

**COOPERATION
BETWEEN
THE EUROPEAN UNION
AND SOUTH AFRICA**

The Cooperation Council

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NOTE

Subject: Development report

Development cooperation between South Africa and the European Union continues to be marked by the objective of ensuring that ODA brings *value added* through innovation, pilot programmes, capacity development, and the sharing of skills and knowledge. These ODA objectives were implemented in 2011 and the first part of 2012 through programmes focusing on employment; capacity development for service delivery and social cohesion; governance; regional and pan-African cooperation; as well as support to the implementation of the Trade, Development and Cooperation Agreement.

During 2011 the National Development Policy Support Programme was finalised in support of the implementation of the Government's Medium Term Strategic Framework, laying particular emphasis on the outcome-based approach and paying attention to the areas of improving public financial management, evidence-based policy making and civil society engagement. In addition, a second phase of the Erasmus Mundus Programme, a contribution to the EDULINK programme, as well as the inclusion of a regional component to the Legislative Sector Policy Support Project was approved. The preparation of the Infrastructure Investment Programme has continued during this period. Attention has also been given to the preparation of a programme(s) on the themes of governance and migration with national and regional components.

Importantly, *Joint Programming* has commenced that will determine SA-EU development cooperation for the period 2014-2020.

1. Objectives of Development Cooperation

The objectives of the South Africa-European Union development cooperation remain, as in the past, firmly anchored in the view that the real value added of ODA is not the finance itself, but what comes with it, namely value added activities involving innovation, pilot programmes, capacity development, the sharing of skills and knowledge, and risk taking. In this sense the *value added* approach to development cooperation lays emphasis not on the "heavy lifting" that might be expected of ODA in other countries, but rather on a more focused approach which gives space to Government to identify value added activities, provides technical assistance in areas where this form of assistance is most valued, and complements these activities with support to civil society organisations.

In line with the "value added approach" to providing ODA there is evidence that experience learnt from Local Economic Development programmes, Private Sector Support through the Risk Capital Facility II, Financial Management Improvement Programme, the Programme to Support Pro-Poor Policy Development are being replicated with resources from the South Africa national and provincial budgets.

2. Status of implementation of the Multi-Annual Indicative Programme 2007-2014

On *commitments*, for the CSP/MIP 2007-13, a total of €844.4m has been committed, consisting of thirteen national programmes (€826.4m) and four regional programmes (€18m). Thus of the €980m available under the MIP 2007-13, approximately 86.2% of available funds have been committed and about €135m is still to be committed during 2012 and 2013. An additional €6.0m has been allocated for commitment from the Instrument for Industrialised Countries (ICI+). In terms of management mode for the MIP 2007-2013, 84% of the overall budget committed is provided in the form of budget support. The average time for disbursement improved to around 3.5 years. The total outstanding amount for all (administratively and technically) open programmes, as of 31 December 2011, amounts to approximately € 469.9 million.

With respect to *activities during 2011-12*, progress has been made in a number of areas, including:

- the implementation of the *TDCA facility*, designed to support dialogue between South Africa and the EU, has recorded good results;
- the *Innovation for Poverty Alleviation programme* (with the Department of Science and Technology) is starting to yield positive results (a mid term review was conducted during this period)
- the *Legislature Sector Policy Support Programme* has been implemented with a consultative conference focusing on oversight and expanded to support capacities of the South Africa Legislative Sector to engage at international level;
- the *Primary Education (PrimEd) Sector Policy Support Programme* has been implemented with an increased number of higher education institutions involved in foundation phase teacher education programmes;
- the proposed amendment to the *Employment Sector Policy Support Programme* is in progress;
- the *Youth Empowerment Programme* has continued implementation and the call for proposals on culture was successfully concluded;
- The *Primary Health Care Sector Programme (PrimCare)* was launched in September 2011 and has already supported a number of actions such as the community health outreach teams, district specialist teams, school health, primary health care facility improvement teams, provincial internships, fully embedded in the government efforts to revitalise primary health care in the context of the national health insurance overall reform;
- The *Technical Assistance and Official Development Assistance* programme has been initiated;
- The *Risk Capital Facility and Programme to Support Pro-Poor Policy Development (PSPPD)* are in their closure phases, as is the *Eastern Cape Local Economic Development Programme* (Thina Sinako);
- The remaining LED programmes are being finalised (KwaZulu-Natal - Gijima KZN and the Limpopo LED Programme); and the Water for Growth programme and the Financial Management Improvement Programme II have been finalised.

The *Annual Action Plan (AAP) for 2011* included the commitment of funds for five programmes: (i) the National Development Policy Support Programme (€250m); (ii) Erasmus Mundus (€5m); (iii) Edulink (€5m); and (iv) Legislative Sector Policy Support Programme (€5m). The AAP 2011 was approved by the European Commission in November of the same year and the Financing Agreement for the NDPSP was signed by the Minister of Finance on 24 May 2012.

The *pipeline for 2012* foresees the commitment of DCI funds for three programmes: (i) Infrastructure Investment Programme for South Africa (€100m), (ii) Erasmus Mundus (SA to Europe - €5m); and (iii) a top-up of between €2m and €3m to the Dialogue Facility. Commitments under the ICI+ instrument funds are expected for Erasmus Mundus - European mobility (€2m). In complement to these people-to-people links, a programme to the value of €1m that will combine elements relating to public diplomacy and outreach, economic partnership and business cooperation as well as culture is envisaged under the ICI+ during 2012. Of these programmes the preparation of the Infrastructure Investment Programme for South Africa (IIPSA) has been the most complex.

For the *pipeline 2013* work is underway for support in the area of *governance* and an indicative amount of €19m is available for programming. Discussions have been initiated with some departments in two proposed areas, namely (i) migration, and (ii) a possible top-up to the "Access to Justice and Promotion of Constitutional Rights Programme". National Treasury will initiate discussions with the various Departments that constitute the Governance and Administration Cluster in order to obtain an "in principle" agreement on the future application of the available funds. With regards to the "Access to Justice and Promotion of Constitutional Rights" programme a possible top-up is under consideration (with between €5m and €10m proposed), which would take into account the past performance of the programme and its qualitative and quantitative impact at community level. Tentative proposals include proposals on community advice offices, human rights awareness, and public policy dialogues. Commitments under the ICI+ instrument funds are expected for Erasmus Mundus - European mobility (€3m).

3. The European Investment Bank

The European Investment Bank's (EIB) lending mandate for South Africa supports both public and private sector operations, with a focus on infrastructure projects of public interest (including municipal infrastructure, power and water supply), private sector support (including SMEs) and support for climate action investments. A *mid-term evaluation* of the EIB's external mandate carried out in 2009-2010 concluded that EIB's loan strategies and operations in South Africa conform fully to EU and South African strategic policy objectives. Following the conclusions of the review, a new mandate Decision provided an €36m increase of the mandate sub-ceiling for South Africa, bringing the total envelope for the period 2007-2013 to €936m.

A total of €731m or 78% of the increased South Africa envelope are **currently committed** (net of cancellations); the remaining funds are due to be committed during 2012-13. In addition, €50m were provided under EIB's Energy Sustainability and Security of Supply Facility, i.e. outside the RSA mandate. Financing, which can be denominated in Rand, has so far been made available for the funding of investments in affordable and social housing, toll road improvements, water supply and municipal infrastructure, as well as for energy efficiency and renewable energy investments, support to a manufacturing project and SME funding. Operations in the pipeline concern in particular further climate action investments.

The South African Government looks forward to an enhanced engagement with the EIB and other European Development Finance Institutions (DFIs). Aspects that will form part of ongoing discussions include concessionality of finance.

4. Aid Effectiveness (AE)

In 2011 and early 2012 the AE agenda has moved forward as a result of the preparation for the **Busan meeting** in December 2011, and the preparation of the "Global Partnership for Effective Development Cooperation" in the first half of 2012. As part of this process, the National Treasury on 15 November 2011 organised a workshop in Pretoria on AE with the purpose to share with development partners and broader government representatives "key SA messages" to the Busan HLF. South Africa renewed its commitment to the advancement of the AE agenda by participating to the 4th HLF in Busan. South Africa's focus during the Forum and after was stated as being twofold: a) on the unfinished aid effectiveness agenda and b) on a shift from Aid Effectiveness to Development Effectiveness.

Following the Busan conference, a **Post-Busan meeting** was arranged on 20 March 2012 between the Government of South Africa and the various development partners. Discussions focused on the Busan Outcome Document ("Busan Partnership for Effective Development Cooperation"), which highlights the following shared principles to achieve common goals: (i) ownership of development priorities by developing countries; (ii) focus on results; (iii) inclusive development partnerships; and (iv) transparency and accountability to each other.

In order to improve the management of development cooperation in a practical manner, an inclusive Annual Consultation process started in March 2012 for a second consecutive year, the aim being to ensure greater coordination between Government and the EU and its Member States. In line with aid effectiveness principles the EU continues to provide a substantial part of its support to South Africa by using the country's public financial management processes and systems.

Practical steps proposed and currently implemented that could enhance aid effectiveness in South Africa include:

- *Taking the AE agenda forward* – National Treasury has engaged development partners on the outcomes of the Busan meeting, focusing on issues related to the strengthening of the partnership between South Africa and the various development partners. EU development partners proposed to draft short opinion papers on relevant themes that could guide and enhance further dialogue in this regard. These will be submitted to National Treasury.
- *Promoting joint assessments* – An assessment in the area of supply chain management (SCM) in the health sector has commenced under leadership of the Office of the Accountant-General and conducted by the European Commission, the World Bank Institute and USAID. Preparations for the next (joint) PEFA assessment, to be conducted in 2013, will commence during the second semester of 2012.
- *Joint Programming* – The process to conceptualise and formulate the new Multi-annual Indicative Plan will be carried out jointly with the European Commission, the EU Member States, the EIB and the Government of South Africa. Joint Programming will include identification of the sectors of intervention, in-country/regional division of labour, and the indicative allocations per sector and donor.
- *Enhancing predictability of aid flows* – Efforts will be made to report ODA flows in the Development Cooperation Management Information System (DCMIS).
- *Implementing joint evaluations* – The joint evaluations of EU-funded programmes will be promoted as far as possible. This will include the country-based evaluation on budget support to the country.

5. Future Development cooperation

Programming for 2014 onwards is underway. Programming guidance has been issued by the European Union. Discussions commenced during November 2011 and the first Reference Group meeting was held on 25 April 2012. As with the previous programming cycle (2007-2013), a joint process will be followed between the European Union, the Government of South Africa, EU Member States and European Development Financing Institutions (DFIs).

The programming cycle consist of *two phases*. First, the National Development Plans of South Africa are analysed in order to assess whether these plans could serve as basis for future SA-EU development cooperation under the DCI. This analysis will be submitted before 30 September 2012. Second, the Multi-annual Indicative Programme (MIP) will be drafted and submitted within three months from the date of transmission of the instructions for the second phase. Joint planning will be done in line with the provisions made in the new EU Multi-annual Financial Framework (2014-2020).

A broad range of consultative sessions have been provided for, which commenced during 2011. Discussions were intensified with key programming principles and actions identified during the Annual Consultations Cluster Workshop held in March 2012, while several bilateral discussions have taken place with line departments (i.e. justice, parliament and science and technology). Discussions have also commenced with Civil Society Organisations in December 2011 and February 2012. Engagement with EU Member States occur on a monthly basis through which Member States are informed of the process being followed, as well as through focusing on key thematic topics in consultation with for example the National Planning Commission and Civil Society.

Apart from these two phases, the programming roadmap also provides for a *country-based evaluation* in the area of budget support. This evaluation will have the objective of assessment the country's overall performance in the implementation of its development cooperation portfolio through budget support during the period 2007-2013. Provision is also made for the contracting of *civil society organisations and/or academic organisations* that are operating within the space of the sectors identified for future support, to provide an independent opinion on priority areas that the development cooperation could focus on. These sector focus papers could potentially inform further discussions between the involved parties.
