Budget Support in South Africa

Guidelines for Formulation of the Financing Agreement
BUDGET SUPPORT IN SOUTH AFRICA

Guidelines for the Formulation of the Financing Agreement


This document has been prepared as a supplement to the National Treasury “Policy Framework and Procedural Guidelines for the Management of Official Development Assistance (2003)” with information specific to programmes funded by the European Union using the Budget Support modality. These Supplements reflect the commitment of the Government to ensure proper application of Budget Support funds in the South African developmental context. There are nine such Supplements with more in depth information on EU funding, modalities and Budget Support management. The nine Supplements are:

- Context for EU Funded Budget Support in South Africa
- Introduction to EU Funding Modalities
- Guidelines for Formulation of the Financing Agreement
- Financing Agreement Contractual Clauses
- Management of Budget Support Programmes
- Requesting the Release of Funds
- Evaluation of Budget Support Programmes
- Managing Budget Support Funds within the SA Public Accountability System
- Management of Grants Provided under the General Budget Support Programme.

Other Supplements have provided an overview of Budget Support modality, the conditions required to qualify for Budget Support and some insight into the accountability for South Africa for the ODA funds. This supplement provides guidance to ensure increased government ownership and alignment of Budget Support programmes with South African operations. It advises on the role that the South African counterparts should take in developing a Budget Support Financing Agreement, and specific aspects of the agreement that must be reviewed before the financing proposal is signed off by South Africa.

This supplement further provides an insight into the technical and administrative provisions (TAPs) in the Budget Support Financing Agreement, serving as a guideline to inform the formulation of the TAPs to ensure that it is implementable and is appropriate for programme conditions. This supplement covers:

- The process of formulating the Financing Agreement
- The roles of government and the EU in formulating the agreement
- Structure and content of terms of reference used for formulation studies
- The elements of the technical and administrative provisions, and their implications for programme management.

Information on the General and Special Conditions of Contract that apply to Budget Support Financing Agreements is provided in the supplement “Financing Agreement Contractual Clauses”.

The reader is also referred to the other Supplements listed above for further information on Budget Support programmes in South Africa.

October 2013
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<tr>
<td>AENE</td>
<td>Adjusted Estimates of National Expenditure</td>
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<td>AFS</td>
<td>Annual financial statements</td>
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<td>AG</td>
<td>Auditor General</td>
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<td>BAS</td>
<td>Basic Accounting System</td>
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<td>BS</td>
<td>Budget Support</td>
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<td>CABRI</td>
<td>Collaborative African Budget Reform Initiative</td>
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<td>CEF</td>
<td>Comprehensive Evaluation Framework</td>
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<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>CSP</td>
<td>Country Strategy Paper</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>DCI</td>
<td>Development Cooperation Instrument</td>
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<td>DCMIS</td>
<td>Development Cooperation Management Information System</td>
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<tr>
<td>DDG</td>
<td>Deputy Director General</td>
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<tr>
<td>DG</td>
<td>Director General</td>
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<tr>
<td>DIRCO</td>
<td>Department of International Cooperation and Development</td>
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<td>DPME</td>
<td>Department of Monitoring and Evaluation</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
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<tr>
<td>EC</td>
<td>European Commission</td>
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<td>ENE</td>
<td>Estimates of National Expenditure</td>
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<td>EPRD</td>
<td>European Programme for Reconstruction and Development</td>
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<td>ESP</td>
<td>European Special Programme</td>
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<td>EU</td>
<td>European Union</td>
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<td>EUD</td>
<td>European Union Delegation</td>
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<td>FA</td>
<td>Financing Agreement</td>
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<td>FMPA</td>
<td>Financial Management of Parliament Act</td>
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<td>GBS</td>
<td>General Budget Support</td>
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<tr>
<td>GCC</td>
<td>General Conditions of Contract</td>
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<tr>
<td>GP</td>
<td>Government programme, as specified in the Financing Agreement, supported by the Budget Support programme</td>
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<tr>
<td>IYM</td>
<td>In-year monitoring</td>
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<td>JAP</td>
<td>Joint Action Plan</td>
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<td>JCC</td>
<td>Joint Cooperation Committee</td>
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<tr>
<td>LFA</td>
<td>Logical framework analysis</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MFMA</td>
<td>Municipal Financial Management Act</td>
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<td>MIP</td>
<td>Multi-annual Indicative Plan</td>
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<td>MoA</td>
<td>Memorandum of Agreement</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>MTEF</td>
<td>Medium-Term expenditure Framework</td>
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<td>NAO</td>
<td>National Authorising Officer</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>NIP</td>
<td>National Indicative Plan</td>
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<td>NT: IDC</td>
<td>National Treasury: International Development Cooperation unit</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OVI</td>
<td>Objectively verifiable indicator</td>
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<tr>
<td>PAS</td>
<td>Public Accountability System</td>
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<td>PFM</td>
<td>Public finance management</td>
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<td>PFMA</td>
<td>Public finance Management Act (as amended)</td>
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<tr>
<td>PMG</td>
<td>Paymaster-General</td>
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<td>PSP</td>
<td>Policy Support Programme</td>
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<td>RCF</td>
<td>Risk Capital Facility</td>
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<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<tr>
<td>ROM</td>
<td>Results Orientated Monitoring</td>
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<td>SA</td>
<td>South Africa</td>
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<td>SAI</td>
<td>Supreme Audit Institution</td>
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<td>SBS</td>
<td>Sector Budget Support</td>
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<tr>
<td>SCC</td>
<td>Special Conditions of Contract</td>
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<tr>
<td>SCOA</td>
<td>Standard Chart of Accounts</td>
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<tr>
<td>SP</td>
<td>Sector Programme</td>
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<td>SPSP</td>
<td>Sector Policy Support Programme</td>
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<tr>
<td>SWAp</td>
<td>Sector Wide Approach</td>
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<tr>
<td>SWEEEP</td>
<td>Sector Wide Enterprise, Equity and Employment Programme</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<td>TAPs</td>
<td>Technical and Administrative Provisions</td>
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<tr>
<td>TDCA</td>
<td>Trade and Development Cooperation Agreement</td>
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<tr>
<td>ToR</td>
<td>Terms of Reference</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organisation</td>
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1 Programme Identification and Formulation Process

1.1 Identification of the Area of Support

The objective of EU Budget Support is “to contribute to eradicate poverty, pursue sustainable economic growth and build and consolidate democracies”. South Africa receives two types of Budget Support:

- Good Governance and Development Contracts (GGDC), previously called General Budget Support (GBS) contracts. The National Development Policy Support Programme includes a Budget Support component which is a GBS programme (or GGDC). The programme supports the National Development Policy and the National Development Plan
- Sector Reform Contracts (SRC), previously called Sector Budget Support programmes (SBS). South Africa has had nine SBS programmes since 2000.

Policy areas and government programmes that can be funded are informed by the over-arching framework of the Country Strategy Paper (CSP) and South African priority areas, as well as by existing programmes and relationships. The decision on what policy area to fund, with broad / conceptual outline of programme objectives and indicative amounts, is taken in a complex interaction between the European Commission and the South African Government. This phase may have little formal documentation attached to it.

1.2 Feasibility and Formulation Process

The office of the NAO is the NT: IDC unit. It is the responsibility of the NAO to support the feasibility study and formulation of Financing Agreements. The recommended process of formulating a Budget Support Programme is shown overleaf. In some cases the process is simplified when research / analysis is already available and feasibility and/or formulation studies are not needed.

The EUD and the Office of the NAO agree the desired strategic application of funds and the desired results of the support in broad terms. It is the function of the NT: IDC, in partnership with the EUD, to:

- ensure that donor support aligns with South African Policy and the ODA guidelines
- identify the appropriate department to act as lead department for the proposed programme and
- identify the appropriate government policy area for support.

The NT: IDC formally advises the programme lead department and supports the formulation process. The lead department formally nominates senior officials to take responsibility for the programme formulation.

1.3 Project Reference Group

The NT: IDC, in consultation with the lead department, identifies other departments to establish a Project Reference Group (PRG) for the formulation phase. The PRG is composed of EUD officials, NT: IDC officials and the programme formulation support team from the lead government department. The purpose of the PRG is to ensure government participation in the Financing Agreement formulation process.
**BUDGET SUPPORT IN SOUTH AFRICA**

1. **Identification of area of support**
2. **PRG established for formulation phase**
3. **Feasibility and formulation studies**
4. **EUD prepares identification fiche/draft TAPs**
5. **Finance agreement approved in Brussels**
6. **National Treasury and lead department sign off on draft TAPS**
7. **Minister of Finance signs FA after confirming content in line with approved draft TAPS**

**Key Steps:***

- EU prepares ToR for feasibility/formulation studies
- ToR reviewed by PRG and signed off
- Team undertakes assessment and action fiche development
- EUD procures team for feasibility study
- PRG approves study report
- Lead department observer on tender evaluation panel
- Analysis
- Review of documents
- Assessment of systems
- Stakeholder interviews
- National Treasury and lead department sign off on draft TAPS
- Minister of Finance signs FA after confirming content in line with approved draft TAPS
1.4 Feasibility and Formulation Studies

The development of a Budget Support Financing Agreement is informed by feasibility and formulation studies, sometimes combined into a single study. In the case of Budget Support modality, the feasibility study would include an assessment of the relevance and credibility of the government programme, using a standard EU methodology.

The feasibility and formulation studies will also inform the extent and nature of non-Budget Support elements in the programme, specifically to address dialogue, capacity building and performance assessment. The EU will undertake a risk assessment of the government policy and programme, which will also inform the Budget Support programme design.

Budget Support is an aid modality which channels European Commission funds through government systems, using government reporting and accountability systems for programme management, control and procurement. The feasibility study will confirm the existence and quality of these systems to provide the EU with the assurance that the funds will be used in support of the policy objectives and within a system of accountability.

The studies will assess whether the required policy, donor coordination systems, planning, MTEF, reporting, monitoring and evaluation systems, and a public finance management improvement programme for the government programme and key departments involved in the programme, are in place.

The assessment of macro-economic stability and transparency and oversight of the budget may not necessarily be undertaken during the study phase for each Financing Agreement. Instead, these aspects are regularly assessed by the EU Delegation for the whole country and the results of the most recent assessment may be accepted as applicable for a specific programme Financing Agreement.

The feasibility study comprises the:

- review of comprehensive documentation provided by government and the EUD
- interviewing of key government officials and other stakeholders
- analysis of the information received against the EU criteria for Budget Support programmes and
- making of recommendations on the readiness of the government programme, the policy to be supported, the result areas as well as the indicators.

The formulation study is critical to the development of an appropriate and practical Financing Agreement. The study is usually carried out by a team of consultants. However, the formulation may also be undertaken by a joint team of the EU and South African government.

For a Budget Support programme, the government programme to be supported is assumed to have its own underlying design logic. It is not the purpose of the formulation study to design the government programme, but to design the EU support to the government programme, building on the assessment of the underlying government programme. The logic of Budget Support programmes, as articulated in the Common Evaluation Framework (CEF)\(^1\), should be used for Budget Support programme design.

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\(^1\) Refer to the supplement “Evaluation of Budget Support Programmes” for detail on the CEF
1.5 Submission of Proposal for Approval

On completion of the formulation study the EU Delegation and the South African Government use the findings of the feasibility and formulation study to:

- agree and finalise result areas, indicators, tranches and funding modalities
- prepare draft technical and administrative provisions for the Financing Agreement and
- submit the proposal to fund the programme, with supporting analysis and internal documents to the EU in Brussels.

The timeline associated with the feasibility and formulation phase varies. It can encompass from eight months to in excess of eighteen months.

1.6 Roles and Responsibilities During the Formulation Process

Where the feasibility/formulation study will to be funded by the EU, the EU Delegation will undertake the contracting and contractual management role. The NT: IDC Unit will manage and facilitate the participation and approval required of the SA government.

The lead department will actively participate in the formulation process, and contribute information and the specific government programme leadership to ensure the formulation of a relevant and implementable financing proposal. The Project Reference Group will be the primary communication forum on matters relating to the formulation of the Financing Agreement, and will support the formulation process.

2 Implications of Technical and Administrative Provisions for Programme Management

2.1 Introduction

This section provides some guidance, on issues arising from the Financing Agreement, to be borne in mind by South African counterparts when implementing a Budget programme. There is limited flexibility that can be exercised, after the Financing Agreement has been signed, when conditions change and the Financing Agreement terms need to be reconsidered. It is therefore important that the conditions and implications of the Financing Agreement should be understood and that the Budget Support programme be managed responsibly. Due consideration must be given to the potential changes that may take place over the period of the agreement, and the impact of these changes on the Financing Agreement.
2.2 Elements of TAPs

The Technical and Administrative Provisions of the Budget Support Programme contain six key elements:

- the programme objective, policy to be supported, associated strategic plan/implementation plan, key elements of the government programme and the MTEF to be supported
- result areas which articulate the intended achievements
- for complementary support, the activities to be supported
- compliance conditions including governance arrangements, monitoring and evaluation systems, and programme coordination arrangements
- indicators, as measures of success, with specified targets and
- funding information including:
  - the total amount of the support programme
  - the tranche release values and timetable
  - the amounts allocated to the Budget Support components and amounts for non-Budget Support components. The latter will typically be for technical assistance, capacity building and grants and will be managed using the “classic project” modality.
  - the General and Specific Conditions to be met for tranche release
  - performance and disbursement criteria and key performance areas for tranche releases
  - the method by which the variable tranche release will be calculated and
  - monitoring and evaluation requirements for Budget Support and complementary support components.

When reviewing a proposed Financing Agreement the implications of each of the above aspects should be considered. Further, each of these aspects should influence the manner of programme implementation to ensure that the conditions of the financing for funding release are fully met.

2.3 Considerations for Budget Support Programmes

Programme focus

Budget Support programmes that focus on a clear deliverables with a simple institutional structure and clear stakeholder mandates are most successful in implementation. The policy area identified, before the feasibility study is undertaken, can be broad (for example: employment creation). A decision must therefore be taken on a specific programme to be supported within the broader policy area. Where support is targeted at too high a level, or the Budget Support programme attempts to support a government policy area that may be too broad and complex, the result may be:

- dissipation of the Budget Support resources across too broad a programme to achieve impact
- lack of progress due to complexity and resultant co-ordination requirements and/or
- inadequate control over the contribution of different stakeholders.

Clusters are therefore not recommended for Budget Support.
Policy supported

Policy areas for support using Budget Support should meet the following criteria:

- Where it is a broader policy affecting multiple departments, it should be accepted only where there is a functioning institutional arrangement for all the stakeholders to contribute to the outcomes, and to access the resources of the programme.
- The policy identified in the Financing Agreement should be the responsibility of the department that will take responsibility for the programme implementation. Where a lead department is held responsible for the management of the Budget Support programme, it can only deliver where there are controls in place that allow it to ensure performance of the underlying programme participants.
- The Financing Agreement should ideally focus on one policy. Inclusion in the agreement of multiple policies, even where they are hierarchical in nature, complicates allocation, measurement, reporting and management such that the Budget Support programme objectives may not be achieved.
- The government programme must have a mandate from the political level, a clear reporting line to the political level, and present and effective political leadership.
- The policy selected for support should be stable enough that it will be in place for the period of the Financing Agreement. Should the department be aware of dynamics that may impact the policy, then the possibility for policy review should be written into the Financing Agreement in such a way that the agreement does not need to be amended through a rider if the policy evolves.
- Policy evolution frequently occurs due to programme improvements that are promoted by Budget Support programmes. However, commitment to policy revision in a Financing Agreement is not acceptable, as it is the prerogative of government to schedule policy revision.
- The policy must have supporting legislation. The Budget Support programme should identify a policy and not only a strategic plan for support.
- There must be a policy implementation programme in the form of a strategic plan supported by a medium-term budget, with clear accountability at DG and Ministerial level since the budget reflects financial and other resources committed to the programme by all stakeholders.

2.4 Institutional Arrangements

A functioning institutional arrangement must exist, or be established, for a Budget Support programme. The structure must have legal accountability for the government programme to be supported by the Budget Support programme. Areas of responsibility for the government programme should include:

- preparing the programme implementation plan and associated medium-term expenditure plan
- coordinating the programme
- monitoring and evaluating programme performance and
- reporting on programme progress.
There must be clear and accountable reporting lines and control mechanisms for actions under the implementation plan. The compliance and control systems that support the management of the multiple stakeholders should be firm and functional.

Where there is no inherent accountability due to existing legal relationships, the Budget Support programme lead department must prepare Memorandums of Understanding (MoUs) with stakeholders that undertake to contribute to the programme implementation plan, and Memorandum of Agreement (MoAs) with those who receive funding under the programme. Where programmes have institutional arrangements that are unsupported by legal instruments the lead department will not be able to enforce compliance with programme planning.

Responsibility for specific performance target contributions must be allocated to programme partners and within partner organisations. Programme targets must be reflected in performance agreements: Targets are:

- not achievable if the responsibility is not allocated and
- not enforceable if they are not included in the public sector performance management framework.

2.5 Considerations on Result Areas

In Budget Support programmes outcomes (results) are supported, and activities and institutional arrangements may evolve and change without impacting the agreement. The EU Guideline quoted above intimates that "... disbursement of budgetary support shall be conditional on satisfactory progress towards achieving the objectives in terms of impact and results". The selection of result areas is therefore an area of special attention.

Result areas in Budget Support Financing Agreement that do not align with the strategic areas or outcomes of the government should be avoided.

2.6 Considerations on General and Specific Conditions in the Technical and Administration Provisions (TAPs).

Conditions set out in the TAPs are the heart of a Budget Support Financing Agreement. Conditions fall into two categories: General, and Specific. These conditions are legally binding and are technical requirements specific to the programme supported. They are distinct from the legal clauses included in the General and Special Conditions of Contract. It is possible for the European Union to decline to release a tranche payment where any of these General or Specific Conditions in the TAPs are not met.

**General Conditions**

The underlying conditions that made the government programme eligible for Budget Support (see supplement “Introduction to EU Funding Modalities”) will need to be maintained and improved if the programme is to receive fixed and variable tranche payments. Maintenance and improvement of three qualifying conditions are captured in the Financing Agreement as General Conditions under the TAPs.

The General Conditions applicable for all tranche releases are:

- Satisfactory progress against the supported policy and strategy
Satisfactory progress in the maintenance of a stability-oriented macro-economic policy
Satisfactory progress in the implementation of the government’s Public Finance Management reform programme.

For more recent Budget Support programmes a fourth condition is added: Satisfactory progress in improving transparency and oversight of the budget and

- The General Conditions are not negotiable and apply to all Budget Support programmes
- General Conditions are applicable to both fixed and variable tranches.

Specific Conditions

These are conditions that apply to the disbursement of individual tranches, whether fixed or variable. These conditions will normally be those related to performance criteria and indicators established in each of the areas of focus of the Budget Support programme. In setting these performance criteria and indicators attention will normally be given to ensuring that they are "result/outcome-oriented", particularly in the case of variable tranches.

Source: Guidelines No 2. Support to Sector Programmes the three financing modalities: Sector Budget Support, Pool Funding and EC project procedures; July 2007

In addition to the General Conditions, some Budget Support Financing Agreements introduce Specific Conditions which have to be met for release of tranches. Two types of Specific Conditions are found, namely:

- Specific Conditions applicable to fixed tranches. Where the government programme supported, has been assessed by the EU as not meeting all the criteria for Budget Support, Specific Conditions may be added to promote progress towards meeting these requirements. The extent of the conditions depends on the status of the government programme
- Specific Conditions applicable to variable tranches, where indicators are agreed and targets set. These are relevant to the calculation of the amount to be disbursed under the variable tranche.

In respect of specific conditions:

- The compliance conditions should be fully under the control of the lead agency
- A maximum of three Specific Conditions are recommended
- Specific Conditions that constrain changes in the activities and processes, and institutional evolution, of a government programme are not appropriate for Budget Support, and should not be considered
- Specific Conditions that result in the donor having access to detail of government programme management, rather than Budget Support programme management, are not appropriate for Budget Support
- Conditions should not be agreed to where it is unlikely that the availability of donor funds will influence the meeting of those conditions
- Specific Conditions must be agreed before the Financing Agreement is signed.
2.7 Indicators

The Financing Agreement will include indicators, which are intended to reflect progress against the result areas. Indicators are the criteria against which variable tranche releases are assessed. The achievement of targets for each of indicator is therefore an area of special attention. The following should be considered in agreeing to indicators:

- Select only indicators directly associated with the policy supported
- Indicators selected must be from the set of performance indicators of the government's programme
- Select targets and indicators within the mandate of the lead agency in the Budget Support programme
- The achievement of the indicator should be largely within government's control
- Targets set for selected indicators must be realistically achievable with the resources and time available to the programme. In this respect, programme targets may differ from policy targets, where the former are the programme targets selected within the resource constraints of the fiscus, while the latter are in the nature of a vision or desired outcome
- Indicators must be reflected in departmental, programme and cluster targets
- The indicators should be at a sufficiently high level to point towards meaningful progress in the government programme. This means that, while there may be some input and process indicators, most should be at the output and outcome level, they should be linked to significant programmes associated with government's overarching spending priorities rather than only department specific spending priorities
- The programme of activities to achieve the indicator must be a funded mandate: this means selecting indicators which are closely associated with Delivery Agreement outcomes, outputs and sub-outputs, or which are from the ENE, and are therefore already associated with funded activities
- Targets set for indicators should be existing and be achievable
- A system should be in place for collection of data on the agreed indicators. Agreement will have to be reached with the EU on which public documents are used to verify these indicators
- Government should be reasonably certain that the indicator will be achieved: this should be an important criterion in choosing between indicators
- Political and policy targets that have not been incorporated in implementation plans should not be used in a contract document
- Do not include delivery targets to be met by stakeholders unless there are legally binding agreements that commit them to contribute to the stated targets
- The EU guidelines recommend a maximum of eight indicators. For South Africa a maximum of five indicators are preferred
- The numeric targets and the method of measurement must be clearly defined and must agree with those for existing indicators.

The table below provides guidance on the type of indicator to use for Budget Support programme performance assessment.
### Type of indicator | Consideration
---|---
**Output indicators** | These are the most appropriate measures for use in tranche release conditions. Output indicators that are a meaningful reflection of progress towards policy objectives should be selected.

**Outcome indicators** | These should be used with caution as they may take a longer time than the period of the Financing Agreement to be achieved. Additionally, outcomes may not be as predicted by the programming assumptions, due to external effects. Where outcomes indicators are used, they should be applicable only to the third year of support.

**Impact indicators** | These should not be selected unless the impact can be measured in the period of the Financing Agreement.

**Process indicators** | These should be considered only in exceptional circumstances, and in the situation where the Budget Support programme does not meet all the EU assessment criteria.

### 2.8 Funding Modalities

The Financing Agreement may include more than one funding modality. Portions of the funding may be subject to Budget Support, while portions are subject to “classic” or “project” modality funding. The latter modality may be applied to technical assistance and grant funds. (Refer to supplement “Introduction to EU Funding Modalities” for more information on funding modalities). All Budget Support components of programmes are subject to centralised direct management mode.

### 3 Risks in Budget Support Modality

Budget support programmes carry a higher risk than programmes using EU procurement procedures in that failure to achieve the indicator targets impacts directly on funding release.

For EU programmes funded using EU procurement procedures (classic project modality programmes) there is a risk that funds will not be released, or will be recovered, where the procurement procedures are not followed correctly. For Budget Support funding modality, where SA procedures are used, there are risks related to loss of tranche payments due to agreed targets not being met.

Tranche releases are based on the maintenance or achievement of conditions specified in the Financing Agreement.

- Fixed tranches are paid out based on South Africa maintaining and improving the conditions that qualify for Budget Support

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2 The risks described in this section are risks from the perspective of South Africa and therefore differ from the risks that will be of concern to the EU.

3 A tranche payment is an instalment payable after meeting agreed conditions. See the supplement “Guidelines for Formulation of the Financing Agreement” for more information.

4 In some cases additional conditions may be associated with fixed tranche releases.
Variable tranches are released based meeting the targets associated with an agreed set of indicators. The variable tranche amount released is adjusted downwards where targets are only partially achieved.

These risks must be taken into consideration in managing the Financing Agreement and in implementing the programme.

A breach of the conditions of the agreement by South Africa will result in the loss of the tranche to South Africa altogether. Although less common, it is also possible to lose a fixed tranche payment if the government programme no longer meets the basic requirements for Budget Support, has not improved public financial management during the period of support, or does not comply with the General Conditions for tranche releases (as set out in the TAPs). Where fixed tranche conditions are not met then the variable tranche is also not released.

3.1 Risk of Delayed Payments

Payment request take time to prepare (by South African government), as the process can include discussions (by SA government and EU Delegation), review (by the EU Delegation) and processing (by the EU in Brussels). Tranche payments therefore take some months to release. Other sources of delay are:

- administrative delays on the part of the South African government or the EU Delegation. These can arise from late submission of the payment request, or delays in processing the request
- where documents required in the payment request submission (for example: annual audits or performance assessment reports) are not available in time.

3.2 Risk of cost recoveries

Programmes supported by the European Union can be affected by two types of recovery of funds:

- Where another South African programme funded by the EU has had a recovery order issued against it. In this situation the EU Delegation will deduct the amount to be recovered from the next payment made to South Africa, even where that payment is not for the non-compliant programme but for another, compliant, EU funded programme. This is termed an “off-set” against the disbursement to South Africa. As a result, Treasury will be able to pay over only the quantum received, and the compliant programme will carry the penalty of the off-set. Only if, and when, Treasury is able to recover the funds from the non-compliant programme will it be able to pay the balance to the compliant programme
- Where the Budget support Programme is found to have contravened the requirements of the Financing Agreement, or has had issues of corruption or poor governance, the EU may issue a recovery order for tranches already released. It should be borne in mind that mismanagement of any funds, including national funds, can result in suspension of a tranche payment by the European Union and recovery of previous tranches. Because Budget Support funds are (theoretically) indistinguishable from government programme funds, this can also occur where there has been improper use of government funds, even though there has been no mismanagement of the EU funds.
ANNEXURE A: Structure and Content of Terms of Reference for Feasibility and Formulation Studies

A1 Structure of the Terms of Reference

A1.1 The Terms of Reference will have the following typical structure:

- Background: this section includes information on South Africa, country background and government programme background, information on the TDCA, CSP and other framework documents applicable
- Description of the assignment: this section provides the overall objective (of the proposed support), the specific objectives of the study, and a description of the work to be done. The latter is usually described by means of methodology and outputs, and usually covers four phases: information gathering, analysis, presentation and discussion, and finalisation
- Experts profile: this section describes the number of experts required, and their skills and experience required
- Other sections will describe the location and duration of the assignment and administrative information. They will also define the reporting intervals, what reports are expected and the management body for the project.

A1.2 Reviewing the ToR

When reviewing the ToR:

- The most important section to consider is the "Description of the assignment", particularly the process and expected outputs and outcomes
- It may be of value to first define on a separate piece of paper what the department needs from the assignment, and then to check if that is covered in the outcomes
- Consideration should be given to the nature of the methodology/process set out
- The wording of the requirements must be considered carefully since this forms the basis of the quote, which is fixed and cannot be varied after appointment of the team
- Consider the clarity of the document
- Consider the number of person-days allocated to different tasks and assess their reasonableness in the context of the information to be absorbed and processed by the team.

If the EUD is unable to include all the requirements of the government programme lead department in the ToR, then the department must find own resources to undertake the additional information gathering or analysis.
ANNEXURE B: Roles and Responsibilities in the Feasibility and Formulation Process (where the process is EU-funded)

B1 European Union Delegation Role

- Prepare the terms of reference (ToR) for the study
- Through the Project Reference Group request input to the ToR from South African government
- Procure the study team using EU procurement procedures. Typically an EU framework contract will be used, with a maximum budget of €300,000
- Undertake contractual briefing of the consultants
- Sign off the inception report
- Sign off the study findings report
- Pay the consultants.

B2 National Treasury: International Development Cooperation Unit Role

- Distribute the ToR for comment to the PRG and other relevant officials. Annexure A to this supplement provides an overview of the typical terms of reference with guidelines for reviewing the terms of reference
- Provide a written feed-back on the ToR to the EU, and will sign off on the ToR
- Provide information on the formulation process to the lead department
- Provide information on Budget Support to the lead department
- Ensure that the finance proposal is implementable and aligned to government policy objectives
- Promote the objectives of the Paris Declaration and Accra Agenda for Action
- Coordinate a written response from government.

B3 Lead Department Role

- Provide mandatory written comment on the ToR
- Observe the evaluation process for the study team contract
- Ensure relevant documents and information are made available timeously to the study team
- Assist the study team in gaining access for interviews to senior managers
- Make officials available for interviews
- Provide written comment on the draft report
- Ensure the alignment of the proposal for the support programme with the strategic planning of the cluster/department
- Act as secretariat for the PRG.
B4 Project Reference Group (PRG) Role

- With the EUD, undertake the initial technical briefing of the consultants
- Agree on the meeting schedule, including meeting with government officials, for the stakeholder engagement by consultants
- Provide reviews and comments on the inception report of the consultant team at the inception meeting
- Identify officials to be interviewed
- Comment on the study findings
- Recommend the finance proposal to the EU in Brussels.