promoting economic and fiscal policy, urban infrastructures and utilities, the private sector and entrepreneurship, sustainable trade and climate-friendly growth. Special emphasis is placed on issues relating to economic governance and gender. SECO is headed by the State Secretary Marie-Gabrielle Ineichen-Fleisch. SECO's Economic Cooperation and Development Division employs 100 people at headquarter and spends approximately 380 million Swiss francs per year. Ambassador Beatrice Maser heads the division.

Editorial

Egypt, Ghana, South Africa, Indonesia, Vietnam, Colombia, Peru – all rapidly expanding economies on the threshold of global market integration yet still facing the problem of poverty. These have been SECO's priority countries since 2008 and, together with Tunisia, they will remain the focus of our intervention over the next four years.

All of SECO's priority countries are classified as middle-income countries (MICs). As their role in the global economy expands, they continue to gain in significance, for example in providing global public goods. However, despite rapid growth rates in these countries, their development remains fragile. Poverty and social disparities persist, accompanied by other global challenges such as urbanisation, infrastructure bottlenecks and unemployment.

Through its economic cooperation, SECO strives to integrate its partner countries into the global economy and to foster economic growth that is both socially responsible and environmentally friendly. These approaches correspond to the main challenges facing MICs. Middle-income countries are also important regional hubs of development for neighbouring States and serve as valuable examples.

SECO's activities are based on our many years of experience in international cooperation and our specific expertise in economic issues. Whether we are seeking to strengthen economic and fiscal policy, expand urban infrastructure and utilities, support the private sector and entrepreneurship, promote sustainable trade, or stimulate climate-friendly growth: all of our measures are aligned with Switzerland's foreign trade policy and the Federal Council's foreign policy objectives.

In 2012 the Swiss Parliament passed the 2013-2016 Message on International Cooperation. For the first time, all of the tasks in international cooperation were presented in a single bill, incorporated into a joint, overall strategy. This has the overriding objective of sustainable global development that will reduce poverty and global risks.

The present Country Strategy is based on the framework credit for economic and trade policy measures, as described in the aforementioned Message. It is determined by our areas of expertise and comparative advantages and paves the way for our continued efforts over the next four years. We firmly believe that, in doing so, we can support our partner countries on their development path while also making a contribution to addressing global challenges.

Marie-Gabrielle Ineichen-Fleisch
State Secretary,
Director of SECO

Beatrice Maser
Ambassador,
Head of Economic Cooperation
and Development SECO

Abbreviations

AFDB	African Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ANC	African National Congress
B-BBEE	Broad Based Black Economic Empowerment
CHF	Swiss Franc
CPS	Country Partnership Strategy
DBSA	Development Bank Southern Africa
EFTA	European Free Trade Association
EU	European Union
FDFA	Federal Department of Foreign Affairs
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IDA	International Development Association
IDC	Industrial Development Corporation
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IRP	Integrated Resource Plan
IPAP II	Industrial Policy Action Plan II
IRP	Integrated Resource Plan
JEC	Joint Economic Commission
MDG	Millennium Development Goals
NDP	National Development Plan
NGP	National Growth Path
NT	National Treasury
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability Programme
PFM	Public Financial Management
PPP	Public-Private Partnership
REDD+	Reducing Emissions from Deforestation and Forest Degradation
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDC	Swiss Agency for Cooperation and Development
SECO	State Secretariat of Economic Affairs
SME	Small and Medium-sized Enterprise
StatsSA	Statistics South Africa
UK	United Kingdom
US	United States
USD	United States Dollar
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

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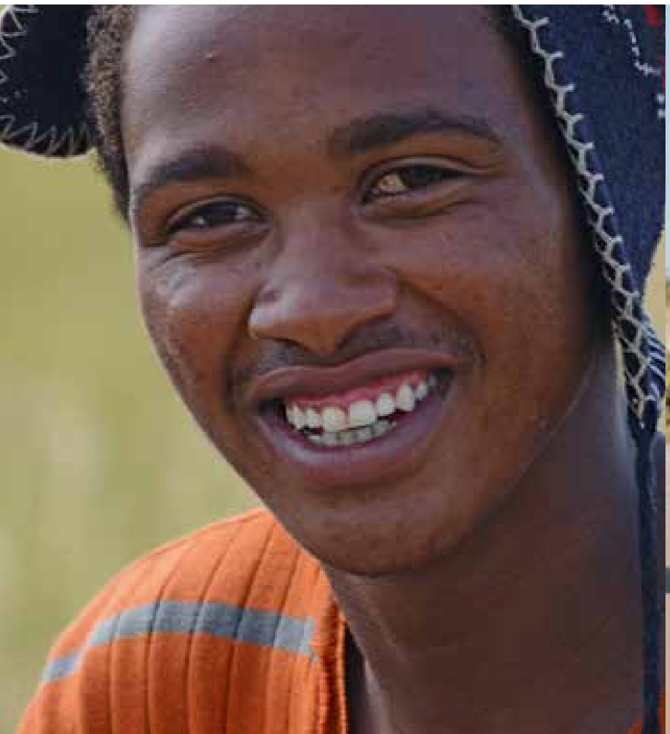


A better business environment helps creating job opportunities for all.

1. Country context

1.1 Political situation

South Africa's smooth and peaceful political transition to a constitutional democracy remains an icon of remarkable political achievement and reconciliation. This political transition brought political freedom and civic rights and extended social services to millions of South Africans. Yet, the country is still facing significant challenges: its society remains divided, while inequality and inequity persist.

The ruling party: The African National Congress (ANC), which celebrated its centenary in 2012, looks set to remain the strongest political force during the second country strategy period (2013-2016). 2012, in the run-up to the party's five-yearly electoral conference, was dominated by the country's political discourse, underpinned by what seems to be sharp divisions within the party between those who support the current leadership and those who would like to see change. The elected ANC President is expected to stand for national presidency in the 2014 election.

Political fragmentation: One debate is between economic policy centrists in the ANC and its alliance partners in government, the Congress of South African Trade Unions (Cosatu) and the Communist Party, which favour interventionist left policies. Meanwhile, a strong nationalist component of the ANC – which includes the ANC Youth League – and calls to nationalize the mines and turn to more interventionist land policies have seen some support on the ground but have failed to penetrate formal ANC policy.

Most challenging issues and risks to political instability: Although South Africa has achieved the 1st Millennium Development Goal (MDG) – halving the proportion of the population living on less than USD 1 a day – the government still needs to tackle issues such as providing adequate public health services, improving the quality of education, tackling income inequality, reducing unemployment, especially among the youth, and progressing on the planned sensitive issue of land reforms. Furthermore, fraud and corruption remain major challenges, in spite of the government's commitment to fight this. The high unemployment rate and low availability of unskilled jobs, combined with continued immigration of job-seekers into South Africa from the rest of the continent, also add social pressures that can lead to social unrest, strikes and violent attacks, including murder, mainly of foreign nationals. Nonetheless, the strong sense of commitment and ambition in South Africa's institutions and its democratic traditions as well as its widely respected Constitution limits the risk of significant instability.

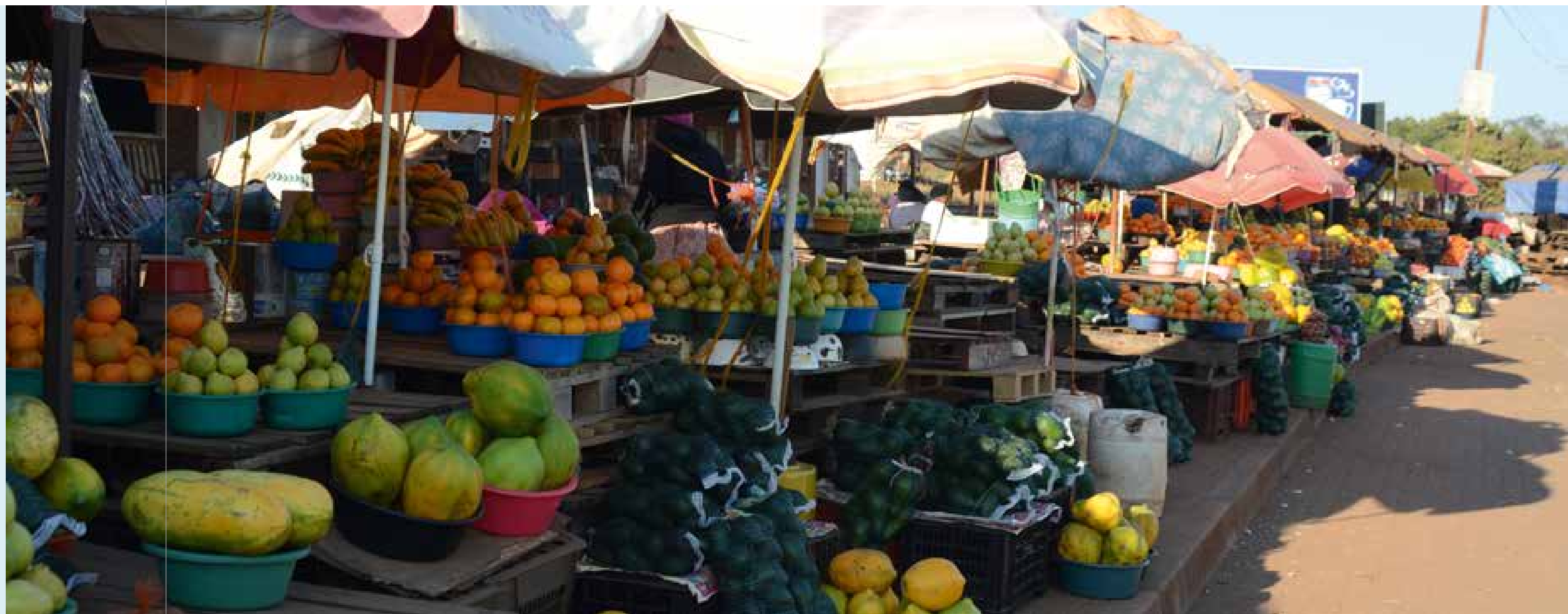
Local government sphere: South Africa has a complex system of local government, plagued by capacity shortfalls and facing intergovernmental alignment and coordination challenges. Also, South Africa's rate of urbanization is rapid and higher than predicted and planned for, thus placing considerable pressure on local authorities.[1]

In the regional context, South Africa is seen as an important regional hub by engaging with other African countries on social, economic and humanitarian issues and often entering into trilateral cooperation relations.[2] South Africa became a member of the BRICS countries in 2011. Furthermore, it is the only African member country of the G-20. South Africa holds a unique position in the region and in Africa. However, with other countries demonstrating impressive growth figures, South Africa's influence is in danger of declining.

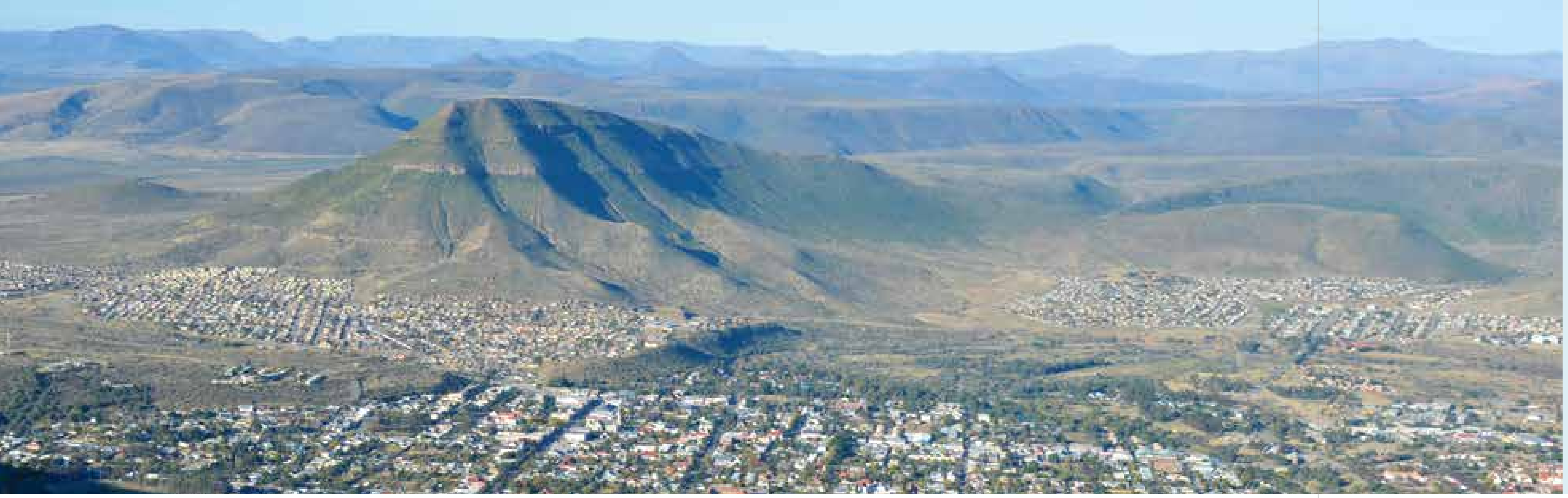
1.2 Economic and social situation

After the dismantling of apartheid in 1994, South Africa successfully re-integrated itself into global affairs, substantially increasing its GDP[3] by strengthening the economy's macroeconomic underpinnings, with a commensurate improvement to the lives of its people. Budgetary discipline from 1997 onwards opened up fiscal space, which was used for pro-poor and infrastructure-related investments, contributing to good social-sector achievements. In the mid-twentieth century, South Africa moved from being an economy dominated by mining and agriculture to one in which manufacturing and the tertiary sector now contribute a larger share. The economy is well diversified, with key sectors including agriculture, mining, fisheries, vehicle manufacturing, food processing, clothing and textiles, telecommunication, energy, financial and business services, tourism, transport and wholesale and retail trade.

1 Currently, an estimated 60% of the population live in urban areas. It is projected that over 80% will be living in cities in the next ten years
2 Triangular cooperation is a relatively recent mode of development cooperation. It normally involves a traditional donor from the ranks of the OECD's Development Assistance Committee (DAC), an emerging donor in the South, and a beneficiary country in the South
3 According to the World Bank, 50% increase in GDP growth from 1994 to 2008



The growth of SME boosts the entire economy.



Sustainable urban and integrated infrastructure development play a pivotal role in economic growth and poverty reduction.

South Africa's economic achievements spread also into the Sub-Saharan Africa region: As the largest economy in the region, South Africa's influence is shown through its dominant stake in intra-regional trade flows, significant direct investments, and the rapidly growing presence of its banking and retail sector throughout Southern Africa. South Africa dominates the regional electricity market through Eskom, its state-owned utility company. Through the Southern African Customs Union (SACU), changes in South Africa's economy directly impact on the fiscal and economic wellbeing of five of its neighbouring countries, which access its sizable market and rely on revenue-sharing arrangements. Its regional impact is also felt through its leading role in the Southern African Development Community and the African Union. Besides its influence in other countries in the region, South Africa is also a target host state for refugees from many African countries, as well as for work-seekers from all over Africa who sustain their families in their home countries through remittances.

> “South Africa has a dual economy. Closing the gap between the two economies is a priority policy and implementation challenge for the South African government.”

During the period of 2009-2012, in the wake of the global financial crisis, South Africa slumped into recession: Although the recession – the first in 17 years – was relatively short-lived and demonstrated the robustness and resilience of the South African economy, South Africa's recovery has not been as strong or consistent as that of some other African states. The South African government mainly undertook a substantial fiscal expansion to offset the weak private sector demand. In a context of an already high unemployment rate, these measures did not prevent the loss of almost one million jobs in 2009 following a steep decline in output from manufacturing and mining as demand for the country's exports declined, commodity prices fell and domestic private sector demand came to a virtual halt.[4]

Real GDP growth: GDP growth recovered from –1.5% in 2009 to 3.1% in 2011. A recovery rate of 3.4% and 4.2% is expected during 2013 and 2014 respectively. These medium-term growth projections represent the lowest among the BRICS countries.

South Africa's fiscal accounts: The fiscal account changed from a surplus of 1.75% of GDP in 2007/2008 to a deficit of 6.7% of GDP in 2009/2010[5] due to a significant drop in tax revenues at the height of the crisis, rather than an increase in discretionary spending. The fiscal deficit has remained fairly high since then, resulting in a significant increase in the debt burden and debt service costs. The government will face persistent pressure to spend more on infrastructure, in order to foster job creation, and on social welfare and higher wages to mitigate the impact of the economic crisis. However, the legal framework for public-sector borrowing, coupled with high fiscal transparency, will support the role of the National Treasury in maintaining fiscal discipline.

4 The recession raised the unemployment rate from 23% in 2009 to 25% in 2011 with a projected slight recovery in 2013-2016 to 23-22% (IMF)
5 IMF Article IV Report

South Africa's external and financial sectors remain robust despite the global crisis: After an initial dip, foreign portfolio investment has recovered strongly, still covering South Africa's large current account deficit.[6] South African banks remain in a sound position to weather the global financial storm, benefiting from their limited exposure to foreign currency debt, given a long-term sound regulatory framework, including the more disciplined lending practices ensured by the National Credit Act in 2007. South Africa is an active participant in discussions at the International Monetary Fund, G-20, the Financial Stability Board and Basel Committee on Banking Supervision and has put in place further initiatives to improve its regulatory system.

Although major achievements have been made since the dismantling of apartheid, progress on social outcome indicators has been below target. The post-apartheid government has expanded access to electricity, schooling, social grants and health services to many more people. However, the quality and reliability have been very uneven, resulting in relatively poor economic outcomes. 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.[7]

South Africa faces continued substantial structural challenges:[8]

High inequality, high unemployment and a dual economy: The South African economy is often characterized as a dual economy, in which a large portion of the population, particularly the previously disadvantaged part of the population, is excluded from the formal and first-world, high-skill economy, and trapped in the informal sector through poverty, unemployment, low household assets and poorer quality education. Closing the gap between the two economies is a priority policy and implementation challenge for the South African government.

Dysfunctional labour market and economic growth: At over 24.9% (2010), the unemployment rate remains very high.[9] Job creation and the focus on labour-intensive growth are therefore key priorities for government. Critical in this is the need to address the apartheid-era geographical mismatch between population settlement areas and economic activity growth areas and the need to narrow the gap between real wage growth and productivity growth. The shortage of qualified labour calls for improvements in the quality of primary and secondary education and a strengthening and expansion of the further education and training and tertiary education sectors as key strategies to reduce high youth unemployment, increase economic output and enable upward social mobility.

Low competition and competitiveness problems: Despite rapid change in the structure of ownership in the South African economy, ownership and control of the economy still remains highly concentrated. This poses a barrier to business entry and expansion in key markets. The rise of production costs (real wage and electricity prices) and infrastructure bottlenecks have contributed substantially to the challenges in strengthening international competitiveness. Although, the serious power shortages in 2009 have not been repeated, electricity remains in short supply and acts as a constraint on growth and the country's options for

6 2.8% in 2010, IMF
7 Draft National Development Plan
8 This analysis does not touch on all barriers, but highlights key ones relevant to economic development cooperation
9 Latest data available, StatsSA. The inclusion of people no longer looking for work pushes the number to around 36%, and youth unemployment is estimated at around 40-50%

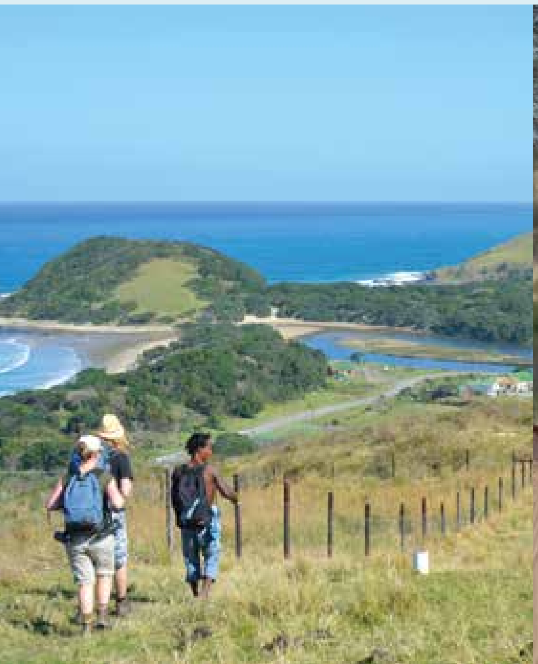
industrialization. In addition, government bureaucracy, restrictive labour regulations, corruption and crime represent other problematic factors according to the World Economic Competiveness Report.[10]

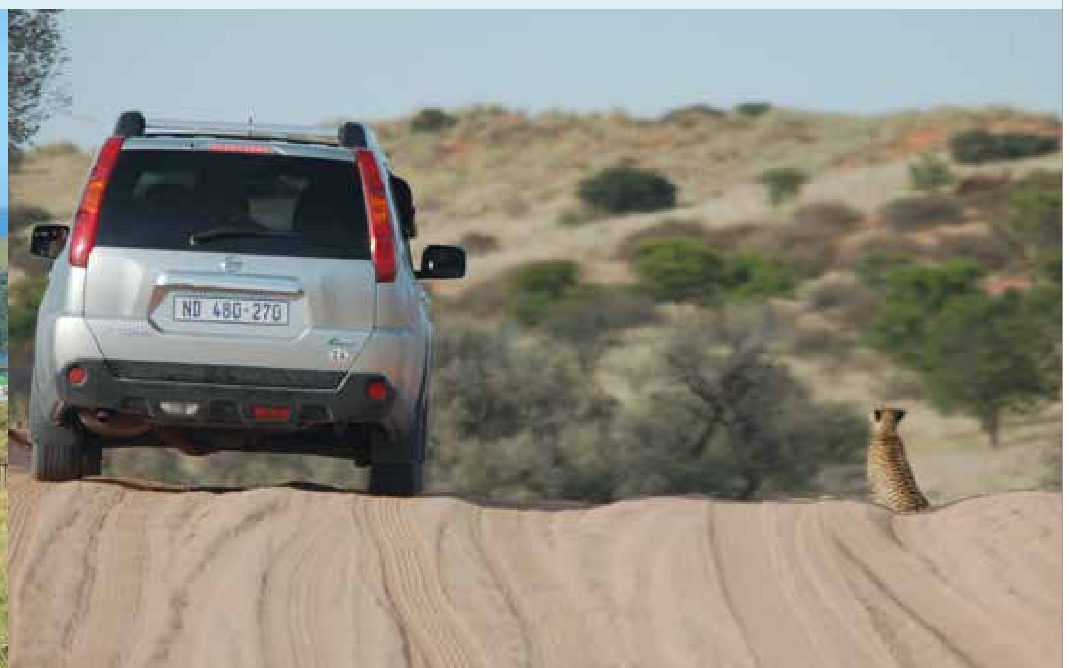
Implementation challenges: It is well recognized that the state capacity poses a barrier to economic growth and employment creation. Lifting constraints on growth in respect of electricity supply, water, business registration, municipal approvals, licensing and the provision of a high-skilled, healthy workforce requires sound public decision-making, administrative leadership, strengthened institutional oversight and appropriate public employment practices. A lack of clarity on the sharing of powers and responsibilities, together with a lack of coherent mechanisms to delegate functions, have resulted in instability and tensions in intergovernmental relations, furthermore affecting service delivery and institutional oversight.

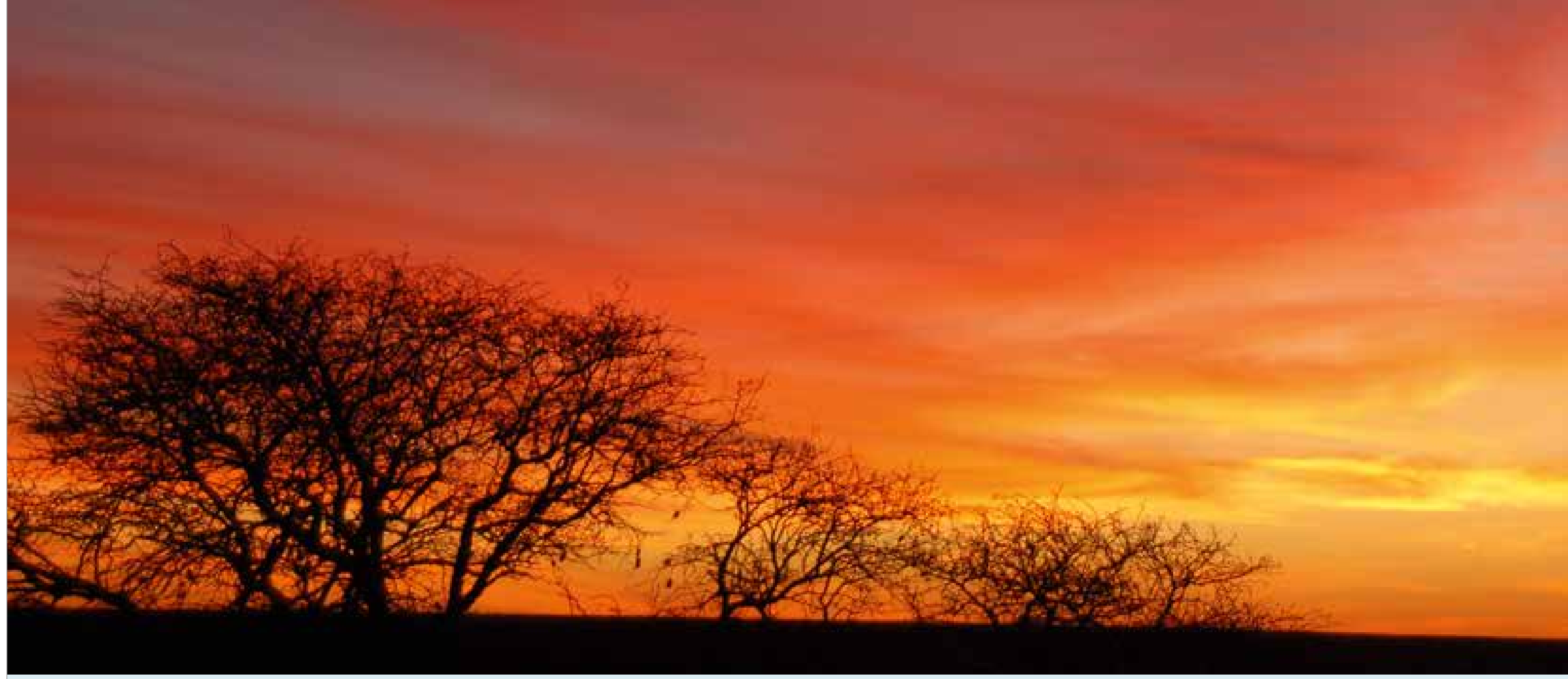
Climate change and the green economy: Internationally, the country is one of the highest emitters of greenhouses gases (ranked 12 in the world) with an estimated 10 (t) per person each year, due largely to the energy-intensive nature of its economy coupled with a dependency on cheap fossil fuel (coal). South Africa has made a commitment to low carbon growth and sees the development of a green economy as a priority public policy area. However, with the minerals and energy complex sitting at the heart of its economy, the transition faces a huge implementation challenge. Overall, climate change brings high public policy challenges, with concerns about the impact of changing seasonal rainfall patterns on biodiversity, water and marine resources, productivity of agricultural and forestry industries, the sustainability of the tourism sector (particularly eco-tourism), and the livelihoods of small-scale and subsistence farmers. Downstream effects on public health and the risk to the national health budget and the economic development of the country are also of concern.

10 The Global Competitiveness Report 2011-2012, WEF 2011

Local people benefit from fair trade certified tourism.







1.3 Bilateral economic relations

Bilateral economic relations between Switzerland and South Africa are very good. South Africa is Switzerland's most important trading partner on the African continent. However, the bilateral trade balance is traditionally negative for Switzerland.

> "South Africa is Switzerlands most important trading partner on the African continent."

The bulk of Swiss exports to South Africa in 2011 consisted of electrical and non-electrical machinery (32.3%), pharmaceutical products (23.2%) and optical instruments and medical devices (9.5%). From South Africa, Switzerland's main imports in this period were precious metals (especially platinum, 83.9%) and non-precious metals (aluminium, 7.2%). Agricultural products make up only 4.3% of imports from South Africa. At the end of 2010, the stock of Swiss direct investments (FDI) in South Africa amounted to almost CHF 3.8 billion. This is a slight increase in comparison with the previous year, but considerably less than in 2008, when Swiss FDI stock in South Africa reached almost CHF 8.9 billion. Nevertheless, a resumption of Swiss FDI in South Africa can be observed. Thanks to its hub function in Southern Africa and throughout the continent, South Africa is an attractive location for Swiss companies. More than a hundred subsidiaries of Swiss companies operate in South Africa, some of which have relatively large production plants. Swiss companies employ approximately 37,500 people in 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. Furthermore, Switzerland has a foreign economic strategy with South Africa, adopted in 2008 by the Federal Council, and, under the mechanism of the Memorandum of Understanding on "Strengthening Mutual Cooperation" (signed in 2008), annual top-level talks (FDFA) and the Joint Economic Commission (JEC, SECO) are held between South Africa and Switzerland. Other bilateral agreements include the promotion and protection of investments in 1995 and the double taxation treaty of 2004, amended in 2007. The negotiation of a comprehensive agreement on development cooperation will be finalized during the period of this country strategy.

2. Development cooperation context

2.1 Partner country development strategy

The main strategies relevant for economic development are as follows:

The National Development Plan (NDP) of the National Planning Commission

The plan, endorsed by the South African Cabinet and embraced by Parliament in late 2012, seeks to eliminate poverty and reduce inequality by drawing on the energies of the South Africa's people, growing an inclusive economy, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. The plan emphasizes the need for a strategy to address poverty and its impacts by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes.

> "The National Development Plan outlines two key challenges: fighting poverty and eliminating inequality."

It calls for private investment to be boosted in labor-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. Further, the plan suggests that public infrastructure investment be set at 10 percent of the country's gross domestic product (GDP). It also outlines the steps that need to be taken by the state to professionalize the public service, strengthen accountability, improve coordination and prosecute corruption.

The New Growth Path (NGP) of the Economic Development Department

The New Growth Path, released in December 2010, has set job creation as a country priority, aimed at reducing unemployment by 10% by 2020 through the creation of 5 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 II (IPAP II) of the Department for Trade and Industry, The Integrated Resource Plan (IRP) of the Department of Energy and The National Climate Change Response White Paper of the Department for the Environment.

The government is continuing to pursue its policy on Broad Based Black Economic Empowerment (B-BBEE) a strategy and policy paper developed by the Department of Trade and Industry (dti). This policy is a pragmatic growth strategy that aims to realize the country's full economic potential while helping to bring the black majority into the economic mainstream.

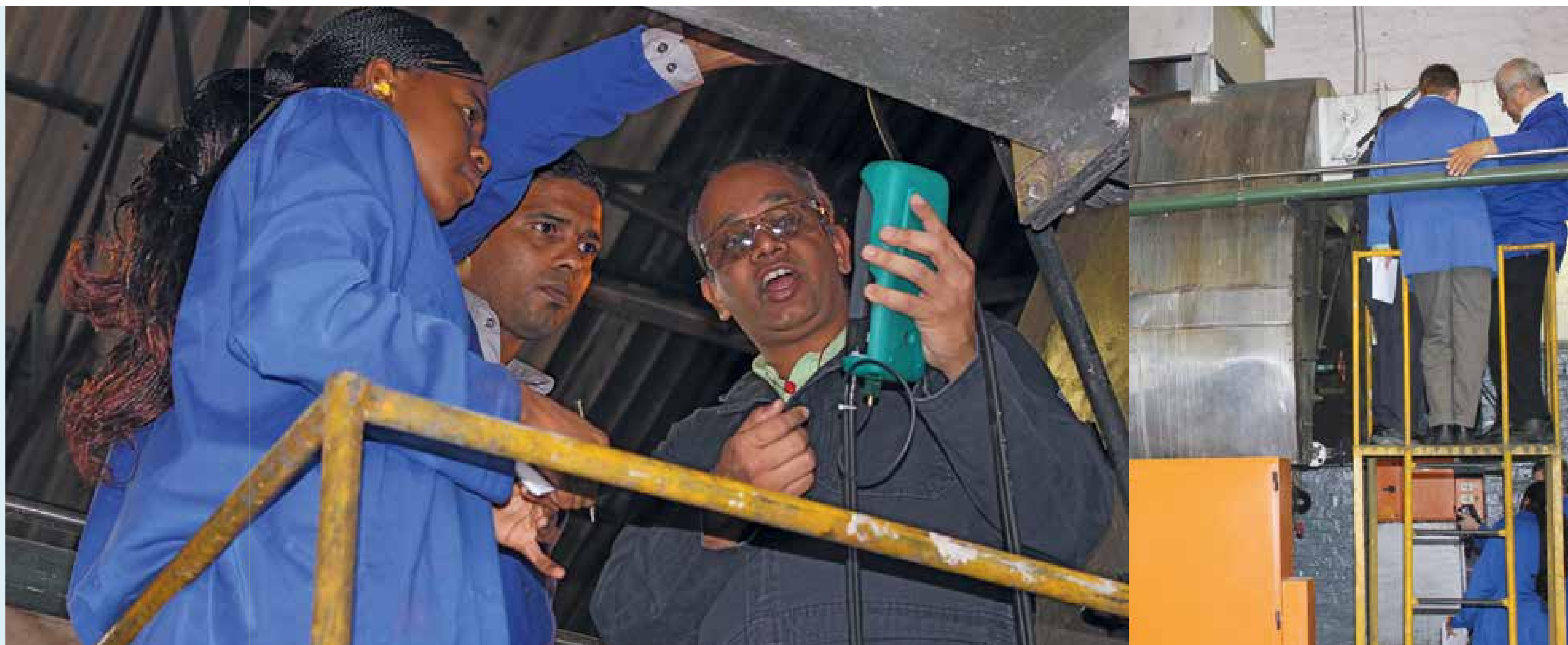
2.2 Donor landscape

Over thirty development partners are based in South Africa, including a range of development partners from the South. ODA flows into South Africa as grants, technical assistance and concessionary loans (directed mostly towards state-owned enterprise, parastatals and municipalities). In 2009/10, ODA made up the equivalent of USD 1 billion, mainly from the US (USD 451 million), the EU Commission (USD 159 million), Germany (USD 130 million) and the UK (USD 93 million).[11] In 2010, Switzerland was ranked the 15th largest donor. The main beneficiary sectors were social services and the economic cluster.[12] Some major donors like the EU Commission have shifted to sector and general budget support and are disbursing mainly through the RDP Fund Account, which is the South African vehicle for development partners disbursing through the government's system. The US is also interested in disbursing more through the RDP Fund. However, other donors are returning to project-type modalities, disbursed through their own systems.

Currently, ODA accounts for less than 1% of the annual budget. Even though it is a small percentage of the budget, all spheres of governments have recognized its significant catalytic role in leveraging South Africa's own resources. Accordingly, ODA in South Africa is not justified when it is primarily used as an *additional* source of finance, which, in most cases should be accessible domestically. For the most part, ODA in South Africa is used to support new and more effective ways of implementing government policies and priorities to tackle poverty alleviation and mitigate vulnerability.

The South African government has a high preference for using country systems, because it enables transparent and more effective use of aid as well as higher ownership and improved alignment.

11 OECD DAC Statistics
12 South African National Treasury



Ressource efficiency standards create important opportunities for industrial competitiveness and climate change mitigation.

2.3 Lessons learnt from 2009-2012

SECO's new country strategy for South Africa builds on the 2009-12 strategy, which had proved relevant and in line with South Africa's national development strategies. Major successes and outcomes include setting up important diagnostic work in the different thematic priorities, the establishment of cooperation in the field of energy with the Department of Energy, and strengthening relationships with various important ministries. Furthermore, the establishment of regional centres of excellence and inroads into sustaining a framework for SME development and access to finance contributed further to the development priorities of the South African government. Supporting the upscale of sustainable tourism in South Africa and the region represents another important achievement. Nonetheless, some important lessons can be drawn from its implementation:

- The priority need for South Africa is not financial assistance, with the exception of large infrastructure financing backlogs, climate change financing and access to finance for SMEs. Hence, ODA must not be used to replace South Africa's finance in areas where capital is available. More emphasis, if possible, should be focused on innovative forms of support, pioneering new approaches, risk mitigation to create an enabling environment to attract investments and skills transfer as well as addressing capacity gaps.
- Given the large number of government departments (44, with 43 ministers) and two development banks (Industrial Development Cooperation (IDC) for private sector development and the Development Bank of Southern Africa (DBSA) mainly for public investments), identifying partnerships with the relevant institution is often not evident. Therefore, collaboration and consultation with the International Development Coordination Unit (IDC) of the National Treasury is crucial when working with and through the government.
- South Africa does not have a lack of development strategies or analytical frameworks. The main challenges are centred around implementation. Support should therefore focus on the implementation of existing strategies and the priorities defined. South Africa's needs are very specific as the general systems are already well established. To explore the partnership opportunities and meaningful projects, more time and resources have to be allocated.
- Private business and public administration are regarded as being on opposing sides, with each one distrustful of the other in leveraging its own objectives and contributing to the common global objective of inclusive economic growth. Where possible, programmes/projects should have an in-built component of private-sector participation, whether in terms of programme steering or enhancing service delivery through the private sector.
- The commitment of the most relevant stakeholders and responsible teams is crucial. If driven by only one person, project sustainability is at risk once that person leaves their position.
- Coordination among donors is lacking and should be reinforced (especially in the area of climate change). SECO is committed to supporting any efforts in increasing donor coordination and ensuring the sharing of responsibilities and complementing other donor programmes.

3. Development challenges and SECO's response

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

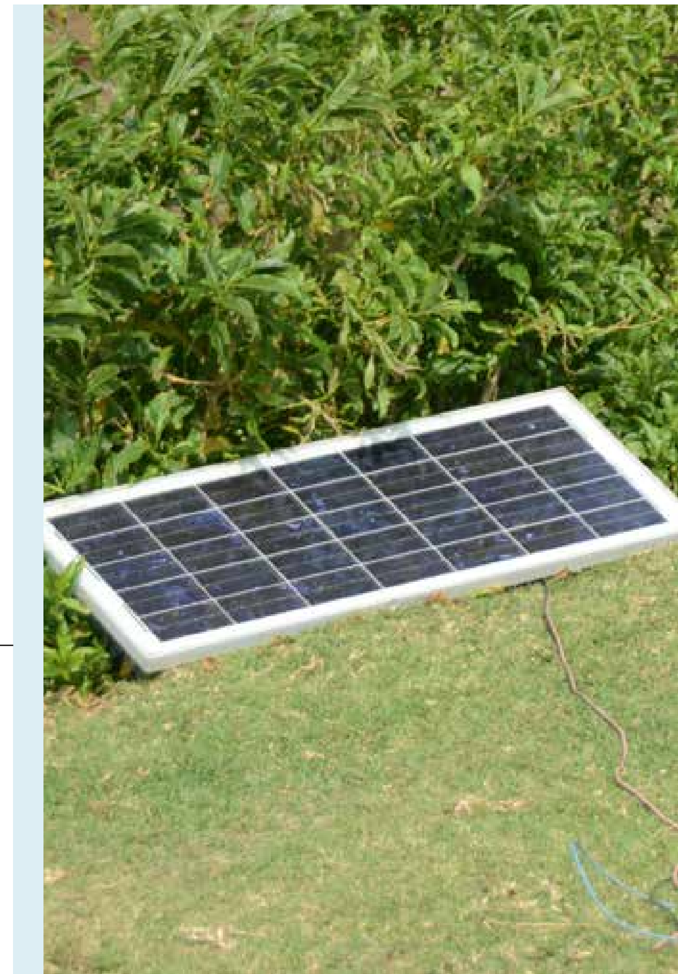
Objective 1: A competitive economy that fosters sustainable employment and local economic development

Challenge: Unemployment and spatial, economic and social inequalities manifested in a dual economy system continue to be a top-priority development challenge. Persisting bottlenecks due to a lack of skills in both the private and public sectors and large spatial inequalities in terms of public service delivery and private sector development at the sub-national level need to be addressed in order to foster sustainable job creation and local economic development. For this to happen, the existing economy requires an effective functioning of public service delivery, more sustainably run SMEs in a supportive and enabling environment and enhanced value-chain development. Furthermore, there is a strong need to better align productivity and wage increases and to engage in constructive social dialogue.

> “Development at the subnational level needs to be addressed in order to foster sustainable job creation.”

Focus: SECO contributes to improving the regulatory, institutional and infrastructural framework for economic development through technical assistance, capacity building and infrastructure financing to both the government (with a focus on sub-national government) and the private sector with a view to creating sustainable employment and inclusive growth.

Under this objective, SECO supports measures related to the improvement of public governance, particularly the creation of a transparent and accountable public financial management system at the sub-national level. It also supports interventions to enhance sustainable urban development and the efficient provision of basic infrastructure to reduce spatial disparities in service delivery within the urban and regional context. Under this objective, SECO also aims at supporting the creation of competitive SMEs with international market access.



SECO supports demonstration projects that promote renewable energy and energy efficient use of resources.

Proposed SECO measures:

- **Economic Governance and Public Financial Management:** 1) Support the development of a transparent and sustainable policy framework with a particular focus on public financial management practices at the sub-national level, 2) Contribute to strengthening transparent financial management in public and private institutions
- **Integrated Urban Development:** 1) Enhance sustainable urban development to foster economic growth and improve public service delivery like cross-sector planning, innovative financing mechanism and public service policy dialogue, 2) Support the provision of sustainable water supply, wastewater and waste management services through the supply of equipment and by strengthening institutional capacities and framework conditions
- **Creation of Competitive Enterprises:** 1) Promote business climate reforms; 2) Improve productivity and competitiveness of SMEs through skills development; 3) Promote and enable access to finance for innovative entrepreneurship and disadvantaged SMEs; 4) Support value chain development for sustainable products and services, including access to foreign markets
- **Local Economic Development (LED):** Foster an integrated and cross-sector approach of measures around public financial management, integrated urban infrastructure development and the creation of competitive enterprises at the local level in recognition that LED is an outcome of effective local institutions and service delivery across sectors

Contribution to South Africa's country development objectives: These measures address priorities and needs identified by the South African government in various strategic frameworks and policy papers to improve public service delivery and public financial management as well as to foster LED in order to achieve and sustain inclusive growth acceleration. Such measures will contribute to the creation of sustainable sources of income, decent work and to gain global market share and competitiveness (National Development Plan).

Objective 2: Climate-friendly and green growth through the development of a low-carbon industry and implementation of South Africa's response to climate change

Challenge: The country is among the world's top five countries for coal production capacity, consumption and exports. Access to secure sources of fairly-priced clean energy, and opening up the market to independent providers, remains a challenge. South Africa has developed a comprehensive white paper on its response to climate change and is committed to a gradual transfer towards a low-carbon industry and catalysing the benefits of a green economy. However, institutional and coordination challenges present a risk to this process. Providing know-how and financing is key to driving the transformation process.

Focus: Providing technical expertise and financing that are central for the development of a low-carbon industry and to adapt to climate change.

Under this objective, SECO supports measures related to the scale-up of renewable energy sources and implementation of energy efficiency measures in public institutions, industrial production and consumer products. Further, it finances measures to support business and create incentives for green growth. It also supports the promotion of innovative finance mechanism for green technologies and the development of risk management practices in relation to climate change.

Proposed SECO measures:

- Support renewable energy demonstration projects, and finance advanced and innovative environmental technologies
- Promote energy efficiency within public institutions, industrial production processes and consumer products
- Support businesses and create incentives (market and financial) to improve their carbon footprint and improve compliance with environmental management standards/cleaner production
- Promote innovative finance mechanism for green technologies
- Support the development of risk management practices in the area of sovereign debt management with regard to the effects on climate change

Contribution to South Africa's country development objectives: These measures aim at supporting the achievement of targets identified by the South African government in the transitioning to a low-carbon economy and contribution to the South African international carbon mitigation commitments (White Paper on Climate Change). They also contribute to the objective of the South African government to catalyse direct economic benefits in terms of industrial development and job creation as identified in the National Development Plan and the New Growth Path.

Objective 3: South Africa as a centre for regional expertise in economic governance practices and regional trade integration

Challenge: South Africa has experienced a decline in influence in the Southern African and African context in recent years and wishes to scale up and consolidate its effort to hold a catalyst position in the region. However, with South Africa being so aspirational and ambitious, it struggles to reconcile and balance its internal and external challenges. South Africa lacks the capacity and the resources to execute its role as a champion in the region and assist neighbouring countries in building up expertise in economic governance practices and creating awareness of the benefits of regional trade integration to drive the process further.

Focus: Financial and technical support to create regional know-how and expertise to support South Africa in its role as a regional leader in economic governance as well as capacity building and technical assistance to analyse and strengthen regional trade integration.

Proposed SECO measures:

- Support regional centres of expertise to build up capacity for a sound regional framework with regard to the business and financial sector environment (e.g. improved framework for AML/CFT)
- Support the establishment of an African Tax Administration Forum
- Support the regionalization of trade in services (focus on responsible tourism) through demonstrated best practices
- Reinforce regional trade including sustainable products, in particular in agro-food/food staples by scaling up regional and international markets access

Contribution to South Africa's country development objectives: These measures address South Africa's intention to enhance its cooperation with neighbouring countries to develop an effective growth and development strategy for Southern Africa in terms of exchange of expertise and regional trade integration.

Promoting corporate social responsibility contributes to a better quality of life for direct and indirect beneficiaries.

Modality mix

The modalities applied will focus on project-based interventions (bilateral projects or co-financing of larger multi-donor projects). However, programme support in cooperation with other multi/bi donors is not excluded, in order to contribute to sector policy dialogue. Furthermore, and if necessary, larger financial assistance and infrastructure financing will be provided. The need for more substantial financial contributions is normally preferable and needed at the provincial and municipal/city level.

In addition, SECO's supported global and regional programmes, initiatives and funds like PEFA, AFRITAC South, FIRST, PIDG, PPIAF, and others will complement the bilateral country's programme.

SECO's activities are complementary to those of other Swiss cooperation actors. In addition to SECO's economic development cooperation activities, Switzerland supports cooperation in the areas of science and technology (SER) and a climate change mitigation programme in the housing sector through the Global Programme Climate Change of the Swiss Development Agency (SDC).

SECO's programme will be implemented in line with the principles of Aid and Development Effectiveness. SECO will seek to align its programme on the government's priorities and harmonize it with other donors' activities. SECO's programme will be reinforced by a thorough policy dialogue with key government partners and, whenever possible, will use country systems to foster ownership and effective institutions. To ensure effective development co-operation, SECO is committed to building capacity and interacting closely with public and private actors.

Economic governance and gender as cross-cutting issues

The reinforcement of economic governance in the partner countries is an essential component of SECO's support of the integration of partner countries into the global economy and the promotion of sustainable economic growth. Economic governance comprises all institutions, regulations, judiciary systems and norms that promote the effectiveness, non-discrimination, legitimacy and accountability of economic activity and therefore contribute to combating corruption. The majority of SECO's interventions strengthen good economic governance at public and private levels.

SECO sees gender equality as an important element of poverty reduction and improving the economic prospects of partner countries. No projects should place women or men at a disadvantage. The gender dimension is integrated into project design and implementation, where it can contribute to the greater effectiveness of SECO's projects.

The Swiss Import Promotion Program (SIPPO) promotes imports to Switzer- land and the EU of products from SECO partner countries by supporting local SMEs.

4. Financial resources

SECO's interventions under this strategy will be financed through the Swiss Framework Credit for International Cooperation 2013-16. The 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 of each country.

Accordingly, the following information on planned commitments for the four-year period of this strategy is indicative only. 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. Actual disbursements will depend on various factors, such as changes in the project portfolio and the framework conditions in the partner country.

Commitment for South Africa 2013-2016 CHF 60 million*	
The approximate distribution of funds foreseen among the three objectives is as follows:	
1. Competitive economy and sustainable employment	40%
2. Efforts related to climate change	30%
3. Strengthening South Africa as a regional centre of expertise	30%

* 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.

5. Results monitoring

The following table provides an overview of SECO's future economic cooperation with the proposed monitoring and evaluation indicators at the outcome level and alignment with the South African development objectives.

The monitoring and evaluation indicators are selected examples; the success of implementation of this country strategy will be measured in relation to the projects implemented by SECO. The different projects agreed upon will contain some of these indicators. This will make SECO and the South African partners accountable with regard to what has been achieved by the projects implemented in the framework of this country strategy. It is not SECO's intention to measure South Africa's development objectives as a whole.

SECO's overall objective for South Africa
Support South Africa's national development objectives of socially and environmentally responsible, inclusive economic growth that will create jobs, eliminate poverty, reduce inequality and allow the transformation to a low-carbon economy.

Main objectives of SECO's interventions	Contribution by SECO's programme	South Africa's country development objectives[13]
Objective 1: A competitive economy that fosters sustainable employment and local economic development through… ...improvement of public finance management and economic governance	• Economic reforms and improved financial policy lead to a transparent fiscal policy and a more reliable administration of public finances at the sub-national level Selected indicators: Key Public Financial Management Indicators following the PEFA Methodology; audit results at sub-national level	• Creating an open, responsive and accountable public financial management system – Improved integrity of budget frameworks: fiscal sustainability, structure and trends in fiscal indicators (NT Strategic Plan) – Improved audit results at sub-national level (Auditor General Strategic Plan)
…integrated urban development	• Foster sustainable urban infrastructure development by enhancing public utilities and services in water supply, waste and wastewater management Selected indicators: Population numbers expected to benefit from development plans; number of people with access to improved public utilities	• Improvement of urban infrastructure and transforming spatial inequalities as well as spatial governance – Increased number of cities with basic financial management, project management linked to the provision of infrastructure and services – Increased number of cities providing and maintaining quality and reliability of infrastructure and services
…creation of competitive enterprises	• Improvement of SME performance through business climate reform, better access to finance through SIFEM and capacity building Selected indicators: Doing Business Indicators; number and type of impeding procedures that have been eliminated, number of jobs created and retained in SMEs	

13 Sources: New Growth Path, Development Indicators of the National Planning Commission, South African Foreign Policy

Main objectives of SECO's interventions	Contribution by SECO's programme	South Africa's country development objectives
	• Market access for products and services to Switzerland and the EU improved through compliance of sustainability standards Selected indicators: Number of SMEs with improved environmental management systems; implementation of the core ILO labour standards (of SMEs); number of SMEs that access new markets; number of fair-trade-labelled tourism products	• Achieving and sustaining growth acceleration and creation of sustainable sources of income and decent work – Additional number of Regulatory Impact assessment reports[14] – Increased number of workers trained and qualified through existing initiatives and programmes • Gaining global market share and competitiveness – Increased number of exporters and enterprises supported – Increased value of exports[15]
Objective 2: Climate-friendly and green growth through… …the development of a low-carbon industry …and implementation of South Africa's response to climate change	• Environmental reforms promote sustainable, climate-friendly energy and transport services as well as industrial production Selected indicators: Reduction in CO_2 emissions (t); number of towns with energy management plans • The creation of incentives contributes to the protection of the environment and climate Selected indicators: Number of users of new mitigation solutions and financing mechanism; number of banks offering green credits	• Transition to a low-carbon economy and contribution to the South African international carbon mitigation commitments – 18 GW increase in renewable capacity by 2020 – 42% reduction in CO_2 emissions (t) by 2025 and introduction of a carbon tax (IRP 2010) • Catalyse direct economic benefits in terms of industrial development and job creation 300,000 newly created direct jobs in the green economy by 2020 (NGP)

14 The dti's Performance Plan Containing Output Performance Indicators and Targets
15 The dti's Performance Plan Containing Output Performance Indicators and Targets

Main objectives of SECO's interventions	Contribution by SECO's programme	South Africa's country development objectives
Objective 3: South Africa as a centre for regional expertise in… …economic governance practices and …regional trade integration	• Improvement of the regulatory and monitoring system of the financial sector leads to a more competitive, stable and diverse international finance system Selected indicators: Number and type of relevant measures for financial market regulation and supervision; number of people from other sub-Saharan countries trained • Enhanced expertise contributes to the increase of regional expertise in economic governance and regional trade integration contributes to additional growth for South Africa Selected indicators: Volume and value of regional trade (including food); consumer prices for food	• Co-operation with neighbouring countries to develop an effective growth and development strategy for Southern Africa – Playing a catalyst role with donor countries and in capacity-building initiatives[16] • Engage the industrial world in development in Southern Africa by combining foreign capital with South Africa's own expertise – Concluded Trilateral SADC-EAC-COMESA FTA – Developing and implementing regional export promotion strategies and action place for high-growth markets[17]

The strategy will be monitored on an annual basis, with the following purposes:

- **Institutional learning:** Documentation and replication of best practices or lessons learnt
- **Monitoring** of relevance, topicality, efficiency and effectiveness of SECO's programmes and projects (and corrections/adaptations where necessary)
- **Accountability:**
- between the field and headquarters
- to the public
- to the partner country

SECO's strategy is aligned with the partner country's development strategy. Therefore, the annual country strategy monitoring also seeks to verify that SECO's portfolio does indeed contribute to the achievement of the partner country's development goals. Adaptive or corrective measures will be implemented if major changes occur in the country context or development goals.

16 NT Strategic Plan, International Economic Policy and Financial Regulation
17 The dti's Performance Plan Containing Output Performance Indicators and Targets

6. Partner institutions

■ SECO continues to work with both local and international partners in the public and private sectors. In particular, SECO will work with the following partners depending on the thematic priority:

Abbreviation	Institution
Local partners	
ATAF	African Tax Administration Forum
DBSA	Development Bank Southern Africa
DTI	Department of Industry and Trade
DEA	Department of Environmental Affairs
DOE	Department of Energy
DeCoG	Department of Cooperative Governance
EDD	Economic Development Department
FIC	Financial Intelligence Centre
NT	National Treasury
SANEDI	South African Energy Development Institute
SEDA	Small Enterprise Development Agency
SAI	Auditor General of South Africa
Swiss partners	
EMPA	Swiss Federal Laboratories for Materials Science and Technology
SIFEM	Swiss Investment Fund for Emerging Markets
SIPPO	Swiss Import Promotion Programme
International partners	
EBRD	European Bank for Reconstruction and Development
DFID	Department for International Development
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFC	International Finance Cooperation
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre
KFW	Kreditanstalt für Wiederaufbau
OECD	Organization for Economic Cooperation and Development
PPIAF (WB)	Public Private Infrastructure Advisory Facility
PIDG	Private Infrastructure Development Group
UNIDO	United Nations Industrial Development Organization
UNDP	United Nation Development Programme
WB	World Bank

7. Statistical annex

■ The following data from the respective years are based on statistics from the World Bank and other international bodies, including the IMF[18], the World Economic Forum, the ILO and the UNDP.

Sustainable Growth*	2008	2009	2010	2011	2012 (proj.)	2013 (proj.)
GDP per capita (current international USD)	5.606	5.746	7.271	8.066	8.202	8.470
Real GDP growth (annual %)	3.6	-1.5	2.9	3.1	2.7	3.4
Global Competitiveness Index (rank)	–	–	45	54	50	–
External Debt Stocks (% of GDP)	15.5	15.0	12.4	–	–	–
Government Gross Debt (% of GDP)	27.4	31.5	35.3	38.8	40.0	40.8
Gross Capital Formation (% of GDP)	22	20	19	–	–	–
Inflation, average consumer prices (annual %)	11.5	7.1	4.3	5.0	5.7	5.3
Domestic credit provided by banking sector (% of GDP)	172.9	184.4	182.2	–	–	–
Interest rate spread[19]	3.5	3.2	3.4	–	–	–

Strengthened Integration in the World Economy*	2008	2009	2010	2011
Exports of goods and services (E) (% of GDP)	35	38	27	–
Imports of goods and services (I) (% of GDP)	38.5	27.3	28.2	–
FDI (net inflows, BoP, current USD) (millions)	9.645	5.354	1.224	–

* Missing data due to one of the following reasons:
– Depending on source, no projections available
– Statistics collected only on perennial base
– Data for the respective year not yet available

18 International Monetary Fund, World Economic Outlook Database, April 2012
19 Lending rate minus deposit rate (%)

Reduction of Disparities*	2008	2009	2010	2011
Gini index[20]	–	63	–	–
Unemployment rate (%), labour force survey	22.9	23.9	24.9	24.5
Poverty headcount ratio at national poverty line (% of population)	–	–	–	–
Improved water source, urban (% of population with access)	99	–	99	–
Improved sanitation facilities, urban (% of population)	65	–	86	–
Access to electricity (%)	–	75.0	–	–

Improvement of Economic Governance*	2008	2009	2010	2011
Ease of Doing Business (rank)	32	34	34	35
Trade Across Borders (rank)	–	148	149	144
Governance Indicators of the World Bank:[21]				
a) Government Effectiveness (%)	69.4	66.0	65.1	–
b) Regulatory Quality (%)	66.0	64.6	62.7	–
c) Rule of Law (%)	54.8	57.3	57.8	–
d) Control of Corruption (%)	62.6	61.7	60.8	–

Improvement of Environmental Conditions*	2008	2009	2010	2011
CO_2 emissions / population (tonnes per capita)	6.93	–	–	–
Share of renewable energy of TPES (%)	10.5	10.1	–	–
Energy use per unit of GDP (tonnes of oil equivalent per thousand US dollars)[22]	0.25	0.27	–	–

* Missing data due to one of the following reasons:
– Depending on source, no projections available
– Statistics collected only on perennial base
– Data for the respective year not yet available

20 A value of 0 represents absolute equality, and a value of 100 absolute inequality.
21 Percentile rank indicates the percentage of countries worldwide that rate below the selected country. Higher values indicate better governance ratings.
22 The GDP data have been compiled for individual countries at market prices in local currency and annual rates. These data have been scaled up/down to the price levels of 2000 and then converted to US dollars using the yearly average exchange rates of 2000 or purchasing power parities (PPPs).

Notes

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