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DEVELOPMENT CO-OPERATION POLICY

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Abbreviations

A&LM	Assets & Liabilities Management (NT)
ARVs	Anti-Retroviral (HIV/Aids)
BAS	Basic Accounting System
BBBEE	Broad-Based Black Economic Empowerment
BO	Budget Office (NT)
BRICS	Grouping of Brazil, Russia, India, China & South Africa
CFOs	Chief Financial Officers
COMESA	Common Market for Eastern & Southern Africa
CSI	Corporate Social Investment
CSOs	Civil Society Organisations
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee (OECD)
DBSA	Development Bank of Southern Africa
DC	Development Co-Operation
DCMIS	Development Co-Operation Management Information System
DCI	Development Co-Operation Instrument (EU)
DFIs	Development Finance Institutions
DIRCo	Department for International Development & Co-Operation
DoJCD	Department of Justice & Constitutional Development
DPME	Department of Planning, Monitoring & Evaluation
DPs	Development Partners
Dti	Department of Trade & Industry
EAC	East African Community
ECR	Exchange Control Regulations
ENE	Estimates of National Expenditures
FDI	Foreign Direct Investment
GBS	General Budget Support
GDP	Gross Domestic Product
GoSA	Government of South Africa
GPGs	Global Public Goods
ICT	Information, Communication & Technology
IDC	Industrial Development Corporation
IDFIs	International Development Finance Institutions
IDPs	International Development Partners
IDZs	Industrial Development Zones
IMF	International Monetary Fund
IGR	Inter-Governmental Relations (NT)
IPAP	Industrial Policy Action Plan (dti)
IREP	International & Regional Economic Policy (NT)
LICs	Low Income Country(ies)
M&E	Monitoring & Evaluation
MDGs	Millennium Development Goals
MFMA	Municipal Management Finance Act (2003)
MICs	Middle Income Country(ies)
MPAT	Management Performance Assessment Tool
MSA	Municipal Systems Act (2003)
MTEF	Medium-Term Expenditure Framework
MTSF	Medium-Term Strategic Framework
NDP	National Development Plan (Vision 2030)
NGO	Non-Governmental Organisation
NSAs	Non-State Actors
NT	National Treasury
NT:IDC	International Development Co-Operation (Chief Directorate)
ODA	Official Development Assistance
OECD	Organisation for Economic Co-Operation & Development
OOF	Other Official Flows (including Concessional Loans)
PEFA	Public Expenditure & Financial Accountability
PFMA	Public Finance Management Act (1999)
PGDS	Provincial Government Development Strategy
PMUs	Programme Management Units
PPPs	Public-Private Partnerships
RDP	Reconstruction & Development Programme
RECs	Regional Economic Communities
RPGs	Regional Public Goods
RSA	Republic of South Africa
SA	South Africa
SADC	Southern African Development Community
SADPA	South African Development Partnership Agency
SARB	South African Reserve Bank
SBS	Sector Budget Support
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SIBs	Social Impact Bonds
SOEs	State-Owned Enterprises
SONA	State of the National Address
SSA	Sub-Saharan Africa
TA	Technical Assistance
UN	United Nations
VAT	Value-Added Tax

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Business Areas Impacted by this Policy

Name of Business Unit/ Area	Context and Relevance

Overview: A Policy Framework for Development Co-Operation

This policy framework primarily aims to assist all role players who are involved in the processes of prioritisation, design and management of *incoming* development co-operation in the Republic of South Africa (RSA), comprising 'official' and non-official flows[1]. It seeks to provide Development Partners and Implementing Agencies with a coherent, comprehensive and user-friendly policy for managing development co-operation effectively and efficiently in aligning to Government priorities and processes. Furthermore, it is intended to contribute meaningfully to the on-going discussions with 'traditional' and 'emerging' development partners on how best to achieve optimal impact with limited development co-operation resources in the post-2015 period.

Development co-operation in this context is understood to be *"all resource flows from development partners to South Africa in the form of grants, technical co-operation and financial co-operation, where the Government of South Africa is held at least partially responsible and/or accountable for the management of such resources"*. In this regard, development co-operation incorporates official donor assistance (DAC and non-DAC, North-South and South-South), direct support to civil society or the private sector (though falling outside of South Africa's formal government-to-government development co-operation framework), and increasingly, development co-operation provided by the private sector through corporate social investment and philanthropy. There are, however, possibilities for the government departments (national/provincial and local government) to use the experiences and exposure of, or take advantage of their proximity to, direct beneficiaries to leverage some aspects of development co-operation-funded government programmes to be implemented through officially agreed mechanisms with non-state-actors, including civil society organisations.

For improved co-ordination and transparency between all relevant parties, a greater emphasis needs to be placed on information-sharing within the development environment so that it enhances democratic governance and accountability, as well as enhancing efficiency, effectiveness and sustainable impact. Implementing partners should provide timely and verifiable information on all development co-operation received, whereas development partners should provide disaggregated information to support predictability and transparency. It is therefore, imperative that development co-operation resource inflows into South Africa are firmly anchored to, and aligned with, the National Development Plan – Vision 2030, as well as the shorter-term focus of the Medium Term Strategic Framework (MTSF), updated at 5-year intervals with every new administration.

This policy framework was adopted by the Cabinet on dd mm yyyy and the document sets-out the formal and mandatory requirements for engagement in development co-operation. It also includes considerations on development support to the region and trilateral development co-operation agreements, when bilateral support envelopes are from funds flowing into South Africa and outward to the region and continent through DIRCo.

This Policy Framework will be supported by Operational Guidelines which will be informed by this policy framework. However, stakeholders who still have specific queries after having consulted the Operational Guidelines are requested to direct them to:

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[1] Official Flows include Official Development Assistance (ODA) and Other Official Flows (OOF), by way of concessionary loans, from Governments on a North-South basis traditionally, and now increasingly including Government assistance on a South-South basis. Non-Official Flows include development assistance from the private sector and other non-government sources to include philanthropy, FDI, remittances etc. from international and domestic sources.

1. Background: Use of ODA in South Africa

The current and future approach of the Government of South Africa (GoSA) to development co-operation has been informed and reinforced by the engagements with foreign partners as a receiver of aid. In the pre-1994 lead-up to the formation of the new SA, emphasis was on the channelling of aid through Civil Society Organisations (CSOs) in an effort to counter the apartheid regime until the new government had established the Reconstruction & Development Programme (RDP). Beyond 1994, the emphasis shifted to a focus on provision of aid for effective policy development in addressing the economic and social inequality that existed as a result of apartheid. GoSA has consistently promoted the concept of the 'developmental state' to ensure equitable transformation, where government intervenes in the economy through regulations, protection of key industry sectors and through the strategic use of State-Owned Enterprises (SoEs) and Development Finance Institutions (DFIs) under a clear national agenda. More recently, the focus has now shifted to ensuring that all ODA (and OOF) is channelled in supporting national priorities through alignment with the NDP and other policies, ensuring that the use of ODA is not applied as a 'gap filler'.

In this regard, the NDP (Vision 2030), supported by the MTSF 2014-2019 (updated every 5 years), sets-out a comprehensive and focused plan for implementation of key national priorities. This places strong emphasis on infrastructure development and addressing the key sectoral bottlenecks to economic growth and development, with a particular emphasis on investments in labour-intensive and beneficiation/value-adding industries (of mining, tourism, agriculture, manufacturing and processing). Infrastructure investment in transport networks (road, rail, sea, air) and utilities (water, energy and ICT) is anticipated to reach 10% of GDP per annum. Infrastructure development will also extend beyond South Africa's (SA) borders to facilitate development of regional infrastructure and trade inter-connectivity to establish SA as an economic hub in the region. Arising from the intensive investment programme envisaged under the NDP-MTSF and its associated programmes, SA has also been moving towards a 'Green Economy' to meet international commitments in meeting the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs), as well as enhancing competitiveness and environmental sustainability through adoption of clean and energy-efficient technologies. In this context of addressing national priorities through coherent plans and programmes, the use of ODA has been progressively aligned to meet government priorities and processes through its targeted and strategic use in support of development planning, capacity-building and public policy implementation through leveraging ODA to best-effect[2]. Typically, ODA is provided through a mix of: (i) budget support grant (provided through the RDP Fund); (ii) technical co-operation (through project-based approaches); and/or (iii) concessionary loans[3], otherwise classified as Other Official Flows.

In the context of international development co-operation partnerships, Section 231 of the Constitution outlines the basis for concluding International Agreements, as follows:

i. The negotiating and signing of all international agreements is the responsibility of the national executive;
ii. An international agreement binds RSA only after it has been approved by resolution in both the National Assembly and National Council of Provinces, unless it is an agreement referred to in sub-section (iii);
iii. An international agreement of a technical, administrative or executive nature, or an agreement which does not require either ratification or accession, entered into by the national executive, binds the Republic without approval by the National Assembly and the National Council of Provinces, but must be tabled in the Assembly and the Council within a reasonable time;
iv. Any international agreement becomes law in the Republic when it is enacted into law by national legislation; but a self-executing provision of an agreement that has been approved by parliament is law in the Republic unless it is inconsistent with the Constitution or an Act of Parliament;
v. The Republic is bound by international agreements which were binding on the Republic when this Constitution took effect.

[2] ODA is used specifically to support new and more effective ways of implementing government policies and priorities through approaches of: Innovation; Piloting & Testing; Risk Mitigation; Skills-Transfer & Capacity-Assessment; Catalytic Initiatives & Best-Practices, ensuring that ODA is not just a 'gap-filler' merely replacing or supplementing SA funding arrangements.

[3] Originating in the main from the US, EU, Germany, UK, France, Netherlands, Belgium, various Nordic countries, as well as the UN programmes and funds.

Signing of agreements with a foreign government agency can only be undertaken by the national executive. Currently, the legal framework allows for a national cabinet minister to enter into a Co-Operation Agreement with a foreign partner, which must be channelled through the Department of Justice & Constitutional Development (DoJCD) and the Department of International Relations & Co-Operation (DIRCo) Legal Unit to ensure consistency with the Constitution and with foreign policy, often bypassing the NT:IDC in the process. This has had the effect of reducing co-ordination and accountability for use of ODA, presenting challenges in monitoring and reporting on ODA use and effect, especially in the Estimates of National Expenditure (ENE), with information often incomplete, inaccurate or not matching reports provided by Development Partners (DPs). Only agreements which do not involve the flow of funds, such as twinning agreements, can be signed by provincial/local government executives.

2. Development Co-Operation Post-2015 – A Widening Scope

The development co-operation landscape is changing significantly since the adoption of the MDGs in 2000 and action is now being given more urgency in view of the impending architecture and efforts to reach a post-2015 framework and consensus. The 'traditional' financing model underpinning the MDGs was predominantly focused on domestic resource mobilisation and official development assistance, based on a presumption that when countries were unable to mobilise sufficient domestic resources to finance progress towards the MDGs, the 'gap' should be filled either through ODA or through debt cancellation, or a combination of both. This informed the North-South approach to development co-operation. The evolution of ODA and aid-effectiveness principles from 2000 onwards, with a progression towards more equitable development partnerships, including involvement of the private sector and civil society, can be summarised as follows:

- The Millennium Development Goals (2000)[4]
- The Paris Declaration on Aid Effectiveness (2003)[5], as well as the subsequent Windhoek Declaration (2006)[6]
- The Accra Agenda for Action (2008)[7]
- The Busan Global Partnership for Effective Development (2011)[8]
- The Mexico Global Partnership for Effective Development (2014)[9]

A new 'aidscape' is emerging with the refocusing of traditional ODA by the DAC donors away from Middle Income Countries (MICs) more towards Least Industrialised Countries (LICs), or towards sustainable development goals that have global or regional perspectives. Similarly, there is an increasing move away from purely government to government engagements, to one where more participative and inclusive processes are being proposed which engages and involve the private sector and civil society on a progressive basis, with ODA becoming a component of wider 'development co-operation'. On the other hand, there is an increasing array of sources and mechanisms of development finance, many focused on combining public and private resources in non-traditional ways to meet development needs, adopting more flexible and innovative approaches and modalities.

There is growing influence of new actors, including non-DAC donors, South-South co-operation, PPP initiatives, CSI and philanthropy, many with aid-like forms of development finance (not classified as ODA), with a public interest purpose.

[4] 8 MDGs: (1) Eradicate extreme poverty and hunger; (2) Achieve universal primary education; (3) Promote gender equality and women empowerment; (4) Reduce child mortality; (5) Improve maternal health; (6) Combat GIV/AIDS, Malaria and other diseases; (7) Ensure environmental sustainability; (8) Develop a global partnership for development.

[5] Principles of: Ownership, Alignment, Harmonisation, Managing for Results & Mutual Accountability.

[6] The overall objective of the Windhoek Declaration is to positively contribute to the SADC Common Agenda, and the attainment of the SADC Mission of promoting sustainable and equitable economic growth, and to achieve deeper regional co-operation and integration. This new partnership also aims to support the following overarching principles enshrined in the SADC Treaty and reiterated in the Regional Indicative Strategic Development Plan (RISDP) and Strategic Indicative Plan of the Organ (SIPO), notably: (i) Good Governance; (ii) Strengthened Regional Capacity; and (iii) Durable Peace and Security in the region.

[7] Principles of: Ownership, Inclusive Partnerships, Delivering Results & Capacity-Development. AAA Call to Action on: Civil Society; Country Systems; Fragmentation; Untying Aid; Accountability; Conditionality; Predictability.

[8] Principles of: Ownership, Focus on Results, Partnerships & Transparency/Shared Responsibility. Action on: Use results frameworks/country-led co-ordination arrangements; Untie aid and review; Use country PFM systems as a default option and strengthen them; Strengthen transparency and approve a common standard; Prevent the proliferation of multi-lateral organisation/global programmes/funds; Address countries that receive insufficient assistance; Provide regular, timely, indicative 3-5 year forward expenditure plans; Increase support to parliaments/local governments and foster enabling environments for CSOs.

[9] The Global Partnership for Effective Development Co-operation was established during the Fourth High Level Forum (HLF4) in Busan to ensure that development co-operation has the maximum possible impact on development results. This new, inclusive forum brings together a wide range of countries and organisations to foster engagement, communication and knowledge-sharing among development actors, also working to maintain political support for the commitments reached in Busan.

Increasingly, the use of concessionary loans (currently classified as Other Official Flows), as well as specialist and innovative financing mechanisms, brings a wider spectrum of options and possibilities to the fore, especially for SA, as a (U)MIC. Innovative aid modalities and stronger public-private partnerships are increasingly emerging as attractive and viable approaches to social and economic development, providing in turn, interesting and valuable insights into achieving innovative thinking and approaches, greater value-for-money and ultimately, improvement of overall DC effectiveness. In all cases, the established principles of ownership, alignment, harmonisation, managing for results and mutual accountability must prevail.

As a MIC, SA must ready itself for a considerable reduction in grant support from official donors[10] to an extent that by 2020, development partners will most likely phase-out their grant commitments altogether or otherwise shift the mix more towards (non-)concessionary loans and 'blending' finance mechanisms. The importance of official borrowing and its management will increase in significance due to:

- The projected large infrastructure investment programme envisaged by GoSA under the NDP/MTSF; and
- On-going shifts to less concessional forms of financial support from ODA partners and international financial institutions, including also an in-depth rethinking of the scope and forms of international co-operation.

For SA, these developments and trends present challenges, but for the most part, also present significant opportunities for repositioning and leveraging DC (and ODA) in a wider sense, in meeting the development objectives and socio-economic priorities of SA. The extent of the cuts in ODA to SA are significant enough to necessitate GoSA to examine the entire range of justifications provided and therefore, consider new options for the country going forward in the context of the post-2015 development agenda. As a result, a number of key challenges need to be highlighted and addressed in a more concerted and strategic manner, in partnership with key stakeholders, notably:

i. With a progressive shift to (non-)concessionary loans and innovative financing mechanisms, greater alignment to national priorities and processes, an integrated approach to debt management (across the 3 spheres of government) and enhanced co-ordination and reporting mechanisms are required to contain emerging risks;
ii. The emergence of new development co-operation partners in SA (and the region) necessitates more formalised partnerships with GoSA that promote greater alignment to national priorities and processes, enhanced information-sharing and co-ordination and adoption of agreed DC effectiveness principles;
iii. In the context of increasing trilateral arrangements in the region, involving inward and outward DC, greater co-ordination is required between the various arms of government, especially between NT and DIRCo;
iv. To leverage DC to greatest effect and impact for the national interest, integrated structures need to be established to enhance DC debt/treasury management, risk management and DC effectiveness assessment and reporting[11].

In an effort to address this challenge, a web-based Development Co-Operation Management Information System (DCMIS) has been established and adopted and will be progressively refined and updated for greater effectiveness and efficiencies. Under NT:IDC guidance and support, a network of 'ODA Co-Ordinators' across national departments (and entities), provincial and local government levels has been established to better co-ordinate and manage DC mobilisation and utilisation.

Trends in development co-operation to SA have seen a move to mutual exchange (strategic partnerships, exchanges and twinning arrangements), horizontal partnership arrangements (regional and trilateral support) and a shift to larger concessionary loans, blending mechanisms and other innovative financing modalities, as well as organisational/institutional development and capacity-building through related technical assistance. Internationally, SA has been vocal in the global aid-effectiveness debate, as well as the MDGs/SDGs debates, and has taken a strong South-South approach to development initiatives, increasingly positioning itself as the 'voice of Africa' through support for the AU through the 'African Platform for Development Effectiveness' and through the 'new Partnership for Africa's Development' (NEPAD). This gives SA an increasing strategic role in trilateral arrangements and partnerships in the region and on the continent[12].

[10] In line with these trends, significant cuts in support are also signalled by the EU (under DCI, a reduction in support from €980m in 2007-2013 to €250m in 2014-2020) and a withdrawal of direct support to SA by the UK DFID by 2015.

[11] Integrated or Sustainability Reporting that incorporates economic, environmental, social and governance performance, giving a more holistic and comprehensive approach to assessment and decision-making support (addressing key aspects such as: materiality, completeness, timeliness, relevance, balance, accuracy, transparency, accessibility and comparability).

[12] This will be facilitated through DIRCo (and SADPA), through DBSA and IDC as DFIs, and through BRICS Bank in due course.

3. Policy Coherence & Legislative Requirements

The National Development Plan - Vision 2030 (NDP) was adopted by Cabinet and Parliament in 2013 and receives strong support from a wide spectrum of political stakeholders within South Africa, as well as from international development partners. The NDP is realised through 5-year implementation horizons under the MTSF[13], which reflect the government priorities during its 5-year term of office and the MTSF will be updated in line with each new Cabinet.

The 14 Outcomes[14] identified by Cabinet for the period 2014–2019 constitute a solid base for monitoring the achievement of government targets. The Management Performance Assessment Tool (MPAT) is an important measure to hold the Heads of Departments accountable for achieving development targets. South Africa's development policy is characterised by a high level of sophistication and planning at the national level and it is anchored around this key long-term vision for economic and social development in SA. The following legislation has a particular bearing on the management of development co-operation (and ODA in particular), notably:

1) Constitution of RSA (Act 108, 1996) Section 231(i)	- Signing of agreements with a foreign government agency can only be undertaken by the national executive. - Only agreements which do not involve the flow of funds, such as twinning agreements, can be signed by provincial/local government executives.
2) RDP Fund Act (Act No. 7, 1994) & RDP Fund Amendment Act (Act No. 79, 1998)	- Relevant to the receipt of ODA funds that are managed and accounted for directly by GoSA.
3) Reconstruction & Development Act (1998)	- Governs the management of the RDP Fund.
4) Public Finance Management Act (PFMA), Act No. 1, 1999; as amended, Sections 66, 67, 69, 70, 71, 72, 76 and accompanying Treasury Regulations	- The PFMA determines resource management, financial accounting, borrowing powers, auditing and reporting responsibilities. - The Treasury regulation provides more detailed provisions on specific requirements and procedures.
5) Municipal Finance Management Act (MFMA), Act No. 56, 2003; Sections 47, 48, 49, 50, 51, 110(1)(a), (c) and (d); 111; 112(1) and (2); and 113(1)-(3)	- Specifies financial accounting, auditing and reporting procedures at municipal level. - Specifies borrowing powers and obligations.
6) Preferential Procurement Policy Framework Act (No. 5, 2000)	- Relevant when entering-into an agreement with a development partner that involves procurement of goods and services. Provides the framework for procurement.
7) Value-Added Tax Act (Act No. 89, 1991); as amended in 2000	- Zero VAT applicable to development partner funding.
8) Customs and Excise Act (Act No. 91, 1964); as amended	- Relevant when drafting ODA agreement covering importation of equipment into SA.
9) Inter-Governmental Relations Framework Act (2005)	- Might have relevance in the case of ODA projects based at provincial and municipal levels.
10) Aliens Control Act (Act No. 96, 1991)	- Relevant when drafting ODA agreement covering incoming technical assistants and other personnel.
11) Broad-Based Black Economic Empowerment (BBBEE) Act (Act No. 53, 2003);	- Increasingly relevant when addressing socio-economic development and engaging the private sector in CSI and philanthropy.

[13] The current MTSF addresses the period 2014-2019 in line with the current Government mandate.

[14] The 14 Outcomes contained in the MTSF (2014-2020) are as follows: (1) Quality basic education; (2) A long and healthy life for all South Africans; (3) All people in South Africa are and feel safe; (4) Decent employment through inclusive growth; (5) A skilled and capable workforce to support an inclusive growth path; (6) An efficient, competitive and responsive economic infrastructure network; (7) Vibrant, equitable, sustainable rural communities contributing towards food security for all; (8) Sustainable human settlements and improved quality of household life; (9) Responsive, accountable, effective and efficient local government; (10) Protect and enhance our environmental assets and natural resources; (11) Create a better South Africa and contribute to a better Africa and a better world; (12) An efficient, effective and development-oriented public service; (13) A comprehensive, responsive and sustainable social protection system; (14) A diverse, socially cohesive society with a common national identity.

While national government has overall responsibility for DC (and ODA) management, provincial and local government also have, in accordance with the Constitution, the right to qualify over the affairs specific to their respective areas of jurisdiction, subject to national legislation. In practice, this means that provincial and local governments may, in accordance with their respective interests, establish their own DC (and ODA) practices within the broad national policy framework and guidelines. This presents challenges of effective co-ordination, value-for-money, alignment with national priorities, monitoring & evaluation and impact assessment.

While NT:IDC facilitates co-ordination at macro level, government entities such as national departments, provincial authorities and/or municipalities are responsible for ensuring appropriate DP co-ordination within their respective areas of jurisdiction, including that each DP intervention is not only fully aligned and compliant with government policy, plans and actions, but is also complementary to those of other DPs. Such efforts seek to prevent duplication and fragmentation of efforts and mitigate risks related to conflicting interests. However, comprehensive legislation is required to tighten further the definition and use of development co-operation and concessional loans in order to further enhance DC effectiveness and co-ordination in aligning with, and addressing, national policies and priorities.

4. Development Co-Operation Principles

DC in South Africa is based on a number of core development co-operation management principles, as reflected in the internationally-endorsed Paris Declaration on Aid Effectiveness and subsequent high-level fora agreements[15]. The most important of these principles is: "The role of Government is expected to be to set-out and is to lead and co-ordinate the developmental policies and strategies to which development partners subscribe". Other key principles that have to be embraced by partners-in-development include: (i) alignment to government priorities and processes; (ii) harmonisation; (iii) management for results; and (iv) mutual accountability.

It is generally recognised that DC shall be designed and managed in full compliance with the international concepts of aid management that have been agreed to by most development partners and recipient countries and which continue to evolve. These agreements include the 2005 Paris Declaration on Aid Effectiveness, the 'Plan of Action' of its implementation further elaborated at the High-Level Forum of 'Aid Effectiveness' held in Accra – Ghana (the Accra Agenda for Action – AAA) in 2008, and the 4th High Level Forum in Busan in December 2011, enhancing global discussions by emphasising the pursuit of a national development effectiveness agenda whilst keeping aid management focus. In 2014, the Mexico Global Partnership for Effective Development Co-Operation identified 38 new initiatives formulated by governments, business, private foundations and civil society to further push forward effective development co-operation.

SA acknowledges that implementation based on the internationally-agreed development co-operation principles significantly enhances the effectiveness of the development initiatives. SA further interprets and applies these principles as follows:

- ***Ownership***: the development agenda is set-out by national agendas of partner countries, which must exercise effective leadership over their own development policies and strategies, as well as co-ordinate their own development actions, where implementing partners must initiate and manage their programmes i.e. take full control as a government entity and take it to conclusion, with a sustainable plan. DPs must support and respond to the interventions of the implementing partner;
- ***Alignment***: development partners base their overall support on partner countries' national development strategies, priorities, institutions and apply local procedures for implementation. DC programmes must be aligned to government priorities, systems and processes, within RSA prescripts;
- ***Harmonisation***: implies that DPs' actions are mutually harmonised, transparent and collectively effective and aim at reducing transaction costs through use of country systems and procedures. DC should allow for reduced transaction costs for all parties. DPs should avoid fragmentation and support co-ordination with sectoral leadership from the implementing partner;

[15] As well as the subsequent Windhoek Declaration (2006).

- ***Managing for Results***: DC is managed and implemented in a way which increasingly focuses on the desired results and outcomes through using information on results for learning, decision-making, reporting and accountability. All development co-operation programmes are results-based, and outputs aligned to the priorities and processes of the country and sector;
- ***Mutual Accountability***: both development partners and partner countries are accountable for results/outcomes. Implementing partners provide timely and verifiable information on all development co-operation received. DPs provide disaggregated information to support predictability and transparency. Where DC falls outside government processes, DPs must report to GoSA (through NT and the relevant sector department) on progress and impact;

Beyond the internationally agreed compacts, establishing terms of engagement and recommended practice, RSA aligns its development co-operation initiatives to the following principles. These represent the over-arching philosophy guiding the conceptualisation, design, negotiation and execution of development co-operation interventions, notably:

- People-centred development: The cardinal beneficiary of our development initiatives is the citizen;
- Country ownership and leadership: Crucial to ensure success, impact and value - RSA will continue to set its own development initiatives and policies;
- Developmental initiatives: Development co-operation endeavours are targeted at beneficiaries who are either the most vulnerable or are in the most need;
- Partnership in good faith: All agreements and partnerships are entered into *bona fide*, for the mutual benefit of all concerned;
- Mutual Accountability & Transparency: All information should be shared by both the DPs and SA so that it enhances democratic governance, transparency and accountability;
- Management for Results: Partners are equally responsible for results of the actions being undertaken while focusing on tangible outcomes i.e. impact of the development co-operation;

The fundamental principles of development co-operation such as government ownership and reliance on government systems are not negotiable. However, *how* these principles are applied in practice is a more nuanced endeavour. SA also acknowledges that ownership may take several disparate forms and likewise, other core principles for DC management such as harmonisation and alignment also need to be translated into practice through more specific guiding principles suitable to the unique SA context. This is done below through a list of core principles for DC management in SA. The list should be used to inform the design and management of DC in SA. However, it is stressed that DC needs to be adapted to suit the specific developmental and organisational contexts. Therefore, the principles should be applied pragmatically.

In this regard, the following principles apply, notably:

1. *Government ownership and leadership with regard to implementation must be anchored in one of the three spheres of government* which are free to attract, plan and use DC, in accordance with their own strategic priorities, taking into account the basic tenets of the overall Government policies, plans and priorities;
2. *DC must be aligned to overall national strategic policies* which means that any DC intervention must be designed to support the overall government policies, as well as the policies within the specific sector of need, as stipulated in the NDP and MTSF, and should address the Government Programme of Action. These and other policies are at the core of the overall SA planning framework. Any DC intervention in SA should, therefore, be designed to contribute to implementation of these and, where appropriate, other overall national policies and strategies, as and when they arise;
3. *DC must be on plan* which means that all DC interventions shall be described and integrated into a specific government planning framework, such as municipal IDPs, provincial government PGDS or line departments' strategic priorities and actions or business plans. If a DC intervention is not firmly anchored in government plans (budgetary priorities) and subject to the democratic scrutiny and debate that these plans are exposed to, it is unlikely to be fully owned by government;
4. *The conceptualisation and design of DC shall be a Government responsibility* and it is recognised that during the design and conceptualisation stage of projects, programmes and across sector support, dialogue with officials of national/provincial departments who will implement and become direct stakeholders, and/or beneficiaries of such DC, may be very useful.

These discussions will stimulate the programme design and generate 'best-fit' from best-practices and innovative ideas incorporated into the formulation of the agreements. When appropriate, this approach could also supplement the Government's programme capacity gaps and shortcomings;

5. *Institutional and financial sustainability of the DC intervention must be planned at design phase* in order to avoid the disintegration of DC-sponsored activities after the expiry of funding. Building long-term domestic support and organisational capacity to sustain the activities should include planning and budgeting for counterpart contributions, staffing, recurrent operations and maintenance expenditure required for the implementation of the intervention. The importance of this cannot be overstated. If, for example, DC is used to pioneer new ways of delivering ARVs (HIV/Aids treatment) to a target group, it is crucially important that these beneficiaries do not lose access to treatment when DC finance lapses. The 'recipient' (department, province etc.) should reinforce sustainability by incorporating requests for such support into their budget bids within future department budget requests;
6. *The choice of co-operation modality* such as project, programme or sector budget support must be carefully considered and tailored to meet the developmental and organisational requirements and effective application of scarce resources;
7. *Technical Assistance (TA)* in the form of short or long-term advisors is often an important part of DC in SA, when undertaken with a view of ensuring the transfer of skills, best-practice/best-fit and improved, effective and efficient approaches to government practices in delivery of services, thereby building government capacity. TA must however, be carefully managed with clear guidance and oversight from lead government official(s) on the details of mentorship/skills-transfer strategies and implementation plans. Government managers must oversee and review TA support and ensure at least quarterly, if not more frequently, monitoring exercises to assess and report on progress towards the transfer of technology and skills, as well as improvement plans if necessary. TA should never be used as a 'gap filling' instrument for the work of officials of government at any level, as it is not sustainable or desirable in the longer-term. If the request is for TA for an area that was not previously included within government structures, appropriate actions must be taken to include such support from budget for appointment of appropriate HR towards the end of the TA term, if deemed necessary and appropriate;
8. *The Government has a strong preference for the use of government systems and procedures for the management of DC*. This is considered essential to building government capacity thereby, ensuring proper government ownership of DC implementation, contributing to minimising confusion and high transaction costs that may result from using many different systems and procedures. Where weaknesses are identified within a system, support to strengthening the system to meet international norms is an absolute necessity, as highlighted in the Accra Agenda for Action (2008) and reinforced through the Busan Partnership (2011);
9. *The management of any DC intervention must be institutionalised within a Government entity or department as the formal owner and driver of the intervention*. It is acknowledged that in the past, a number of parallel Project Management Units (PMUs) were established as 'add-ons' to Government entities and served the purpose of providing management and implementation capacity where this was scarce. However, parallel PMU structures will not, in most cases, lead to optimal government ownership. The preferred DC management structure is therefore, where an implementing government entity integrates the interventions within the organisation's core activities and takes management responsibility for the development support;
10. *To enhance ownership and enable proper financial accounting, it is a strong preference of GoSA that development partner funding be channelled through government systems*. This entails directing funds through the NT RDP Fund account for onward transfers to Implementing Agencies. GoSA financial management systems are generally of an internationally-accepted standard and can safely handle DPs' funds. Where DC falls outside government processes, then DPs must report to GoSA (through NT and the relevant sector department) on progress and impact;
11. *Financial reporting on the usage of DC should be done in accordance with GoSA requirements and systems and follow Government formats where applicable*, treating DC as a separate below line item, that is, DC should be 'on report'. Parallel reporting structures heighten the transaction costs of undertaking development and are therefore, not recommended. It is useful that the public at large, and the legislature and Parliament in particular, play a proactive 'political oversight and counselling role' [project monitoring and evaluation task] to ensure effective utilisation of DC.

Departments receiving DC (and ODA) must therefore, share their DC reports with the relevant structures within Parliament, such as the Portfolio Committee, to facilitate such oversight;

12. *While funding through the RDP Fund account and financial reporting using government systems is encouraged, DC shall be considered as additional to Parliamentary appropriations (add-on) in the budgeting process for government entities*. In the Implementing Agency's budget submissions, however, DC funds which are either secured, or under negotiation, shall be included in the appropriate Implementing Agency or central budget documentation, such as the ENE. This will ensure that appropriate information on DC is tabled in Parliament to ensure transparency and accountability, thereby encouraging dialogue on the usage of DC. SA counterpart contributions and other domestically financed costs, including recurrent expenditure directly related to incoming DC, shall be included in the MTEF. It is, therefore, imperative that DC resource inflows into South Africa are aligned to the relevant sector strategic objectives and budgetary priorities;
13. *Procurement should follow government procedures and requirements*[16]. Goods and services must be sourced locally and internationally without sources being tied to the development partners' country of origin. Where weakness(es) in the internal supply-chain management system are identified, it is recommended that immediate remedial action be instituted, such as the establishment of adequate corrective systems and/or capacity-building measures at appropriate and relevant levels;
14. *Monitoring and evaluation (M&E) of DC interventions should be done directly by Government using existing M&E frameworks* or when appropriate, in a collaborative approach with DPs. The preferred approach is to commission the review and evaluation by independent expertise to ensure objectivity of the report, with support from the DPs, where relevant;
15. *It is acknowledged that special circumstances might require some deviation from these general principles*. For example, alternative implementation structures might, in some cases, be appreciated and utilised for reasons of speed of implementation, inculcation of innovation or to accommodate multi-stakeholders' requirements. There might also be situations where time limitations or an overloaded government bureaucracy, possibly in combination with a 'one time only' opportunity, would make it more sensible for DC management and/or implementation. Under these and such exceptional circumstances, it is important that the needs of the Implementing Agency itself, rather than a development partner interest, dictate and determine such choice.

The financial resources from both government and the development partners must be utilised in more integrated and effective ways to include innovation with regard to capacity-development/building, focused investment in sustainability of outcomes and infrastructure projects, and strategic support towards leveraging regional public goods and dynamic trilateral co-operation.

5. Development Co-Operation Effectiveness

DAC defines ODA as "those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

- Provided by official agencies, including state and local governments, or by their executive agencies; and
- Each transaction of which: (a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)".

GoSA defines ODA as "Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation, where the South African Government is held at least partially responsible or accountable for the management of such resources".

In the national interest, NT requires that all DC (and ODA) to government and its programmes be accounted for, even where co-operation is not channelled through government systems. As the ODA definition includes all assistance supporting the **"***economic development and welfare of developing countries*", it also includes support to NSAs not in support of government activities or programmes. In SA, ODA has amounted to approx. 1% of the national budget, but from 2013, it has seen a significant decline to amount to 0.25% of National budget, with the possibility of eventual phase-out by 2020.

[16] Using SA processes and systems and adhering to the PFMA and MFMA.

It is therefore, more used to ensure value-addition in terms of leveraging own resources more effectively. This fact, combined with addressing the particular development challenges in a more targeted manner, have significant implications for the implementation of the national strategic priorities of DC. The true value of DC in South Africa is, therefore, properly realised when it is able to provide solutions and means that enable the country to use its own resources more effectively, thereby stimulating development for the most disadvantaged sections of the population in eliminating systemic poverty and inequality.

DC in SA is used to support new and more effective ways of implementing government policies and priorities, tackle poverty alleviation and mitigate vulnerability and inequality. These mechanisms could be manifested through the following approaches:

- Innovation: developing new and more effective approaches and modalities;
- Piloting and Testing: pioneering new approaches for replication purposes;
- Risk Mitigation: creating an enabling environment for attracting and encouraging investment;
- Skills-transfer/Address Capacity Gaps: ensuring that South African institutional capacity is enhanced for sustained, long term implementation;
- Catalytic Initiatives/Best-practices: unlocking domestic resources and activating potentials with 'best-fit'; and
- Focus on Sustainable Development: in terms of optimal use of key capital resources i.e. natural, human, social, manufactured, financial and intellectual;

The quality of DC and its ability to spearhead new and more effective approaches for enhancing service delivery is therefore, considered much more important than the mere quantity of DC. Hence, DC must not be used as a 'gap-filler' merely replacing or supplementing South Africa's funding arrangements. Similarly, DC must not be tied-aid, which serves to restrict options for its use (whether grant or loan) and impacts on its leverage-effect and value-for-money overall.

For improved co-ordination and transparency between all relevant parties, a greater emphasis needs to be placed on information-sharing within the development environment. In spite of all efforts towards better co-ordination on the part of GoSA and its development partners, a number of persistent challenges remain. The challenges continue to limit the efficiency and effectiveness with which aid is delivered and this weakens the potential of GoSA to progressively transition itself out of requirement for aid. Some challenges faced by the government are as follows:

- **Predictability**: Even though South Africa is not an aid-dependent country, the issue of predictability of development co-operation remains important for planning, budgeting and management purposes;
- **Capacity**: GoSA is struggling with capacity problems, in part a legacy of the apartheid era and the fact that the quality of education and educational outcomes in SA is poor;
- **Transaction Costs**: Despite the principles of ownership, accountability and utilisation of country systems by recipient countries expressed in the Paris Declaration (2003)[17] and enforced by Busan (2011), DPs continue to place significant demands on government in terms of time, reporting needs and use of resources through numerous missions and meetings. There are studies that are conducted on the SA Public Finance Management systems by almost all the DPs, even though a PEFA has been conducted;
- **Accurate Information on DC Flows**: Incomplete reporting of ODA from government to government reduces transparency and hinders the ability of the GoSA to monitor and manage the co-operation it receives. The information is important for planning and budget processes in order to avoid duplication and/or 'double-dipping';
- **Flexibility**: DC is not flexible and responsive to real challenges that are faced by government at any given specific time where there are critical issues requiring innovative solutions;

[17] As well as the subsequent Windhoek Declaration (2006).

6. Development Co-Operation Partners

From a SA perspective, DC incorporates official donor assistance (DAC and non-DAC, North-South and South-South), direct support to civil society or the private sector (though falling outside of SA's formal government-to-government development co-operation framework), and increasingly, DC provided by the private sector though CSI and philanthropy. This emerging 'aidscape' opens the potential for many varied and interesting partnerships in addressing SA development priorities, both within the country (at national, provincial and local government levels) as well as outside of the country (in trilateral arrangements), in addressing regional, continental and global priorities (and/or global public goods).

Currently, DPs are defined using the ODA definition as *"Foreign official (as opposed to private) donors or aid agencies, including states and international organisations that provide ODA to SA"*. In formulating an updated and more representative definition, the following aspects need to be considered in refining the definition of 'best-fit' for RSA, notably: (i) Organisation, trust or individual (international, regional and national); (ii) Dialogue, communication, trust, equality, respect, reciprocity; (iii) Association, co-operation, collaboration, joint decision-making, responsibility, accountability; (iv) Commitment to common objectives; (v) Ownership and use of country systems and processes; (vi) Aligned to national priorities; (vii) Maturity; (viii) Long-term and Strategic focus.

Arising from a refined definition, DPs can be classified as follows:

6.1 'Traditional' DAC Multilateral and Bilateral Development Partners

The overwhelming majority of current ODA funding to SA comes from the members of the Development Assistance Committee (DAC)[18], with these countries also OECD members. To qualify as 'ODA', a contribution must meet three preconditions: (i) Be undertaken by the official sector (that is, a government or government agency); (ii) Have promotion of economic development and welfare as main objective; and (iii) Be concessional in character (that is, with favourable loan terms). This is categorised as a 'traditional' North-South relationship in terms of ODA flows. By definition, ODA does not include private donations.

SA values its long-standing partnerships with its key development partners[19] from which DC is provided through either (i) direct grant support to the state (under the RDP); (ii) technical co-operation (through non-state actors); and/or through concessional loans (to national and local government structures/ entities). The modalities adopted vary from: (i) classic projects (through the RDP): (ii) General Budget Support; (iii) Sector Budget Support; (iv) DP Delegated/Contribution Agreement (through DBSA); and/or (v) Technical Co-operation[20]. GoSA endeavours to evolve these partnerships (built on mutual trust, respect and benefit), to the next level to explore strategic opportunities and in certain cases, to develop mutually-beneficial strategic partnerships which promote open dialogue and explore issues of mutual concern at the regional, continental and global levels.

6.2 'Non-Traditional' & Emerging Bilateral Development Partners

Increasingly, governments outside the DAC are providing co-operation regionally, though such co-operation has predominantly been driven by responses to crises and natural disasters, and sometimes provided 'in-kind' (by way of personnel, equipment, training etc.). Because the non-DAC donors form such a diverse group, it is difficult to classify them under one common name and so they are broadly classified as:

i. Emerging Donors North-South (i.e. Non-DAC European or OECD Members);
ii. South-South Donors (i.e. MIC, as recipients of ODA and now providing DC on a regional basis);
iii. Arab Donors (i.e. mainly oil-exporting countries and/or members of OPEC, or Islamic Funds); and
iv. BRICS Grouping and BRICS-related partnerships.

The Accra Agenda recognises the importance of these new emerging powers (especially the BRICS and N-11[21]) and the significance of South-South co-operation[22]. GoSA recognises the significance and importance of

[18] Besides the supranational European Union, the DAC consist of the following 23 countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, United Kingdom and United States

[19] EU; Belgium (& FICA/Flanders); Canada; France; Finland; Germany; Japan; Norway; Sweden; UK (DFID); US (USAID).

[20] Defence; Economic Infrastructure; Economic Services & Environment; Education & Skills Development; Employment & Social Security; General Services; Health; Local Government Amenities; Science & Technology;

[21] The 'next' eleven countries (after BRICS) with high potential for becoming part of the larger world economies, comprising: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea and Vietnam.

South-South development co-operation for the country, the region and the continent as it promotes equal partnership opportunities and facilitates greater long-term relationships that address issues of mutual interest and concern. As a member of BRICS, SA is willing to channel development co-operation on a bilateral or trilateral basis through DIRCo (and SADPA), or in due course, through the BRICS Bank.

6.3 Trilateral Partnerships & Relationships

International development co-operation has traditionally been channelled from the geo-political North to the South, but developments in South-South co-operation and the appreciation of shared developmental experiences among developing countries is beginning to change the development co-operation landscape. Trilateral development co-operation in particular, has the potential to bring together partners from developed, emerging and developing countries in realising more effective development co-operation through sharing of best-practices. SA continues to invest in developmental co-operation agreements on the rest of the continent, including agreements of a trilateral nature.

In the African context, the emergence of increased trilateral co-operation possibilities on the continent involving non-DAC donors with SA is significant and can be leveraged to greater effect for the benefit of SA nationally, regionally and globally. This evolution introduces a complication to the typical definition of 'trilateralism' when non-DAC donors are involved (e.g. China, Brazil, India etc.), in channelling non-ODA (financial and/or in-kind) to African countries through SA (inbound through NT:IDC and outbound through DIRCo/SADPA). This form of trilateral co-operation is likely to be more flexible and sensitive to African priorities, adopting a South-South approach to its implementation. There are a number of successful initiatives which have been undertaken that informs how this new form of co-operation is increasingly more favoured in the development of African countries.

In due course, SA is expected to consolidate these efforts in the South African Development Partnership Agency (SADPA), which will take the place of the African Renaissance Fund for International Co-operation. South Africa is best placed to pursue the opportunities of trilateral development co-operation, enhancing the benefit of cost-effective partnership arrangements for the region and the continent.

6.4 Private Sector Partners (as investors and implementers)

RSA has a long and established track-record of engaging with the private sector in addressing the underlying socio-economic challenges of the country through Public-Private Partnerships (PPPs), Corporate Social Responsibility (CSR) and increasingly, through CSI and Philanthropy. The NDP identifies a critical role for the private sector in its partnership with government, where in return for the treatment of the private sector as a partner in policy design and implementation, the private sector must respond to, and facilitate, the realisation of national objectives. In particular, the efforts to regulate business and the aim of progressively transferring productive assets to black ownership has resulted in the Broad-Based Black Economic Empowerment (BBBEE) Programme and the process of 'score cards' and industry charters, leading to a more balanced/inclusive partnership approach to socio-economic development and a more pronounced sense of CSR. SA-based companies are also engaged in CSI and philanthropy in the region and across the continent[23]. Similarly, in terms of foreign-owned private sector corporations and businesses in SA, there is the potential to encourage greater CSR, and in turn CSI, through promotion of capacity-development, skills-transfer and vocational education and training initiatives, based on international best-practices and experiences, in an effort to address the skills deficit in youth, in particular.

Important mechanisms for on-going consultation and engagement between government and the private sector around socio-economic development projects and public goods can be reinforced and formalised in order to establish a Public-Private Development Assistance Programme, linking business interests with public goods.

For it to engage, the private sector will need to see a 'return on investment' and the value to contributing to public goods, while for GoSA, demonstrable and sustainable benefits and savings from innovations and new approaches to solving old problems must be achieved. From a GoSA perspective, the private sector

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[22] NDP Outcome 11, Sub-Outcome 7: Strong, mutually beneficial South-South Co-operation: strong and mutually beneficial co-operation among countries and groupings of the South and the development of common positions on political, economic, social and human rights issues are essential for an effective response in addressing the historic marginalisation of countries in the South. In addition, harness emerging collective political and economic strength of countries and groupings of the South.

[23] SA companies such as: Sasol, Standard Bank, Shoprite.

can be an important implementer and service provider for development projects, especially in infrastructure and market-based sectors (such as energy, climate-smart technologies, science/technology innovations and transport). Private companies can be effective contractors in the delivery of know-how and technology, as they adopt approaches that strive for innovation, efficiency, flexibility, value-addition and cost-effectiveness, with the potential to transfer skills and know-how to the public sector in the process, serving to support public sector reform and value-addition.

Under the umbrella of the private sector, GoSA identifies a number of key role-players which offer interesting partnership opportunities, notably:

1) Public-Private Partnerships (PPPs)

SA law defines a PPP as "a long-term contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project". The main legislation governing PPPs at the national and provincial levels of government is the PFMA (1999) and Treasury Regulation 16. Municipal PPPs are governed under the MFMA (2003) and its regulations, and the MSA (2003), which supports and reflects GoSA policy objectives for delivering infrastructure and public services, in line with its constitutional mandate. GoSA identifies PPPs as an effective means of augmenting its service delivery capacity through leveraging support from the private sector in developing, managing, maintaining and improving key infrastructure and delivery of essential services, particularly to those most disadvantaged.

2) Foreign Direct Investment (FDI)

Foreign direct investments are the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital, as shown in the balance of payments. There is a strong relationship between foreign investment and economic growth, where higher levels of fixed investments ensure that higher growth rates can be achieved on a sustainable basis and increased foreign trade is facilitated. Protection of investment rights, good governance, a stable economy and consistent policies are important ways to attract investment, for which GoSA is committed to ensuring the correct enabling environment within which FDI can flourish and develop in meeting national priorities and international trade facilitation. FDI inflows are a progressive source of funds that are potentially available for development, especially in SA, where a strategy of investment promotion and incentivisation exists.

GoSA, in an effort to reposition itself in the world economy, established the Industrial Development Zones (IDZ) programme, the main focus being to attract FDI and promotion of exports of value-added commodities. In support of this effort, Special Economic Zones (SEZs)[24] have been established with the purpose of:

- Expanding the strategic industrialisation focus to cover diverse regional development needs and context;
- Providing a clear, predictable and systemic planning framework for the development of a wider array of SEZs to support industrial policy objectives, the IPAP and the NGP; and
- Clarifying and strengthening governance arrangements, expanding the range and quality of support measures beyond provision of infrastructure, to provide a framework for a predictable financing framework to enable long-term planning;

SEZs are geographically designated areas of a country set-aside for specifically targeted economic activities, supported through special arrangements (that may include laws) and systems that are often different from those that apply in the rest of the country. SEZs may be sector-specific or multi-product and the following categories of SEZs have been defined (as per the SEZ Act No. 16 of 2014), notably:

[24] The following SEZs are established: (i) Coega IDZ, Eastern Cape; (ii) Richards Bay IDZ, KZN; (iii) East London IDZ, Eastern Cape; (v) Saldanha Bay IDZ, Western Cape; and (v) Dube Port IDZ, KZN.

- **"Industrial Development Zone"** means a purpose-built industrial estate that leverages domestic and FDI in value-added and export-oriented manufacturing industries and services;
- **"Free Port"** means a duty-free area adjacent to a port of entry, where imported goods may be unloaded for value-adding activities within the SEZ for storage, repackaging or processing, subject to customs import procedures;
- **"Free Trade Zone"** means a duty-free area offering storage and distribution facilities for value-adding activities within the SEZ for subsequent export;
- **"Sector Development Zone"** means a zone focused on the development of a specific sector or industry, through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market;

Alongside the efforts of Dti in this regard, the role and use of DC in this context needs to be explored in terms of possible synergies, catalytic and leveraging effects. In this regard, the use of (non-)concessionary loans and blending mechanisms to support development of supportive infrastructure and services around (but not inside the SEZ) are offer interesting possibilities, notably in areas relating to provincial and municipal obligations to develop approach roads, trade-related infrastructure, utilities (e.g. power, water, sanitation and ICT) and social infrastructure (schools, health facilities and housing). The selective use of tax designation and tax breaks will be considered in incentivising risk-taking and quasi-commercial ventures that demonstrate sustainable benefit and impact for disadvantaged regions and communities at provincial and municipal levels.

3) Corporate Social Investment (CSI)

CSI is defined as externally-directed social investment by a company by way of contributions (either monetary, employee time and resources, or gifts in-kind) which bring benefits over and above those directly associated with core business activities, often channelled through an independent or semi-independent corporate foundation or trust, otherwise known as a 'social enterprise'. (CSI differs from Corporate Social Responsibility (CSR), which is generally defined to include "any activities or investments made by a company to make its business operations itself more socially or environmentally sustainable"). CSI is undertaken by public enterprises (e.g. Eskom) as well as private enterprises. CSI benefits corporates in terms of: (i) bolstering corporate image; (ii) enhancing workplace attractiveness; and/or (iii) helping manage regulatory compliance requirements (e.g. B-BBEE). CSI spend tends to be ad-hoc and unstructured, typically allocated to education, social & community development and health, with more bias towards urban communities. However, the level of CSI spend of any given company is small in relative comparison with that of the State and cannot be expected to make meaningful contribution to the achievement of material equality, other than to address specific projects or niche areas. The choice of delivery agents for CSI work (i.e. CSOs/NGOs and others who undertake developmental initiatives) must involve a competitive process that sees funds attract the best-fit and best-practice partners at national, provincial and/or local levels. Utilised correctly, CSI offers an opportunity to enhance collaborative partnerships and to engender trust between government and the private sector, building reputations and mutual understanding on both sides. In this regard, and to leverage CSI to greatest effect, it is important that CSI works closely in synergy with Government in addressing the social and economic priorities that are set-out in the NDP and the MTSF (2014-2019) to maximise collective efforts for optimal and sustainable impact.

4) Philanthropy (Global Funds, Trusts and Individuals)

In an increasingly global environment, philanthropy and other forms of private development co-operation have been growing substantially in recent years, in both absolute and proportionate terms. Information on this source and use of private development co-operation is not consolidated and more thorough research and knowledge management is now required to better understand and harness this important and resourceful use of 'unofficial' development co-operation for the national interest. Philanthropy is defined as: "the desire to promote the welfare of others or private initiatives for public good". In South African terms, this would equate to *Ubuntu*, a quality that includes the essential human virtues of compassion and humanity. Traditionally, a Western-based philosophy, it has grown from the global and international North-South approach to giving to more regional and South-South approaches, with significant presence in SA. Philanthropists, by their nature, have tended to be more involved in social sectors (e.g. education, health etc.), while also playing a growing role in cross-cutting and thematic areas (e.g. HIV/AIDS, governance, agriculture etc.).

Often, philanthropy is channelled through private trusts or foundations, which tend to emulate the values and vision of the individuals who found(ed) them, where these have traditionally taken-on more risky 'venture capital'-style investments, and tend to have a strong focus on innovation, scientific research and on bringing private sector expertise, models and approaches into development co-operation, placing particular emphasis on results-based management, value-for-money and accountability as key issues.

GoSA recognises that philanthropy has been in existence for some time, with SA as a beneficiary of philanthropy since the 1970s. However, with increasing global philanthropic trends, and the emergence of high net-worth individuals and institutions in SA, the potential offered by philanthropy in addressing critical social challenges and service delivery shortcomings in education, health, skills development and community development exists and must be harnessed in meeting the national interest and national priorities. In this regard, it is important that the potential offered by philanthropy in terms of financial resources, innovation and new approaches to development partnerships are channelled, managed and co-ordinated in the context of the official development agenda promulgated by GoSA. GoSA has a preference for development of Global Philanthropic Funds in promoting the principles of: (i) Ownership; (ii) Alignment; (iii) Harmonisation; (iv) Managing for Results; and (v) Mutual Accountability. In this regard, selective use of tax designation and tax breaks may be considered in incentivising initiatives that work closely with government programmes and address national priorities and plans (anchored around the NDP - Vision 2030 and the MTSF 2014-2020).

6.5 Civil Society Organisations (CSOs) Partners (as implementers)

CSOs have always been important actors in development co-operation, both as recipients of donor support and as channels of official development assistance, and they are increasingly important in attracting and channelling private sector CSI and philanthropy. In the case of South Africa, CSOs have always played a critical role in the development of the country, from channelling support for the struggle under apartheid to the building of the new democratic South Africa, and in addressing critical social issues that prevail to this day (e.g. in the health sector, especially related to HIV/AIDS).

CSOs can and do play an important role as advocates of change, deepening democracy and promoting rule of law, transparency and accountability of both governments and development partners. In this capacity, civil society can impact on development co-operation flows and disbursements, even where the funds do not flow directly through CSOs, by ensuring that DP funds are used in more focused and targeted ways in addressing development challenges.

With global competition and geopolitical uncertainty, the sustainability and institutional development of civil society has been under threat, particularly with limited financial resources flowing from traditional development partners. However, as the development co-operation landscape has evolved (is evolving), there are very strong shifts in DP priorities, increasing resource flows from non-DAC donors and Middle Income Countries (MICs), the role and size of CSI and philanthropy have become critical for inclusive and sustainable development.

The concept of CSOs encompasses a wide range of organisations. In a limited sense, it includes all non-market, non-state organisations and formations in which people organise to pursue shared objectives and ideals. While definitions of civil society remain contested, the sector is broadly understood as occupying the space between the state, the market and the family. Often referred to as the 'voluntary sector', and in South Africa as the 'non-profit sector', comprising non-profit organisations (NPOs) registered in terms of the South African Non-Profit Organisations Act 18487 of 1997. Civil society encompasses the way in which communities organise, provide services and undertake policy and advocacy activities. This includes not just Non-Governmental Organisations (NGOs), whose missions are explicitly developmental in character, but also social movements, community-based organisations (CBOs), civics, school-governing bodies, women's groups, peace and justice organisations, academics, students, faith-based organisations (FBOs), special interest organisations (refugees, people with disabilities, etc.), professional associations, trade unions and many others. There is often an interchangeable use of the terms CSO and NGO - the most common distinction is that CSOs on the other hand represent or serve specific needs of their members.

Private sector organisations and CSOs are recognised as essential partners in the development of SA. GoSA supports inclusive and effective development partnership in delivering services, encouraging democratic processes, capacity-building to strengthen appropriate governance, accountability and transparency standards of civil society organisations so as to enhance their contribution to the development process.

To this end, and through multi-stakeholder platforms, GoSA will engage non-state development actors, including CSOs, to establish an effective and efficient mechanism for promoting greater alignment to national priorities, enhanced information-sharing and co-ordination, and maximize their contributions towards inclusive and sustainable development agenda. GoSA will support establishment of an apex-level CSO co-ordination forum to promote greater dialogue and consultation, information-exchange and peer learning, with a view to strengthening the CSO networks and assuring more sustainable and effective CSO development and empowerment in the future.

7. Forms of Development Co-Operation (North-South and South-South)

DC is provided through either (i) direct grant support to the state (under the RDP); (ii) technical co-operation (through non-state actors); and/or (iii) through concessional loans (to national and local government structures/entities). The modalities adopted vary from: (i) project support (through the RDP), using DP and SA systems: (ii) Budget Support (National Development Policy Support Programme); (iii) Sector Budget Support; (iv) DP Delegated/Contribution Agreement; and/or (v) Technical Co-operation. Other innovative forms of development finance will be considered and are being explored. A range of development co-operation financing modalities exist, in a continuum from purely social focus to a quasi-commercial bias, as follows:

7.1 Grants (in-Cash and in-Kind)

Grants can be used for programmes and projects, and must be carefully considered and tailored to meet the developmental and organisational requirements and effective application of scarce resources. Grants should not be used to fill a budgetary gap, but to add-value according to the principles (outlined in Section 5 above) and must be 'on plan' in terms of being integrated into specific government planning frameworks in order to secure full ownership by government. Grants provided to GoSA are subject to a Grant Agreement with the development co-operation partner, a legal framework specifying the rationale for engagement, the focal areas to be addressed and the basis for co-operation and commitment. Sound financial management of development partner co-operation is central to its optimal utilisation. In this regard, there are 3 forms of funding flow mechanism, each with a specific financial accountability, notably:

- GoSA Accountability, in which case the funds flow mechanism is via the RDP Fund and onwards to the Implementing Agencies (as prescribed in the RDP Fund Amendment Act). This is the preferred method, enabling enhanced government ownership, better accountability and facilitating more comprehensive overview of funding flows/use for optimal impact;
- Development Partner Accountability, in which case the DP pays directly for procurements of goods/services and therefore, no funds flow through the RDP Fund, or any account of GoSA. However, reporting and M&E must be established which satisfy GoSA processes and systems. DP provision of funding directly to an Implementing Agency and bypassing RDP is illegal;
- Third Party Accountability, in which case 'Fund Managers' are used to implement development partner-supported projects (where compliance with internationally-recognised practices in accounting/financial management and reporting is required);

Programme/project-based support provided 'in-cash' is channelled through the RDP, whereas programme/ project-based support provided 'in-kind' is channelled through third-party arrangements or managed by the donor directly. In the case of Budget Support, the grants funds transferred into the RDP are subject to SA planning, procurement and compliance systems, thereby increasing GoSA involvement in allocation and accountability fully into SA systems. In the case of Project Support, while DP procedures and systems are applied, it is critical that at all times they are respectful and supportive of SA priorities, processes and systems.

It is essential that ODA flows are integrated with Implementing Agency and central national, provincial and/or local government planning, budgeting and reporting processes/systems and reflected on relevant agency and central documentation. ODA can only be effective if, and when, it is complementary to Implementing Agency activities funded through domestic resources. The integration of ODA with plans, budgets and reports is critical to ensure that this complementarity is facilitated through the development co-operation project management cycle. The integration of ODA in these processes, and its reflection in documentation, is essential to ensure that Implementation Agency personnel and structures take ownership of interventions and are accountable appropriately to the specific intervention in terms of choice of delivery channel and mechanism adopted.

7.2 Technical Co-Operation and Technical Assistance

Technical Co-Operation is defined as "ODA not channelled through government (RDP Fund) or its entities. Technical Co-Operation is channelled through non-state actors, private sector contracts or managed directly by the development partner". By definition, it is 'in-kind' support, where the DP pays for goods and services.

Technical Assistance (TA) in the form of short or long-term advisors is often an important part of DC in SA when undertaken with a view of ensuring 'best-fit' in the transfer of skills (as well as best-practice) and improved, effective and efficient approaches to government delivery of services, thereby building sustainable government capacity. All technical assistance should be demand-driven by the GoSA and should be focused on the effective transfer of skills to the public service. TA must however, be carefully managed with clear guidance and oversight from lead government official(s) on the details of mentorship/skills-transfer strategies and implementation plans. Government managers must ensure active monitoring exercises to assess and report on progress towards the transfer of technology and skills, as well as improvement plans, if necessary. TA should never be used as a 'gap filling' instrument for the work of officials of government, at any level, as it is not sustainable or desirable in the longer-term.

Technical Assistance covers the following categories:

i. Actions Aimed at Capacity-building through: (a) strengthening individual/organisational capacity by providing consultancy or other expertise (institutional twinning arrangements, mobilisation of diaspora, policy advice/services to research, design/manage development partner support programmes etc.); (b) training and related learning opportunities (peer-exchange, tertiary education, etc.), and equipment; (c) strengthening implementation (of services, investments, regulatory activities); and (d) associated supplies and costs;
ii. Research;
iii. Development Partner-oriented Social and Cultural Programmes;
iv. Package-type Projects whose ultimate product corresponds dominantly to a form of technical co-operation;
v. Technical Assistance: advisory and technical support (studies, product development, material development, management support, placement of technical experts in a recipient institution on a short or long-term basis);
vi. Technical Co-operation that is embedded in investment/capital programmes such as: (a) consulting services, transaction advisers and technical support in the provision of know-how linked to the execution of an investment project; and (b) contribution of the development partner's own personnel to the actual implementation of the project;
vii. Technology Transfer;
viii. Related Supplies and Works;

When placing a technical expert, there must be an equivalent official to transfer skills or capacity to, as a counterpart. All Terms of Reference for technical experts should stipulate this aspect as the objective of the co-operation. The government and the development partner, with the primary responsibility for technical assistance for the project, should undertake regular monitoring and evaluation. All technical assistance should be overseen by Human Resources to ensure that there is an available official to transfer the skill to within the government or beneficiary institutions. TA must never be a replacement of SA human capacity and should always be considered as a short term, time bound intervention that is meant to address a specific capacity problem that should be resolved in the interim.

7.3 Concessionary Loans

Lending to the domestic market (both concessionary and non-concessionary) is welcomed once it meets key criteria and is beneficial in meeting national development priorities, particularly in terms of capital investment programmes. The Provinces receive approx. 96% of revenues through national transfers and they have limited powers to borrow[25]. Municipalities have less limited powers to borrow and raise much of their revenue from own sources. Currently, no framework exists to clarify the role of IDFIs, intermediaries, rules of engagement and legal requirements, particularly as it relates to the municipal borrowing market[26], requiring significant management and co-ordination to achieve greatest effect for SA[27].

In terms of the regulatory requirements pertaining to municipal borrowing, the following apply:

- the Constitution of RSA: Under S216(2), NT must enforce compliance with uniform treasury norms and standards established in national legislation such as:
- the Public Finance Management Act, 1999 (PFMA): NT must promote the national government's fiscal policy framework and the co-ordination of macro-economic policy and inter-governmental financial and fiscal relations (under S230A). Arising from its various PFM responsibilities, NT must also play a role based on the Policy Framework & Procedural Guidelines for Management of DC, as approved by Cabinet in xxx, in negotiations with DPs over financing mechanisms in general, and for concessionary loans in particular;
- the Municipal Finance Management Act, 2003 (MFMA): a municipality can incur short-term (within 1 year) and long-term (exceeding 1 year) debt under very specific criteria.
- Exchange Control Regulations: When borrowing from foreign institutions, municipalities (and their entities) must obtain pre-approval of the Minister of Finance, as required by Regulation 16(5) of ECR, 1961 – powers now delegated to the Governor of SARB (under Regulation 22E of the Regulations);

For a loan to be deemed concessionary (as outlined by the DAC directive) and therefore, counted as ODA, it must demonstrate the following criteria:

i. is provided by official agencies, including state and local governments, or by their executive agencies; and
ii. each transaction of which: (i) is administered with the promotion of the economic development and welfare of developing country(ies) as its main objective; and (ii) is concessional in character and includes a grant element of at least 25% (calculated at a rate of discount of 10%);
iii. The Table below summarises the alternative measures of loan concessionality currently being used internationally:

Organisation	Purpose	Discount Rate	Concessionality level
OECD	Define ODA flows	10%	>25%
	Assess concessionality of export credits	6-month average CIRR	>35%
IMF/World Bank	Assess new borrowing concessionality as part of macro stabilisation programme	10-year avg. CIRR for loans with maturity >10 years + margins; 6-month avg. for shorter-term loans	>35% or more for some countries
	Assess long-term debt sustainability of loan portfolio, using present value debt ratios	5%	Not applicable

In addition, and from a GoSA perspective, concessionality must demonstrate specific and quantifiable benefit to the country and to the beneficiary in terms of: (i) the interest rate being charged; (ii) the grace period offered; (iii) the value in local currency; (iv) the extent and level of transaction costs; (v) whether the loan has restrictive covenants that amount to 'tied-aid'; and (vi) the extent of technical assistance/ transaction advisory support available. This is especially important where intermediaries are used and it is difficult to assess who receives the loan concessionality in the process.

[25] Sections 66-67 of PFMA and the Borrowing Powers of Provincial Governments Act, 1996
[26] In this regard, arising from the NT 'Local Government Budgets & Expenditure Review' (2011), NT estimates the cost of addressing municipal infrastructure needs for rehabilitation, backlog eradication and support to economic growth is estimated to be R500bn over the next 10 years.
[27] Under the current ODA Policy & Guidelines (2003), NT must ensure that concessional loans that arise from bilateral agreements are in line with ODA Policy & Guidelines. This requires that (i) engagements with development partners must comply with a series of conditions (relating to ODA alignment, conceptualisation/design, management, ownership and reporting); (ii) ODA regulation at source, by way of country-to-country negotiations/agreements (under the responsibility of NT:IDC); and (iii) ODA funding directed at municipalities and channelled through IDFIs needs to be supervised by NT:IDC (for which a framework to guide IDFIs is required).

GoSA endeavours to pursue a holistic and consistent approach in the management of all external debt, and NT is the central co-ordinating point to ensure the management of all external debt in the country, in order to achieve value-for-money and for risk management purposes. As concessionary lending is increasing significantly, there is now a need to develop a uniform official borrowing policy, including the need for a single entity within NT[28] to co-ordinate and manage non-grant official flows and borrowing more effectively in the national interest, with the result that:

- Gaps in the institutional framework are addressed and a 'clearing house' approach is applied to support comparative analysis, cost-benefit analysis, risk analysis and transaction advisory support to all spheres of government;
- Opportunities in terms of lenders and their instruments can be better tapped through more careful choice of lenders and loan types that promote 'best-fit';
- Government policies can be better supported in their implementation through greater alignment to government priorities (in the NDP/MTSF), processes and systems;
- Borrowing costs can be optimised and further reduced through more emphasis on preferred terms and more transparent conditions of loans;
- Risks and costs can be better contained and managed through incorporation of transaction advisers and other technical assistance supports, including studies and assessments; and
- Risks can be further minimised through an improved external borrowing mix and through improved monitoring and evaluation of the optimised use of non-grant official flows;

To achieve these key objectives, greater co-ordination and management of official borrowing (both concessionary and non-concessionary) is required, for which new or enhanced institutional arrangements are now required that facilitate more meaningful engagement and support to national departments (and SoEs) and local government (metros and municipalities) in meeting their non-grant funding requirements.

7.4 Hybrid Funding Mechanisms

Changes in the global political and economic environment and shrinking development co-operation flows are impacting on development partners' development policy, with the tendency to see the private sector as the most promising actor in undertaking substantial domestic and foreign investment and improving infrastructure. In this context, use of 'blending mechanisms' and/or PPPs offers innovative financing for development options.

1) Loan-Grant Blending Mechanisms

Loan-Grant Blending Mechanisms i.e. combining grant support (usually channelled through a DFI) with non-grant resources and/or loans, are a response to the need to increase the volume of development financing in a context of constrained resources. For SA, blending mechanisms are relatively new and there is evidence of their positive impact elsewhere, albeit at an early stage in the roll-out process. As a 'hybrid' financing mechanism, blending can catalyse public and private investment and bring other benefits to leverage development co-operation efforts. Blending involves the combination of grant support from ODA and other sources with other private or public sources of finance, such as loans, risk capital and/or equity. Such grant support can leverage the additional non-grant financing, generally for infrastructure, energy or private sector development projects, to meet unmet investment needs. Grant support (or grant equivalent) provided can take a number of forms, most commonly direct investment grants, interest rate subsidies, risk mitigation mechanisms, project preparation/development and/or technical assistance.

GoSA has earmarked infrastructure development as one of its top priorities to assist in addressing the country's triple challenges of high unemployment, poverty and social inequality. Infrastructure development is more than 'bricks and mortar' and also needs to address the institutional, human and business systems involved in the systematic planning, design, building, maintenance and operation of complex and expensive systems over a longer period of time, with the institutional framework becoming even more important when public and private sector stakeholders need to collaborate effectively.

[28] Management responsibilities within NT fall among A&L, IREP and BO, with IDC involvement for non-grant concessionary loans and blending mechanisms.

The innovative approach of 'blending' mechanisms facilitates this more comprehensive approach to infrastructure investment and development, using developmental approaches to capacity-building alongside funding requirements, in an effort to mitigate project risk and enhance 'bankability'. Loan-Grant Blending in particular, is identified as an interesting and strategic mechanism to leverage grants from development partners and to blend them with (non-)concessional loans provided by DFIs (including DBSA and IDC). Over time, it may also be possible to utilise loans provided by commercial finance institutions, to raise development finance to fund infrastructure projects at provincial and municipal level which have a social dimension, but can demonstrate pay-back through quasi-commercial potential over time.

2) Public-Private Partnerships (PPPs)

As a means of procuring and delivering infrastructure services, PPPs are in line with the intent of both the PFMA and MFMA, with both acts focused on delivering outputs through value-for-money solutions. Two types of PPPs (or a hybrid of them) are specifically defined: (i) Where the private party performs an institutional function and/or uses state property in terms of output specifications; and (ii) Where the private party acquires the use of state/municipal property for its own commercial purposes. The main legislation governing PPPs at the national and provincial levels of government is the Public Finance Management Act (1999) (PFMA) and Treasury Regulation 16. Municipal PPPs are governed under the Municipal Finance Management Act (2003) (MFMA) and its regulations, and the Municipal Systems Act (2003) (MSA).

All this legislation supports and reflects government's policy objectives for delivering infrastructure and public services, in line with its constitutional mandate. PPPs may involve some capital contribution by the institution to the initial costs of the project. Some PPP projects do not involve debt finance at all, being initially funded either wholly through corporate finance or by a combination of government funds and private equity. In 'end-user-pay' projects, there may also be some government funding for either or both the capital and operating costs of the project. GoSA is committed to delivering quality infrastructure and related services in line with its commitment to ensuring a better life for all. Alongside traditional procurement methods, PPPs play a central role in service delivery and GoSA is committed to PPPs for projects with significant scope for private sector participation[29].

7.5 Results-based & Innovative Development Financing Mechanisms

In an effort to address the MDGs and increasingly, SDGs beyond 2015+, a move to develop results-based and innovative financing mechanisms offers thematic and focused approaches to addressing social goods, notably:

1) Climate & 'Green' Financing Mechanisms

Globally, the costs of transitioning to a climate change or low-carbon resilient economy are exceptionally high and will require significant financial resources. An estimated additional investment of 1-2.5% of global GDP per year will be required from 2010-2050 to transition to a 'green' economy. While numerous international climate finance mechanisms have been established, these are highly fragmented. It is therefore, important that domestic climate finance strategies be developed to augment these international mechanisms. Furthermore, it is clear that the traditional divide between mitigation and adaptation funding should be recognised, especially for developing economies, in order to trigger innovative responses that are integrated with the national development agenda. For SA, climate change mitigation measures are of critical importance and preferred above climate adaptation initiatives, based on the prevalence of poverty and inequality that continues to exist in the country.

SA's climate response strategy should support the development of a climate change resilient region. Regional climate mitigation programmes would enable SADC countries to co-invest in scalable and replicable climate response strategies, recognising variable geometry, that: (i) reduce the vulnerability of the region to climate change; (ii) create regional production capacity and demand for sustainable technologies; (iii) build resilient regional infrastructure; and (iv) develop integrated disaster management and response frameworks. Sub-Saharan Africa (SSA) is widely acknowledged as being one of the regions of the world most vulnerable to climate change.

[29] There are PPPs in many sectors of the SA economy, including Health, Water & Sanitation, Social Housing, Environmental & Recycling, Transport, IT, Tourism and Education, as well as in areas relating to HQ accommodation, toll roads, fleet management etc.

The tentative development gains made in SSA are at risk of being undermined by rampant climate change through water scarcity, droughts, land degradation and poor air quality. For SSA and Africa at large, urgent investments in mitigation (and in due course, adaptation) interventions are necessary to avert a growing humanitarian crisis and potential for regional conflicts. Thus, promoting regional investment in natural resources and integrating climate risk into the much needed infrastructure investment on the continent may ultimately reduce individual and collective country vulnerabilities.

South Africa, in particular, as an economic force in the SADC region holds a duty of care to: (i) contribute to and promote climate resilience to reduce the vulnerability of its neighbouring countries; (ii) promote climate resilient infrastructure; (iii) foster regional development and integration in the context of the climate risks impacting the region; and (iv) contribute to food security domestically, and within the region, through improved policies and utilisation of appropriate technologies and know-how.

2) Impact Investing: Impact Bonds (IBs)

Impact Bonds (or Pay for Performance Bonds) are a relatively new financial mechanism in which investors pay for a set of interventions to improve a social outcome that is a persistent challenge and of social and/or financial interest to government (or a donor) to have it resolved.

IBs are a way of financing outcomes-based contracts. Socially-minded investors fund services delivered by NGOs or social enterprises on the basis that they will receive a return on their investment from government or a donor agency if the service delivers a pre-agreed set of social outcomes. If the social outcome improves, the government repays the investors for their initial investment plus an above-average return for the financial risks they assumed. If the social outcomes are not achieved, the investors stand to lose their investment in-full or in-part. Traditionally, if the outcomes funder is government, the structure is known as a Social Impact Bond (SIB), whereas, if the outcomes funder is a donor, the structure is known as a Development Impact Bond (DIB). IBs provide investment to address social problems and look to fund preventative problems through proactive interventions. As such, they present an interesting opportunity to provide support to reduce the strain on acute services when there are budgetary limitations or where government cannot commit tax revenues to risky or unproven projects. Impact Investing can be both debt and equity in terms of inflows of capital allowing for organisations to cover their costs and fund their core social missions.

In terms of Next Steps for IBs in South Africa[30], IB experiments elsewhere have prompted interest among philanthropists, policy-makers and investors in conducting proof-of-concept tests before fuller insights and judgements can be made. In SA, the IB concept is untried and untested and therefore, must be studied and managed with extreme caution initially. In this regard, GoSA is of the view that the concept deserves to be trialled and studied in a pilot context, under tight controls and monitoring protocols, to test its validity and potential impact, before IBs can be endorsed and utilised more widely as a means of addressing social and/or service delivery challenges in partnership with the private sector.

3) Global Public Goods (GPGs) and Regional Public Goods (RPGs)

Public Goods are traditionally defined as "those goods whose inherent characteristics in terms of 'non-exclusion' and 'non-rivalry' make their production by the private sector improbable. Market failure therefore, justifies state intervention to supply and to preserve such public goods". Therefore, Global Public Goods came to be understood as those goods with 'non-rivalrous' and 'non-exclusive' features not only with regard to individuals, but also between different populations and countries.

The debate on the identification of GPGs raises questions concerning:

- Governance and decision-making at national, regional and international levels;
- Involvement and engagement of NGOs/CSOs in the negotiation and decision-making processes;
- Involvement and engagement of the private sector in public-private partnerships (PPPs), in financing these evolving initiatives and commitments;

[30] 'Final Policy Paper: Exploration of Social Impact Bonds for SME Development', The Bertha Centre (UCT), Genesis Analytics, SA & Social Finance, UK (April 2014)

In a globalising world, problems and solutions reach across national borders, resulting in a growing need for international collective action. During recent years, the concept of Global Public Goods (GPGs) has become an increasingly important part of international policy-making. The concept appears in the agendas of UN agencies, the IMF/World Bank, and Non-Governmental Organisations. With a growing focus on global public goods (including climate change/environmental protection, poverty alleviation, food security, health, knowledge/education, property rights, financial stability and peace/security), it is likely that a growing share of DC will be allocated to these areas in future. Questions remain unanswered regarding financial aspects and how to provide global public goods on a national, regional and international basis.

In the context of DC (and ODA), bilateral and multilateral development partners are increasingly adopting a regional perspective and focus on regional economic integration and peace/security through the RECs, individually and collectively (with the move towards a Tripartite initiative, involving SADC-COMESA-EAC).
In the regional context, in addressing cross-border issues and challenges in serving to enhance the SA national interest, the following regional public goods are identified, notably:

- Transport Corridors and Infrastructure (e.g. Durban-Dar es Salaam: North-South Corridor);
- Utilities Infrastructure (e.g. Water, Energy, ICT etc.);
- Public Health (e.g. communicable diseases management, research and development);
- Trade, Financial Markets and Foreign Direct Investment (e.g. shared rules and standards);
- Peace and Security (e.g. SADC Organ on Politics, Defence & Security);

GoSA envisages an increasing role for tripartite arrangements in addressing regional public goods, particularly at the regional level. In this context, GoSA also encourages a greater and growing role for the private sector in trade-related aspects of RPGs, as well as in other areas.

7.6 Trade in Development Co-Operation (formerly Aid-for-Trade Initiatives)

Trade is a critical component in addressing poverty alleviation and inequality through promoting economic development and regional integration. As an element of broader developmental policies and objectives to address the MDGs, supporting demand-driven reforms of trade-related policies, as well as removing supply-side constraints related to productive capacities, economic infrastructure and trade-related adjustment, trade is crucial for developing countries in order to implement and benefit from trade agreements and access to regional and international markets.

South Africa as a UMIC, sees the term AfT as inappropriate, as AfT has not evolved to include areas such as SSC and other forms development co-operation. GoSA does not accept the term AfT as representative of its requirements for development co-operation in promoting trade reforms and in leveraging trade as a means of addressing poverty and inequality. Trade in development co-operation is seen as comprising: (a) Trade Policy & Regulations; (b) Trade Development; (c) Trade-related Infrastructure; (d) Building Productive Capacity; (e) Trade-related Adjustment; and (f) Other Trade-related Needs.

For SA, trade and economic growth are critical to achieving socio-economic development by addressing poverty alleviation and inequality through increasing access to a wider range of goods, services, knowledge and technologies (including intellectual property), while facilitating entrepreneurship and private sector development, leveraging private capital, bolstering foreign exchange earnings and enhancing employment creation.

From a SA perspective, there are significant opportunities, both domestically and regionally, for increased trade-related initiatives that promote SMME skills development, technology transfer and infrastructure development by leveraging DC more effectively and more strategically in supporting IPAP, the NDP and MTSF.

8. Institutional Arrangements

Development co-operation (both official and non-official) patterns in SA have progressively shifted from a focus on policy development (at a national level) to service delivery and implementation (at provincial and local levels). Additionally, DC is now beginning to draw SA into tripartite arrangements in the wider region. While international agreements involving the flow of funding can only be signed at national level, the overall management of ODA now needs to take into account this larger grouping of implementation agencies, requiring greater co-ordination and accountability. There is now a need for more integrated and formalised co-ordinating structures that better manage DC for the SA 'national interest'. Strategic partnerships with various DC role-players and 'change agents' need to be reviewed and refined to better align DC to SA priorities, processes and systems. Risk management must also be addressed, involving more effective identification and containment of various risks for the benefit of the SA national interest, in particular, where exposure to new risks is evident in relation to increased take-up of (non-)concessional loans and other innovative financing mechanisms increasingly offered by DPs (and for which there is insufficient expertise and experience within GoSA).

8.1 National Treasury: International Development Co-Operation (Chief Directorate)

In the development co-operation environment, there are a number of different scenarios in which official and non-official development partners may engage with local agencies at regional, national, provincial, municipal levels or, indeed, any combination of the above. While national Government has overall responsibility for DC (and ODA) management, provincial and local governments have, in accordance with the constitution, the right to qualify over the affairs specific to their respective areas of jurisdiction, subject to national legislation. In practice, this means that provincial and local governments may, in accordance with their respective interests, establish their own DC (and ODA) policies and structures and pursue their own development co-operation practices within the broad national policy framework and guidelines.

NT:IDC is the 'entry point' for development co-operation in SA in terms of: (i) facilitating negotiations between DPs and GoSA in setting priorities and programmes that are aligned to national priorities, systems and processes; (ii) ensuring compliance with multilateral and bilateral agreements, in alignment with national policy and legislation; and (iii) co-ordinating reporting on DC to the budget and to parliament, which in turn, is dependent on the harmonisation and transparency of reporting by DPs and SA departments, provinces and local government in this regard. While NT:IDC facilitates co-ordination at macro level, government entities such as national departments, provincial authorities or municipalities are responsible for implementing projects which utilise DC (and ODA), while ensuring appropriate overall DP co-ordination within their respective areas of jurisdiction. These include, amongst others, ensuring that each DP intervention is not only fully compliant with GoSA policy, plans and actions, but is also complementary to those of other development partners, where such efforts seek to prevent duplication and fragmentation of efforts and mitigate risks related to conflicting initiatives.

NT undertakes the responsibility for providing a clear policy framework for the overall management of all incoming 'official' DC, though this will expand to include 'unofficial' inflows from South-South Co-Operation and the private sector, including CSI and philanthropy. NT co-ordination will seek to ensure complementarity between DPs' support and implementing partners' requirements. Under NT:IDC guidance and support, a network of 'ODA Co-Ordinators' across national departments (and entities), provincial and local government levels has been established to better co-ordinate and manage DC mobilisation and utilisation, encompassing 'traditional' ODA and extending to include 'non-traditional' inflows from other DPs and sources.

Co-ordination has to be directed at all three spheres of government to improve the management of DC in SA. DC programmes must adhere to government policies and strategic direction such as: the SONA; the MTSF; and the NDP; with a clear focus on utilising government processes and financial systems. All DC should strengthen and complement identified priorities within the relevant implementing partner. Co-ordination should be managed by the lead implementing partner, taking into consideration not only the afore-mentioned policies and priorities, but also the relevant sector/cluster policies and priorities. Co-ordination can only be enhanced through accurate and verifiable reporting from implementing partners to

NT:IDC. The importance of relationships across implementing partners, NT and DPs are not to be neglected and treated as an ad-hoc or spontaneous process, but must be invested in by all stakeholders.

The head of the relevant implementing partner, in their role as accounting officer, is accountable for all DC that is allocated to their institution, as set-out in the PFMA and/or MFMA. All CFOs are responsible for reporting on the utilisation of DC received, including support that has not been channelled through government systems. The reporting is to be included in quarterly reports to NT:IDC, for which all reports should include financial analysis of expenditure (e.g. BAS Report), as well as a narrative on the current status of project implementation. In addition, all incoming development support must be reflected on the MTEF and NT ENE schedules.

8.2 Monitoring Framework for Development Co-Operation

The Presidency, through the DPM&E has developed an over-arching government-wide Monitoring & Evaluation (GWME) system. The system provides an integrated, encompassing framework of M&E principles, practices and standards to be used throughout Government. In this respect, the GWME function is an apex-level performance measurement framework upon which Departments should draw from, and develop, their requisite Monitoring, Evaluation & Reporting processes, as well as tools for their institutions.

To ensure credibility of the institutions M&E system, SMART indicators need to be developed, which then should be used as benchmarks to track targeted outputs and outcomes. Accordingly, baseline indicators (which reflect the situation before the programme or project begins) must be clearly defined and established. Continuous assessment, otherwise monitoring implementation progress, should provide oversight to help determine if outputs and other planned deliverables have been achieved or not so that action can be taken to correct the deficiencies as quickly as possible.

A Monitoring & Evaluation Plan should be developed as an integral part of all programme/project implementation plans. The Plan is to guide the continuous monitoring as well as the in-depth analysis and systematic assessment of the programme/project, otherwise Evaluations**.**

The main purpose of institutionalising M&E is to aid a systematic approach of taking stock of achievements, identify lessons to learn and inform future pathways for improved implementation. Effective M&E provides an opportunity for open and critical reflection on progress and constraints. The findings are expected to entrench accountability, increased responsibility for more efficient use of funds and improved performance. Guidelines on what the M&E Plan should include and highlight are provided in the Development Co-operation Guidelines.

Integrated Reporting is an important aspect of result-oriented M&E. The integrated report should comprise both the financial expenditures as well as the development outcomes. The basic principle of integrated reporting is to demonstrate financial flows and state outputs or outcomes achieved in relation to expected results, as well as unexpected results and ‘spin-off’ effects. The integrated report should be prepared jointly by the implementing units within a department. The report should therefore, comprise all on-going development co-operation funded components and should be submitted to NT and the DPs, as relevant, through the Development Co-operation Co-ordinators.

The responsibility of co-ordinating M&E and consolidated reporting of DC programmes and projects lies with the Development Co-operation Co-ordinator within a Department. Heads of implementing sub-departments, Units and Agencies must therefore assign a staff member to closely track implementation progress. In this respect, the staff member should systematically collect data on the results achieved (or otherwise), conduct analysis and examine outputs and outcomes in relation to the expected results and prepare reports. Such staff member must comply with the instructions of the overall Development Co-operation Co-ordinator. These responsibilities, amongst others, should be specified in the individual performance contract.

DPs should collaborate with the SA institutions to ensure that systems are strengthened and enhanced, including the M&E tools that has been developed for the country. Collective responsibility must ensure accountability for resources from both Government and Development Partners, in addition to delivering development outputs, outcomes and impact in the most efficient way, towards achieving greater value-for-money and greater leverage-effect in meeting GoSA priorities.

8.3 Exit Strategy

There is little doubt but that ODA in the form of grants is phasing-out in South Africa by 2020. Most 'official' development partners have reduced their development co-operation significantly in the interim or have signalled their intent to do so. SA will undertake an audit of all DC programmes and assess the impact of reduced ODA to current and future programmes and projects. It will also assess how the current DC programmes will be absorbed by the budget from domestic resources.

However, on the other hand, SA is also exploring wider options at availing funds for the purposes of continuing to pilot and develop capacity in country from its own resources. Other mechanism are being considered in terms of continuing development work where GoSA is exploring dynamic relationships with development partners appropriate to its status as a MIC and this will be approached on a case by case basis to ensure a win-win solution for all parties concerned.

9. Approval

The Development Co-Operation Policy is hereby approved for and on behalf of the Department by the Chairperson of the Governance Review Committee and the Accounting Officer.

Interim Approval

DALU MAJEKE
CHAIRPERSON: GOVERNANCE REVIEW COMMITTEE
Date:

Approval

LUNGISA FUZILE
DIRECTOR-GENERAL: NATIONAL TREASURY
Date:

Annex 1: Defining Official Development Assistance:

There is no internationally agreed definition of what constitutes development assistance or the concessionality of loan finance. According to a 1969 OECD/DAC definition ODA includes: "those flows to countries and territories on the DAC list of ODA recipients and to multilateral development institutions which are:

- Provided by official agencies including state and local governments, or by their executive agencies;
- Each transaction of which is:
  - Administered with the promotion of the economic development and welfare of the developing countries as its main objective:
  - Concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)[31].

Unpacking this definition further, ODA is grants or loans which meet the following criteria:

- Donor is government or its agency, this therefore excludes all private sector finance.
- Recipient is a developing country government or multilateral development institution, such as the World Bank, IMF, United Nations (UN), regional development bank and the main international non-governmental organisations (NGOs);
- Funding being provided is for the purpose of promoting economic development and welfare. This criterion is based on the donor's intention which is not always easy to discern. This criterion is meant to exclude loans or grants of a commercial nature and to further narrow the scope, OECD has a number of specific areas that are considered as not being ODA such as:
  - Military assistance including peacekeeping and assistance to refugees and military applications of nuclear energy;
  - Loans and grants for representational or commercial purposes;
  - Export credits extended by a donor government or its agencies;
  - Loans with one or more years maturity and grant element of less than 25%, irrespective of the purpose, and short term debt;
  - Subsidies (grants) to the private sector to soften its lending terms to developing countries.

Type of flows classified as ODA include: programme and project assistance, humanitarian assistance, debt relief, costs of education provided to developing country nationals in the donor community, administrative costs of ODA programmes, subsidies to NGOs and programmes to raise development awareness in donor countries.

[31] OECD (2007c) and OECD (2007d)