



The future of EU aid in middle-income countries:

the case of South Africa

Siân Herbert

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and critical comment

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**The future of EU aid in middle-income countries.
The case of South Africa**

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* Disclaimer: The views presented in this paper are those of the author and do not necessarily represent those of the ODI.

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Abbreviations and acronyms

AU	African Union
BRICS	Brazil, Russia, India, China and South Africa
CSOs	Civil society organisations
DCI	Development Cooperation Instrument
DFID	Department for International Development
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FCAS	Fragile or conflict-affected states
GDP	Gross domestic product
GNI	Gross national income
HDI	Human Development Index
HIC	High-income country
ICI	Instrument for Cooperation with Industrialised Countries
KZN	KwaZulu-Natal
LDC	Least-developed country
LIC	Low-income country
LMIC	Lower-middle-income country
MDG	Millennium Development Goal
MFF	Multi-annual Financial Framework
MIC	Middle-income country
NGO	Non-governmental organisation
ODA	Official development assistance
TA	Technical assistance
TDCA	Trade, Development and Cooperation Agreement
UK	United Kingdom
UMIC	Upper-middle-income country
US	United States
USAID	United States Agency for International Development

Introduction

Shifting global patterns of wealth, poverty, trade, and geopolitical power are constructing new opportunities and challenges for development actors. The development landscape has always been characterised by change, but what is new is the role of middle-income countries (MICs) in development cooperation as countries with development needs and the majority of the world's poor people; as recipients of aid, loans and other concessional benefits; as important anchors for regional and global development; as donors; and as strategic partners for development or otherwise.

As a result of these shifts some donors have changed their aid allocation models, concessional benefits and ways of working with MICs. The controversy around and diverging perspectives on the debates on 'aid in MICs' indicate that many development actors are struggling to redefine and shape their work and relationships with MICs. They also indicate that the internal and external context shaping development actors has changed significantly and warrants a revision, if not a change, in policy approach.

The European Union's (EU)¹ new proposed policy approach towards MICs – 'differentiation' – could lead to cuts in grant-based bilateral aid to 17 upper-middle-income countries (UMICs) and two lower-middle-income countries (LMICs) from 2014. These countries will still be eligible for funds from thematic and regional programmes. However, this policy will fundamentally change the nature of the relationship by altering the volume of funds, modalities, and sectors, and – crucially – eliminating the EU and partner country joint development programme² and the negotiations that accompany it.

South Africa is a key country in this debate. The European Commission initially proposed that the country should be exempted from the policy of differentiation. However, a majority of member states, through the Council of Ministers, are pushing for South Africa to be included in the policy and thereby to lose its grant-based bilateral aid budget. Meanwhile, the European Parliament has kept South Africa on the list of eligible countries.

This paper seeks to analyse and inform this debate. To date, some researchers have examined the aid in MICs debates at the theoretical level (Sumner, 2011; Kanbur, 2011), focusing on EU aid (Glennie, 2011; Koch, 2012), and some at the technical level (Herbert, 2012a; Keijzer, et al., 2012). This paper aims to focus these debates at the case study level through analysis of South Africa. The methodology includes 37 interviews and two private roundtable discussions with key stakeholders in the Government of South Africa, the EU, other Development Assistance Committee (DAC) donors in the country, non-state actors and academics conducted in South Africa and Brussels between November 2012 and March 2013.³

The first section summarises the current debates about MICs, and suggests an analytical framework for the reasons for and against maintaining aid relations with MICs, with three overlapping areas of reasoning: national development needs, regional/global development needs and strategic relations (for development or otherwise). The second section explains how the debates on aid in MICs and differentiated development partnerships play out in the EU context.

The third section explores South Africa's development needs and the current roles that aid can play, depending on how it is administered. In examining the role of aid, three examples are examined: EU aid, United States Agency for International Development (USAID) aid, and aid to civil

¹ The term 'EU' refers to the EU institutions.

² Represented by the multi-annual indicative programme, as joint country strategy papers will no longer feature with many countries from 2014 onwards.

³ Due to the politicised nature of these issues interviews were confidential and reports on interview data do not identify interviewees.

society organisations (CSOs). The fourth section collates the perspectives of key stakeholders in South Africa, based on the analytical framework set out in the first section. The fifth section explores the objectives of EU aid, the policy of differentiation and the EU programme in South Africa.

The sixth section concludes the paper by exploring three policy options for the EU and South Africa, based on the EU prioritising one of the three overlapping rationales for aid: option 1: the inequality reduction approach; option 2: supporting regional anchors; and option 3: a strategic development partnership.

1. Arguments for and against aid in MICs

Recent changes in the development landscape have prompted donors to rethink the rationale of and policy approach to development cooperation in MICs and a number of distinct theoretical and practical approaches have emerged. The issue has also garnered increasing political and public controversy, as public spending, austerity cuts and the declining relative economic positions of traditional donors have become more pronounced.

A few key debates frame this issue. Should donors focus on poor countries that do not have the economic resources to fund their own development (Collier, 2012)? Or should the focus be on poor people, wherever they live (Sumner, 2011)? Is poverty in MICs a transitory phenomenon (Kharas and Rogerson, 2012)? Are the development indicators we use to measure poverty and wealth fit for purpose (Ravillion, 2012; Sumner, 2012)? Do debates over aid in MICs reflect changes in donor countries (e.g. the Eurozone crisis and austerity) rather than an evaluation of changing development needs in MICs (Glennie, 2012)? Should the development community reframe development as a national distribution issue (Sumner 2012; Furness and Negre, 2012)? Or should official development assistance (ODA) be redefined as 'global public finance' to include broader objectives, such as the financing of global public goods (Severino and Ray, 2009; Koch, 2012)? As more countries graduate from low-income country (LIC) to MIC status, we can expect fewer countries to meet current donor eligibility criteria for aid and these debates to intensify.

In light of these questions donors have undertaken varied policy approaches. Some have reduced the number of MICs in their country portfolios (e.g. the UK); some have changed the policy approach to a more strategic relationship in a few select MICs (e.g. Germany in South Africa); others have increased aid in MICs (e.g. Spain and Australia, although notably before the 2008 financial crisis); while others aim to allocate more resources towards least-developed country (LDCs) (e.g. EU). Gleichmann and Kloke-Lesch (2010: 15) note that most of the 11 'emerging economies' in the G20⁴ receive ODA, but that their share of total ODA has decreased from 10% to 5% over the past decade. The Department for International Development's (DFID) share of non-humanitarian bilateral aid going to LICs fell by 15 percentage points to 65% in 2011-2012 because of the graduation of a few key countries from LIC to MIC⁵ status (NAO, 2012).

General arguments for aid in MICs could simplistically be categorised as falling into three overlapping areas of reasoning: national development needs, regional/global development needs and strategic relations (for development or otherwise) (see below, and Figure 1).

Development approaches are inevitably based on all three areas of reasoning (many actors may find themselves somewhere in the middle) and it can be difficult to separate objectives from one another. However, the areas that are prioritised are significant because this will determine the hierarchy of objectives, the type of engagement (e.g. policy dialogue, service delivery), the development partner (e.g. the national treasury, the foreign affairs department, or civil society organisations (CSOs)), the beneficiary, the modality, the sector, etc.

Figure 1: Arguments for development cooperation in MICs



Source: Adapted from [Glennie, 2011](#).

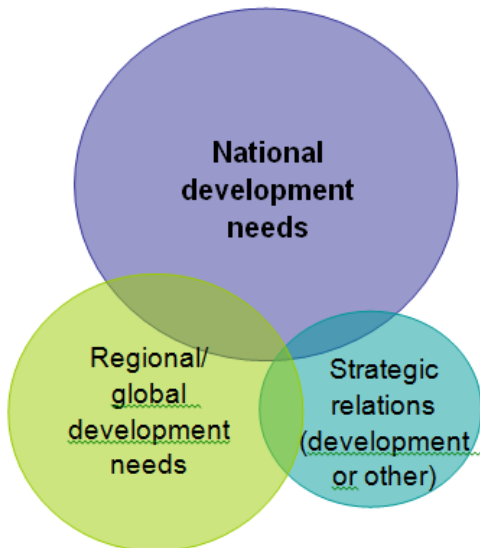
⁴ Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey.

⁵ Pakistan and Nigeria.

Also, impact evaluation is measured against stated objectives. Opinions vary widely on which areas are most important and which ones actors can most usefully contribute to.

For example, more traditional development approaches could be interpreted as favouring the national development needs of MICs over regional/global and strategic factors (see Figure 2). This

Figure 2: Arguments for development cooperation in MICs: focus on national needs



position is one commonly supported by a number of academics (Kanbur, 2011; Glennie, 2011) and non-governmental organisations (NGOs) (e.g. Concord, 2011; Bond, 2013), but by few donors (but notably by DFID). For example, DFID's original rationale for keeping its aid programme in India could be depicted by Figure 2, with priority given to the country's national development needs. Notably, in line with public criticism, this discourse changed over time and strategic relations arguments (defined by historical and economic ties) were increasingly used.⁶ Alternatively, the German government has increased funds for five MICs⁷ – its 'global development partners' – based strongly on strategic relations for development (BMZ, 2011). South Africa is one of these five and therefore its cooperation budget has increased.

The phrase 'strategic relations (for development or otherwise)' is used to include international development agenda interests (i.e. negotiations on Millennium Development Goals (MDGs) or climate change), commercial interests, diplomatic interests, cultural interests and foreign policy interests. These can reflect mutual interest, enlightened self-interest or self-interest. Strategic interests are not only realist foreign policy interests, but are increasingly global in nature and can reflect enlightened self-interest, mutual interest or self-interest (see Figure 3).

Different actors have different interests in different countries, and therefore different rationales for development. In countries that are more strategically interesting – e.g. India (trade), South Africa (gateway to Africa) and Afghanistan (security) – more lines of reason emanate from the area of strategic relations (for development or otherwise). In a more multipolar world where some MICs (especially the BRICS⁸) are seen as competitors in some areas, strategic arguments may well be of increasing importance. This presents particular challenges because development, foreign policy and/or commercial objectives are quite often not complementary or coherent.

It is not uncommon for there to be a tension between the different reasoning of development actors. Figure 3 illustrates how interests relate to the different arguments for aid in MICs. Manning (2012: 22) explains:

Humanitarian situations apart, official bilateral international concessional transfers normally reflect a mixture of what might be called 'direct national interest', 'broader national interest' and a more altruistic 'developmental' concern with deep and chronic poverty ... restraint on direct national interest is easier to sell in relation to countries which are far poorer than the donor and present minimal political or commercial opportunities. It is observable that major providers of South–South

⁶ DFID's 'Global partnership' approach with India states: 'The UK will collaborate with India on development and areas of mutual interest internationally. We will work together to help other poor countries learn from India's experience and on areas like trade, food security, climate change and health that can benefit everyone' (DFID, 2012a).

⁷ Brazil, India, Indonesia, Mexico and South Africa.

⁸ Brazil, Russia, India, China and South Africa.

co-operation, where the income disparity with the recipient is far lower, regard 'mutual interest' as an entirely appropriate basis for their programmes.

Figure 3: Matching up arguments for aid, policy approach and interests

Arguments for aid in MICs	Policy approach (and/or)	In whose interest? (and/or)
- National development needs	- Poverty reduction (national) - Poverty reduction (regional) - Poverty reduction (global)	- Altruistic - Enlightened self-interest
- Regional/global development needs	- Global public goods approach	- Collective interest - Enlightened self-interest
- Strategic (for development)	- Strategic development relationship - Partnership (e.g. South–South)	- Enlightened self-interest - Mutual interest
- Strategic (other)	- Strategic foreign policy or commercial relationship	- Mutual interest - Self-interest

2. Debates on aid in MICs in the EU context

The EU's new policy approach with MICs – 'differentiation' – proposes to cut grant-based bilateral aid to 17 UMICs⁹ and two LMICs¹⁰ from 2014 (so-called 'graduation'). These countries will still be eligible for funds through the Development Cooperation Instrument's (DCI) (see Box 1) thematic programmes, regional programmes¹¹ and other thematic instruments (see Table 4). However, this policy will fundamentally change the nature of the relationship by modifying the volume of funds, modalities and sectors. This section analyses the features of the policy differentiation and explains the evolving debates within the EU institutions about the shape and implementation of the new policy. This is very much a work in progress and as yet many features lack clarity and are under negotiation.

The policy of differentiation proposes changes at three distinct levels:

Aid allocation:

- (1) introducing eligibility criteria for grant-based bilateral aid (leading to graduation)
- (2) increasing the share of aid to LICs, LDCs and fragile states

Aid modalities:

- (3) differentiated development partnerships.

The EU will not apply this policy in a uniform way – e.g. only the DCI is expected to have all three levels applied, while the EDF (see Box 1) is expected only to have levels (2) and (3) applied (Herbert, 2013).

At the aid allocation stage, gross national income (GNI) per capita and share of global gross national product (GDP) are key indicators. The MICs group is extremely heterogeneous and currently contains the majority of developing countries with 110 of 148 developing countries now classified as MICs (see Table 1). Notably, 16 of these 110 MICs are also classified as LDCs and

⁹ Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay. UMIC status is a key indicator for the new aid allocation model. Notably only two UMICs were initially exempted: South Africa and Cuba.

¹⁰ India and Indonesia – the two countries in the Development Cooperation Instrument with a more than 1% share of global gross domestic product (another key indicator for the new aid allocation model).

¹¹ South Africa uniquely receives regional funding through its bilateral envelope and would not be eligible for regional funding if the bilateral envelope were eliminated.

21 MICs are classified as fragile or conflict-affected states (FCAS), illustrating a limitation of using GNI per capita as a proxy for development.

Table 1: Developing country classifications

Country classifications		Number of countries
LDCs	Total LDCs	48
	• LIC	31
	• LMIC	15
	• UMIC	1
	• HIC*	1
LICs	Total LICs (excluding LDCs)	6
	Total LICs (including LDCs)	
	FCAS	26
MICs	Total MICs (excluding LDCs)	94
	• LMIC (excluding LDCs)	40
	• UMIC (excluding LDCs)	54
	Total MICs (including LDCs)	110
	FCAS	21
Total		148

* High-income country.

Source: OECD (2012a; 2012b)

At the time of writing in March 2013 the proposed country selection of 19 MICs had not yet been agreed by the EU institutions: a number of countries were under discussion and may or may not be included in the policy (Herbert, 2013). The country selection initially proposed is detailed in Annexes 1-3 in the proposed regulation¹² for the DCI (European Commission, 2011a).

South Africa is an important country in this debate. The EU initially proposed that South Africa should be exempted from the first level of differentiation – meaning that it should not graduate from grant-based bilateral aid. However, a majority of member states, through the Council of the EU, are pushing for South Africa to be officially included in the policy. This position was articulated officially when the Council Conclusions published in summer 2012 removed the country list annex from the proposed DCI regulation and therefore removed the reference to South Africa as an exception. Other countries under discussion are Ecuador, Colombia, Peru and Cuba (European Parliament, 2012a; Herbert, 2013).

¹² The legislative document that governs this instrument.

Legislative proposals like the DCI regulation are proposed by the European Commission and subsequently negotiated by the Council and the European Parliament. The European Parliament has previously had an influential role in shaping the regulations. For example, during the last multi-annual budget discussions it was successful in securing a 20% benchmark for health and education spending; an ODA benchmark of 100% for bilateral geographic programmes and 90% for thematic programmes in the DCI; a separation of the European Commission's proposed Development Cooperation and Economic Cooperation Instrument into a development instrument, the DCI, and the Instrument for Cooperation with Industrialised Countries (ICIC); and, most importantly, oversight of all DCI country strategy papers.

Importantly, the European Parliament is opposed to the graduation of South Africa, Colombia, Ecuador, Peru and Cuba, and has raised various other issues of concern regarding the new policy (Herbert, 2013; Coll, 2012; European Parliament, 2012b). A final decision on the country selection, and therefore on whether South Africa will continue to have a bilateral allocation after 2014, is expected to be reached before summer 2013 (Herbert, 2013). This decision would then need to be adopted formally as a legal act, which could be expected by October 2013. As mentioned above, countries will still be eligible for funding through thematic and regional programmes. Notably, the DCI regulation now includes a Global Public Goods envelope.

Some EU officials have suggested that the countries that lose the grant-based bilateral aid package could still receive the same volume of funds, but through other sources (e.g. from different budget lines). These funds would fulfil different purposes and would be administered in different ways, according to the funding stream. However, interviewees in South Africa suggested that this would be highly unlikely when considering the amount of funds available in other funding streams. It was suggested by a few interviewees that differentiation could also be reflected in the thematic programmes. The example was given of a recent call for proposals for 'Actions for child protection – violence against children', which stipulates that at least one of the three countries involved must be an LDC or other LICs (European Commission, 2012a).¹³

The European Parliament's proposed amendments to the DCI regulation include different criteria for the first level of differentiation, with a greater focus on the Human Development Index (HDI),

Box 1: Financial instruments for EU external action

Budget (2007-2013):

Geographic:

- DCI, €16.9 bn: Asia, Latin America, Central Asia, the Middle East and South Africa. This instrument also contains thematic programmes covering specific activities in all developing countries.
- European Neighbourhood and Partnership Instrument, €11.2 bn: European neighbourhood and Russia
- Instrument for Pre-Accession, €11.5 bn: EU accession countries
- Instrument for Cooperation with Industrialised Countries, €172 m.

Thematic:

- Common Foreign and Security Policy, €2 bn
- European Instrument for Democracy and Human Rights, €1.1 bn: promoting democracy and human rights worldwide
- Food Facility Instrument, €1 bn, 2009-2011: enabling a response to problems caused by rising food prices
- Humanitarian Aid Instrument, €5.6 bn: providing funding for emergency and humanitarian aid relief and food aid
- Instrument for Nuclear Safety, €524 m.: ensuring nuclear safety
- Instrument for Stability, €2.1 bn: tackling crises and instability in third countries and trans-border threats
- Macro-Financial Assistance, €791 m.: promoting macroeconomic stabilisation and structural reforms.

Non-EU budget (2008-2013):

- European Development Fund (EDF), €22.7 bn: Africa, Caribbean and Pacific and overseas countries and territories.

Source: Adapted from Gavvas (2010)

¹³ This call from proposal came through the DCI thematic programme Investing in People. It is of questionable relevance to use GNI per capita to allocate resources in relation to violence against children (European Commission, 2012a).

poverty headcount ratio and Poverty Gap Index (European Parliament, 2012a).¹⁴ The European Parliament has also proposed that in 'exceptional cases' the EU should phase out aid, 'paying special attention to the needs of particularly vulnerable population groups' (European Parliament, 2012a: 11). Many interviewees expressed concern that if South Africa loses its DCI bilateral envelope, EU-to-government relations already established could be weakened, and the political impact of going to 'zero' could be more significant than the money saved. Informally it has been suggested that if the EU continues the DCI bilateral envelope for South Africa, the budget for this envelope will be reduced from its current level and could be subject to cuts of between 25% and potentially 90%. However, it is important to note that this is only speculation at present because EU institutions do not yet even know what budget will be available for the different instruments.

2.1 Differentiated development partnerships

The EU development commissioner, Andris Piebalgs (2012), has emphasised that the EU 'is not pulling out from [MICs]'. The European Commission has proposed that MICs will be eligible for 'differentiated development partnerships', which will focus on blended finance, technical cooperation¹⁵ and trilateral cooperation. However, it could also include funding for knowledge sharing, technological and cultural cooperation, public-private partnerships, capacity development for individuals and organisations, and consultancy and dialogue initiatives (Herbert, 2012a).

These partnerships could act as a bridge between an asymmetrical 'aid-centric' model of cooperation and a more symmetrical and partnership-based 'beyond-aid' model. They will be funded through the thematic envelopes in the DCI and through other instruments like the new Partnership Instrument, which will replace the ICI (Herbert, 2012a). However, as yet there is little detail and potentially limited funding for these new forms of cooperation.

In terms of blended finance, South Africa has not previously had access to an EU blending facility. The South African government and the EU have now concluded lengthy negotiations over the establishment of a unique blending facility, due to launch this year – the Infrastructure Investment Programme for South Africa – with a proposed €100 million budget (yet to be finally confirmed). Many see this as a positive future area of work, particularly as the South African government has identified infrastructure as a key development priority.¹⁶ The 'massive infrastructure development drive' proposed by President Jacob Zuma forecasts a budget of four trillion Rand over the next 15 years (approximately €330 billion) (Zuma, 2012). As yet, the government has not announced how it will finance this programme.

For the current budget period (2007-2013) the European Investment Bank (EIB) has a lending mandate of €900 million for South Africa, with a focus on infrastructure projects of public interest and support for the private sector, including small and medium-sized enterprises (EIB, 2007). The EIB has yet to decide on its budget for the next budget period (2014-2020). Interviewees indicated that EIB bilateral allocations for external countries (only around 9.7% of its lending) are often

¹⁴ The European Parliament (2012a: 20) argues that in exceptional cases, UMICs should be eligible for grant-based bilateral aid if they score: (a) below 0.75 on the HDI; (b) above 10% of the poverty headcount ratio (based on daily per capita net income of \$2 (purchasing power parity, per cent of the population); (c) above 4% on the Poverty Gap Index (based on daily per capita net income of \$2); and (d) above 45% of the income Gini coefficient. South Africa would qualify for each indicator with the following: (a) 0.62 (2011); (b) 31% (2009); (c) 10% (2009); and (d) 63% (2009) (World Bank, 2013; Republic of South Africa, 2012).

¹⁵ The European Commission's definition of technical cooperation is as follows: 'Technical Cooperation is often associated with actions aimed at strengthening individual and organisational capacity by providing expertise (short and long term Technical Assistance (TA) personnel, institutional twinning arrangements, mobilisation of Diaspora, etc.), training and related learning opportunities (peer exchange, tertiary education, etc.), and equipment. TA refers to the personnel involved in the implementation and the management of technical cooperation services' (European Commission, 2008: 7).

¹⁶ Supported by interviews.

proportionately similar to EU budget allocations. Therefore, if the EU bilateral budget for South Africa were to decrease, the EIB's lending mandate would potentially also decrease (despite the proposed increased focus on blended finance).

Meanwhile, increased use of technical cooperation could finance capacity development, knowledge-sharing activities, and expert advice, or strengthen the implementation of services, investments or regulatory activities (European Commission, 2008). It would be particularly valuable to invest in co-funded initiatives with the South African government to ensure a high level of relevance and buy-in on both sides.

The EU's twinning instrument is an institution-to-institution exchange programme where staff from a member state and a partner country are seconded for between one and three years. Various interviewees from the EU suggested twinning as a particularly promising tool if the EU were to extend its remit to South Africa.¹⁷

3. Debates on aid in MICs: the role of aid in South Africa

As the previous section demonstrates, South Africa is a key country in the debate on aid in MICs. This section explores this country's development needs and the current roles that aid can play, depending on how it is administered. In examining the role of aid, three examples are examined: EU aid, USAID aid and aid to civil society organisations (CSOs).

3.1 South Africa: background

Our country is characterised by two parallel economies The First Economy is modern, produces the bulk of our country's wealth, and is integrated within the global economy. The Second Economy (or the Marginalized Economy) is characterised by underdevelopment, contributes little to the GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development (Mbeki, 2003).

Since the end of apartheid in 1989 and the first democratic elections in 1994, the South African government has vigorously pursued an inclusive national development agenda. Much progress has been made in this short time, including the establishment of inclusive democratic institutions; a huge increase in the provision of basic education, health care, sanitation and housing; and the creation of around three million jobs (Republic of South Africa, 2012).

However, South Africa still faces many serious development challenges. Ten per cent of the population suffer from HIV/AIDS; the rate of murders of women by intimate partners is six times the global average; unemployment was 25% in 2012; 39% of the population live under the national poverty line;¹⁸ and life expectancy in 2008 was 62 for women and 55 for men (Republic of South Africa, 2012). The HDI ranks South Africa 121st out of 187 countries.¹⁹ These socioeconomic ills are much more prevalent in Mbeki's 'Second Economy'.

¹⁷ Twinning is currently restricted to EU member states and beneficiary countries, including potential EU accession countries and countries covered by the European Neighbourhood Policy (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Occupied Palestinian Territory, Syria, Tunisia and Ukraine).

¹⁸ The official national poverty line is R419 (Rand) per month.

¹⁹ The HDI is a composite measure of health, education and income. The higher the rank, the higher human development is considered to be. More information can be obtained at <http://hdrstats.undp.org/en/countries/profiles/ZAF.html> and <http://hdr.undp.org/en/statistics/hdi/>.

At the same time, South Africa is a UMIC with a GNI per capita of \$6,960 (USD) in 2011. This is higher than India (\$1,410 USD); China (\$4,940 USD); and one EU member state, Bulgaria (\$6,530 USD). It is less than two of its fellow BRICS, Brazil (\$10,720 USD) and Russia (\$10,730 USD).

GNI per capita is an aggregate indicator that masks unequal income distribution. This is particularly important in South Africa, which is one of the world's most unequal countries with a Gini coefficient of 0.69 (Republic of South Africa, 2012).²⁰ According to the data, inequality has increased since the 1990s (OECD, 2012c). However, pre-apartheid data probably would not have included the majority of the country's poor, so these figures may not be accurate. The entrenched divisions established under apartheid are deep-seated, and frustrations regarding inequality increasingly threaten social cohesion, national stability, and the future development trajectory.

Racial inequality is particularly acute. As an indication, Table 2 reveals that in 2011 'whites' had an annual per capita income of R169,129 (Rand), compared to R22,099 (Rand) for 'Africans'.²¹ The South African National Planning Committee (2011: 10) notes that inequality within the African population has 'increased sharply'. Figure 4 illustrates the difference between each group in terms of household income distribution.

Table 2: Annual per capita income in South Africa by racial group, 2011

Group	Annual per capita income (Rand, current prices)
African	22,099
White	169,129
Coloured*	41,933
Asian	77,155

* In South Africa, people of mixed race.

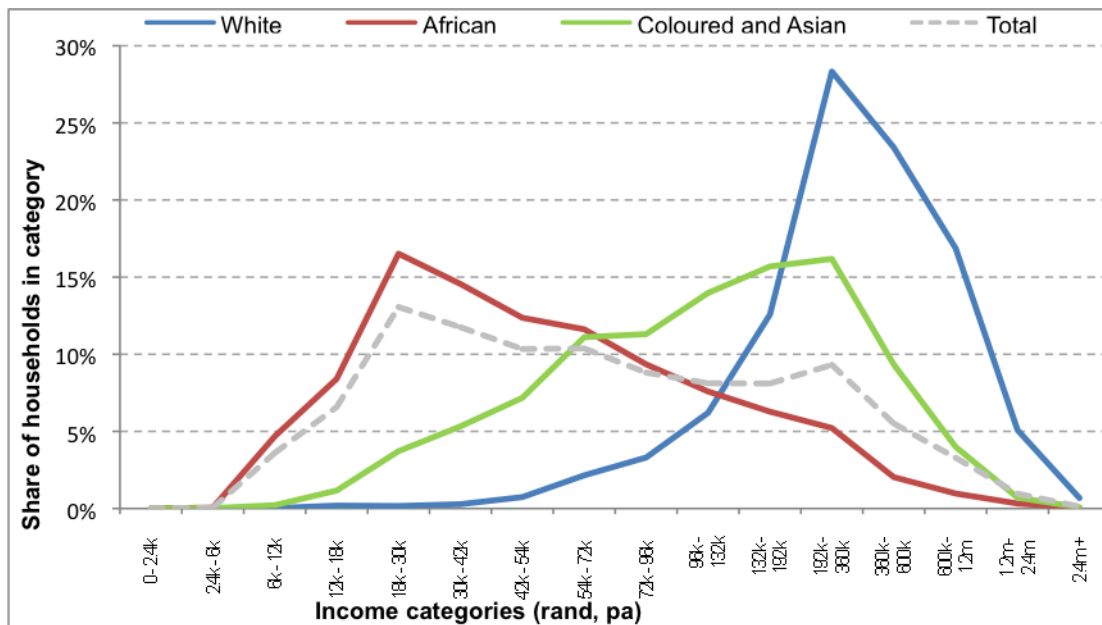
Source: David Wilson, IHS Global Insight Regional eXplorer version 65²²

²⁰ The Gini coefficient (index) measures the 'extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality and 100, perfect inequality' (more information is available at <http://stats.oecd.org/glossary/detail.asp?ID=4842>).

²¹ Used in South Africa to mean black people.

²² Data analysis provided by David Wilson of IHS Global Insight, based on official South African data sources, including national censuses, income and expenditure surveys, living conditions surveys, general household surveys, and data from the income account in the system of national accounts. Data available on request.

Figure 4: South African household income distribution by racial group



Source: David Wilson, IHS Global Insight Regional eXplorer version 65²³

In such an unequal and divided country it may be more relevant to refer to South Africa as a ‘LIC and a HIC’ rather than a MIC. While high inequality may be common to other MICs, particularly the BRICS, what is different in South Africa is the historically defined racial divisions that inequality follows. Despite being classified as a UMIC, South Africa is eligible for funds not usually available to MICs, e.g. the Global Fund.

Social cohesion is threatened by inequality, poverty and high levels of exclusion from the social, economic and political spheres. Following the 2008 economic crisis South Africa fell into recession and in 2009-2010 lost approximately 750,000 jobs, raising unemployment to about 25% (IMF, 2012).

South Africa is a regional anchor. It is the largest trading partner for the rest of sub-Saharan Africa, accounting for over a third of the region’s GDP and about 40% of its exports (IMF, 2012). It is the 27th largest economy in the world and the EU’s largest trading partner in Africa (World Bank, 2013). It is also the largest greenhouse gas emitter in Africa, with per capita CO₂ emissions close to EU levels (European Commission, 2010).

It plays a key role in regional development institutions, such as the African Union (AU), New Partnership for Africa’s Development, Southern African Development Community and Southern African Customs Union. In 2010 South Africa became one of the BRICS.²⁴

At the international level South Africa plays an active role in global governance fora – as a member of the G20, at climate change negotiations and at aid effectiveness discussions. It is increasingly called on to represent the ‘African voice’ in international fora, e.g. in negotiations over the post-MDG agenda. However, this idea is not without contention, and the South African government noted in its National Development Plan 2030 that it is at times seen as a ‘regional bully’ by other countries in Africa (Republic of South Africa, 2012).

²³ Ibid.

²⁴ Notably, Jim O’Neill, who coined the BRIC acronym, said in response to South Africa’s membership of the BRICS group: ‘South Africa’s economy is very small For South Africa to be treated as part of BRIC doesn’t make any sense to me. But South Africa as a representative of the African continent is a different story’ (Seria, 2010).

3.2 The role of aid in South Africa

More than 30 traditional official development partners and a number of non-traditional partners engage in aid activities in South Africa (Wood et al., 2011). Approximately \$8 bn (USD) in ODA was committed between 2000 and 2008; of this, \$6.2 bn (USD) was actually disbursed over the period. In order, the largest donors are the US, the EU, the UK, Germany, France, the Global Fund, the Netherlands, Ireland, Denmark and the Global Environment Facility (Wood et al., 2011).

At present, aid in South Africa fulfils a variety of roles, depending on how it is administered, the beneficiary and the sector chosen. It is interesting to compare the two distinct roles of the two largest donors – the EU and USAID: the EU delivers aid largely through budget support (focusing more on upstream activities), while USAID delivers aid through non-state actors (focusing more on downstream activities). It is important to note that the total aid received from all donors in South Africa makes up less than 1% of government expenditure. This impacts on the role aid can play: in countries with low (or no) aid dependency, aid has a more limited capacity to incentivise behaviour or fill a financing gap, for example (Glennie and Prizzon, 2012).

3.3 The EU's current model in South Africa

With an indicative **grant-based bilateral aid budget of €980 million for the period 2007-2013** (the 'DCI bilateral envelope'), the EU funds a variety of initiatives in five areas: employment creation; capacity development for service delivery and social cohesion; governance; regional and Pan-African support; and Trade, Development and Cooperation Agreement (TDCA) facilities (see Table 3) (European Commission, 2007). The DCI bilateral envelope is allocated at the start of the Multi-annual Financial Framework, and local funding decisions are made via joint agreements between the EU and the South African government. The EU delegation is involved in each stage of the decision-making process.

The EU administers the majority of aid in South Africa through budget support. In the current multi-year budget period (2007 until mid-2012) the EU has so far administered 84% of its aid through budget support, including general, sector and sector-wide approach programme budget support; 9.4% in the form of projects (including grants – direct centralised); 3.5% in the form of projects (decentralised); and 3.1% in the form of projects (indirect centralised management by executive agencies and others).²⁵

It is important to note that **South Africa is the only country that receives EU regional funds through its bilateral geographic envelope.** Therefore, if this envelope were eliminated, it would not be able to receive funding for regional initiatives. EU–South Africa Strategic Partnership activities are also financed through the bilateral geographic envelope and through the ICI+ instrument (see Box 1).

²⁵ Information provided by the EU.

Table 3: EU–South Africa cooperation: bilateral geographic allocation, 2007-2013

Funding instrument	Envelope	Focus	Allocation actual and planned (€ m.)
DCI	Bilateral (geographic)	Employment creation	321.0
		Capacity development for service delivery and social cohesion	490.7
		Governance	50.6
		Regional and Pan-African support	68.0
		TDCA	37.7
Total			968.0

Source: Based on information provided by the EU

Funds for the EU–South Africa Strategic Partnership are also sourced through thematic programmes, which are allocated on a continual basis throughout the course of the Multi-annual Financial Framework. Funding decisions are made via global calls for proposals initiated at EU headquarters. The funding available through these programmes is significantly less than that available through the bilateral envelope. At the time of writing an estimated €38.7 million had been allocated through thematic programmes – see Table 4.

Table 4: EU–South Africa cooperation: thematic allocation, 2007-to date

Funding instrument	Envelope	Focus	Allocation actual and planned (€ m.)
DCI	Thematic	Investing in people	12.8
		Environment and sustainable management of natural resources	0.4
		Non-state actors and local authorities in development	7.0
		Food security	2.0
		Migration and asylum	7.0
EIDHR*		Human rights	4.1
ICI+		Cooperation with industrialised countries	5.4
Total			38.7

* European Instrument for Democracy and Human Rights.

Source: Based on information provided by the EU

The theory is that **EU aid in South Africa fulfils a 'value-added' role**, funding innovation, pilot projects, and high-risk projects; providing seed funding for projects; and unblocking bottlenecks (National Treasury, 2010; European Commission, 2010). In this sense it can fill a non-essential financing gap, provides a multiplier effect and facilitates budget flexibility. If the projects are successful, the government can then choose to replicate or scale them up through other budgetary resources (the 'heavy lifting'). In the words of an interviewee, aid via budget support 'fast tracks' initiatives that the government would like to undertake, but cannot prioritise funding for.

This approach prioritises working directly with the government to support and strengthen its capacity for national development initiatives and on upstream policy development (in other words, influencing policy and government institutions are key objectives). Aid in this way provides a platform for relationship building, incentivising dialogue, and the sharing of skills and knowledge. It could be called a top-down approach to development, with government as the entry point and institution building its aim.

Monitoring the outcomes and impact of budget support is inherently challenging, because the funds are mixed with national development funds. As Glennie et al. (2013) note, this introduces various implications for donor country accountability. To ameliorate these risks EU budget support in South Africa is managed by the government in a special way as ‘programmes’. In terms of these programmes South Africa budget support contributions are paid into a national account and channelled to the executing agencies that manage the resources involved through the government budgetary process. This approach shapes the ensuing dialogue process and related monitoring of the results achieved.

In relation to the stated 'value-added' role of EU aid in South Africa, one way of evaluating success would be to review the innovative, pilot projects that have subsequently been taken over, replicated²⁶ or scaled up²⁷ by the government or other donors. This type of analysis would need to be carried out over time and with awareness of the various limitations of such an approach (e.g. that change would not necessarily be linear or instantaneous following the pilot phase; that a project may not exactly resemble its pilot predecessor; that multiple factors influence decisions to replicate projects; etc). Table 5 looks at some examples of projects currently funded by the EU in South Africa that demonstrate signs of being taken over, replicated or scaled up. It is important to note that it is still too early in this budget cycle to know whether other EU-funded projects will be taken over, replicated or scaled up.

Table 5: Examples of EU funded projects that have been taken over, replicated or scaled up*

Project	Taken over	Replicated	Scaled up	Value (€ m.)
Local economic development programmes	√ In KwaZulu-Natal (KZN) province; likely in Eastern Cape province	√ In eThekweni Municipality		34.0 (KZN) 30.0 (Eastern Cape)
Programme to Support Pro-poor Policy Department		√	√ By the government	5.0
Water for Growth and Development Programme			√ Possibly by government (subject to funding allocation)	107.0
Risk Capital Facility	√			88.0
Financial Management Improvement Programme II		√ Initiatives tested in pilot programmes are replicated in other municipal areas.	√ By the EU and other donors, and in terms of scope	8.0
HIV-1 Drug Resistance Programme			√ To cover the whole of Free State province	3.6
Support to the Comprehensive Plan to	√ For some elements	√ For some elements		8.0

²⁶ 'Replication' here means the transfer of a tested initiative to another location or sector, etc.

²⁷ 'Scaling up' here means taking a tested initiative and expanding it (in terms of budget, geographic focus, etc.).

Fight HIV/AIDS and TB				
Expanded Partnership for the Delivery of Primary Health Care and HIV/AIDS Services	√ By the government		√ Scaled up between first and second phases	70.0
Support to Victim Empowerment Programme		√ Partly replicated		18.0
Legislative Sector Policy Support Project		√ For some elements		
Youth Empowerment Programme	? Under preliminary discussion			10.0
Employment Creation Sector Policy Support Programme		?	√ By the government and other donors	100.0
Innovation for Poverty Alleviation	? Under discussion			
South African Qualifications Authority	√ By the government			12.0
Schools Infrastructure Support Programme	√ By the government			16.0

* Key: √ = yes; ? = possibly/under discussion.

Source: Based on information provided by the EU

The South African government is a strong proponent of the aid effectiveness agenda and especially of using country systems (National Treasury, 2010). The EU's use of budget support has been an important factor in building a positive relationship with the South African government relative to other donors, and in particular with the International Development Cooperation Unit in the National Treasury (the department that manages ODA).²⁸ Interviews revealed diverging perspectives on the effectiveness and impact of EU budget support in South Africa, supported by the recent Paris Declaration evaluation of South Africa that explores the tensions behind donor alignment efforts:

Alignment can create tensions in the 'multilaterals' efforts to commit to global compacts and agreements while also committing to country priorities and strategies which are not necessarily fully aligned. Differences occur concerning priorities and how these should be met and by whom. For some of the 'bilaterals', alignment is only as good as the benefits accruing to 'own interests' in the application of the specific instruments used to achieve this principle (Wood et al., 2011: 7).

3.4 The USAID model in South Africa

Alternatively, **USAID administers the majority of its aid budget in South Africa through NGOs and technical cooperation**. USAID provided around €396 million (\$541 million (USD)) in 2009, with 96% of this spent on HIV/AIDS initiatives (USAID, 2012). USAID's largest programme – the US President's Emergency Plan for HIV/AIDS Relief (known as 'PEPFAR') – was established in 2003 in response to the HIV/AIDS epidemic. In this area USAID has provided an essential financing gap in the delivery of health services.

The focus of the USAID approach is to provide services directly or through civil society in order to target particular health development needs. In contrast to the EU model, the USAID model

²⁸ Supported by interviews.

is more of a bottom-up approach to development, with a direct focus on the people and using civil society as the entry point for development initiatives. In this approach policy influence is an objective, but is pursued in a more indirect way and subordinated to the objective of providing services.

In contrast to the EU's budget support model, **it is easier to monitor outcomes and impact** with the USAID approach, because the funding is often provided directly to service delivery agents. However, by establishing parallel systems this model does not necessarily strengthen government capacity and can risk low levels of sustainability (OECD, n.d.), especially if USAID were to reduce its funding – a possibility that has been discussed recently.

3.5 Funding CSOs

International donors play a significant role in supporting CSOs in South Africa where funding would not normally be available, therefore aid in this context fills an 'additional' financing gap that the government will not provide. At present, funding goes towards CSOs working on human rights issues and general rights-based advocacy, think tanks, CSOs working on policy, and those that carry out service delivery (e.g. the USAID model, among other donors).

South Africa's particular history, the dominance of a single political party and the nature of the voting system mean that CSOs play a very important role in providing checks and balances. Meanwhile, NGOs have taken on more and more responsibility for service delivery because of weaknesses in the capacity of local and provincial governments (the bodies responsible for service delivery), and also because CSOs provide cheaper services, among other reasons.

The CSO sector has been significantly weakened since the end of apartheid because aid flows to CSOs have fallen significantly in favour of using government systems and because many CSO staff have been recruited to the government. Many interviewees noted that relations between CSOs and the government have weakened.

The EU finances a particularly innovative programme with CSOs through sector budget support. The Ministry of Justice receives EU budget support and then allocates some of this to the Foundation for Human Rights – an indigenous grant-maker to human rights CSOs.²⁹ In this example budget support finances and incentivises a platform for dialogue between the government and local CSOs, helping to facilitate a mechanism to overcome collective action problems and to fill a financing gap. By administering the funds through the Ministry of Justice the EU also has the opportunity to agree on performance benchmarks linked to the funding.

The European Commission's recent Communication on CSOs (European Commission, 2012b) proposes an enhanced and more strategic approach in its engagement with local CSOs, which is of particular relevance to South Africa, considering its historical and recent context.

4. The future of EU aid in South Africa: the rationale

Interviews with key stakeholders in the region revealed a variety of reasons for and against continuing EU aid in South Africa. This section collates these ideas based on the analytical framework set out in section 1 and is divided into the three overlapping areas of reasoning: (1) national development needs; (2) regional/global development needs; and (3) strategic relations (for development or otherwise) (see Figure 1 and the surrounding discussion).

²⁹ See the Foundation for Human Rights' website, http://www.fhr.org.za/page.php?p_id=15.

4.1 The case for aid targeted at national development needs

Some interviewees argued that **upon review of South Africa's development indicators, there is no reason to stop or reduce aid now**. All recognised that South Africa has many serious national development needs, referring especially to multi-dimensional poverty factors and people poverty data. Using GNI per capita as a proxy for development is particularly inadequate in the South African context due to the 'dual economy' and the strategic underdevelopment of the 'Second Economy' (see above) by the apartheid regime.

Perspectives from interviewees diverged on the question of the role donors should play in tackling South Africa's national development problems. As one of the most unequal countries in the world, South Africa is both rich and poor. So the problem of poverty is distributional (facing political, institutional and cultural challenges), rather than financial (economic challenges). This raises several issues.

It was proposed that **aid should be part of an inequality reduction approach, as opposed to a poverty reduction approach**, an idea supported by some key studies. In a paper written for the European Parliament's Development Committee about the policy of differentiation, Coll (2012) suggests that MICs should continue to receive grant-based bilateral aid from the EU, but only if it is targeted at specific policies targeting inequality, and only if the government commits to a strong inequality-tackling agenda. This is echoed by Furness and Negre (2012: 4), who suggest that EU aid in these countries could focus on

ex-ante support for more inclusive value-chains and sectors such as insurances for the poor and agriculture, where market-based mechanisms may not be able to meet needs. It could also act ex-post, for instance by promoting progressive tax systems and the pro-poor focus of social expenditure in countries with high inequality. The EU could offer twinning programmes to share expertise on fostering social cohesion in Europe.

However, **this type of policy earmarking may contradict aid effectiveness principles** of alignment and may be difficult if budget support is the principal modality used. Besides, the South African government's development agenda already sets poverty and inequality reduction as strategic priorities, with initiatives such as the Broad-Based Black Economic Empowerment programme,³⁰ the Joint Initiative on Priority Skills Acquisition and the Accelerated and Shared Growth Initiative for South Africa. The implementation and practical effectiveness of such policies are the real challenge. The structural inequalities and divisions established by apartheid will take considerable time to dismantle.

Some interviewees questioned the government's commitment to and effectiveness at reducing inequality and argued for an **increase of funding to CSOs and 'anchor development institutions' with strong anti-inequality agendas** to help build alliances in favour of more inclusive institutions. However, considering that entrenched poverty and inequality are complex problems that need to be changed from within, **external actors must be realistic about their capacity to effect change** that is legitimate and sustainable. Policy is not neutral, and out of respect for national responsibility and sovereignty the ramifications of such an approach should not be underestimated.

In the context of increased scrutiny on development budgets, **donors must be cautious not to oversell their work** or launch campaigns in the image of partner countries for the sake of domestic constituencies. Particularly in countries like South Africa, where aid flows make up a

³⁰ For more information, see http://www.thedti.gov.za/economic_empowerment/bee.jsp and <http://www.info.gov.za/issues/national-development-plan/development-plan-2012.html>.

small percentage of the national development budget, the framing of aid relationships can frustrate relationships between donor and partner countries.³¹

4.2 The case for regional/global development needs

An alternative perspective argues for the prioritisation of regional development needs and that **a strong, stable South Africa is an important spur for development in the region**. In aggregate, South Africa is a relatively wealthy and stable country that acts as an anchor for the region in terms of trade, migration, security and regional governance initiatives. All interviewees noted that the potential for both positive and negative regional spillovers is significant (IMF, 2012). South Africa also plays an **important role in the provision of regional and global public goods**.

South Africa is an active player in regional governance organisations and the argument is that **donors can facilitate this role**. Relationships and financing streams established through aid have the potential to facilitate South Africa's role in regional and global development in indirect ways, by supporting a stable South Africa via national development initiatives; and in direct ways, by supporting South Africa's external development initiatives – e.g. by funding regional organisations like the AU or perhaps through triangular cooperation.³²

No liberated mind can think their development agenda can be funded by donors Over 97% of programmes in the AU are funded by donors We should be more self-reliant. Our governments must put more money there (AU chairperson Nkosazana Dlamini-Zuma, cited in Kotch, 2012).

However, **donors must be careful not to skew the agenda**. Some interviewees echoed Dlamini-Zuma's sentiments (see above) and urged donors to be cautious not to drive this agenda with financial incentives. Regional sensitivities should also be carefully analysed: South Africa's National Development Plan 2030 warns that within the region South Africa can be seen by its neighbours as a 'bully' and a 'self interested hegemon' (Republic of South Africa, 2012).

South Africa is a gateway or a 'launch pad' for development in the region. The country offers a relatively safe and comfortable location for development agencies to be based to pursue regional activities; this relevance has increased since 2001. The latest Paris Declaration evaluation review notes that 'regionalisation of aid agencies is occurring rapidly, with South Africa generally a focal country' with 'some changes in established focal areas towards global public goods' (Wood et al., 2011: 10).

4.3 The case for strategic relations for development or otherwise

South Africa and the EU share many common values and beliefs, making them natural partners to promote development, socio-economic and political progress, as well as stability in a globalising world. (The South Africa–European Union Strategic Partnership Joint Action Plan (Council of the EU, 2007)).

A final perspective prioritises cooperation at the strategic level, noting that **South Africa has a strong voice in the international development policy sphere**, an increasing role as a donor,

³¹ This caused tension in the UK-India case, illustrated by the statement of the Indian finance minister, Pranab Mukherjee, that India did not need British aid: 'We do not require the aid. It is a peanut in our total development exercises [expenditure]', and by an alleged leaked memo from the former foreign secretary, Nirupama Rao, recommending that India should stop receiving aid from the UK because of the 'negative publicity of Indian poverty promoted by DFID' (*Times of India*, 2012).

³² The forthcoming South African Development Partnership Agency is expected to present more opportunities to pursue trilateral cooperation initiatives.

and has the potential to be influential in agenda shaping. The Fourth High Level Forum on Aid Effectiveness held in Busan in 2012 acted as a turning point for African collaboration on the international development policy agenda, with the region forming a common position for the first time.

In terms of values, **South Africa and the EU are like-minded**: both place democracy and human rights at the centre of their internal and external development agendas. On the international level both support multilateralism:

Historically, developing nations have traded more with the North than amongst themselves. This is changing, accelerated by recession in Europe and the US. BRICS and other groupings are creating spaces to develop common positions to influence global policy. In the absence of true reform of global institutions they may well develop parallel structures – for some, the announcement of a BRICS Development Bank is just that (Sidiropoulos, 2012).

South Africa and its neighbouring region are important for trade, access to natural resources, diplomatic relations and security. South Africa is the EU's 13th-largest trading partner (European Commission, 2012c). The increasing role of emerging economies – especially China and Brazil – in the region is illustrative of recent global shifts in trade and investment. Various interviewees noted that the 2008 economic crisis, and particularly the ensuing Eurozone crisis, have damaged the image of the EU as a strategic partner for partner countries.

Aid can act as a form of soft power that secures a platform with government to build and consolidate relationships, for dialogue on policy issues, to keep up to date on government policies, to share knowledge and to discuss values. These relationships can be used to pursue strategic development interests (e.g. the future MDG agenda), and cultural, commercial, diplomatic or foreign policy interests.

The effectiveness of using aid for this purpose was an issue of contention. **Some interviewees argued that strategic relations are better pursued by a foreign policy approach** using foreign policy tools and staff. In particular, some noted that restrictions on the definition and use of ODA, aid effectiveness principles, budget support, and the EU's funding procedures limit the ability to use aid funds in strategic ways.

This could explain why some member states are pushing for South Africa to lose its EU bilateral allocation. However, **without the bilateral allocation there would be a very limited budget for EU–South Africa relations.** This pressure from member states may also reflect the desires of certain of them to strengthen bilateral relations at the expense of multilateral ones. For example, Germany wants the EU to cut its budget in South Africa while it (i.e. Germany) is simultaneously increasing its own development cooperation budget and activities in the country.

Progress on the Policy Coherence for Development agenda could yield significant development gains for South Africa. While aid fulfils an important role in South Africa, it is only one tool in the development toolbox. Increased engagement on this agenda or 'beyond aid' issues (trade, agriculture/food security, investment, tax, migration, environment, security and technology) could lead to significant improvements in developmental impacts. This is particularly relevant in the South African context, because ODA represents less than 1% of government expenditure and the country is a key EU trading partner. Much work is to be done to progress this agenda in South Africa (Sidiropoulos, 2012).

The **proposals at Busan to move from a focus on aid effectiveness to 'development effectiveness'** could bring impetus to the agenda. The EU Delegation in South Africa plays a crucial role in facilitating engagement on the above beyond-aid elements, which is predominantly funded by the bilateral aid budget. So the key question that remains is how to progress this agenda with aid, but also beyond aid.

4.4 In conclusion

As the three levels of analysis presented above indicate, there is a variety of arguments at each level for and against having an EU aid programme in South Africa. Crucially, the South African government wants a continued EU aid programme and has expressed concern about differentiation in this context – a position articulated officially during the 2012 EU–South Africa Joint Cooperation Council.

Overall, interviewees revealed a preference for arguments at the strategic (for development or otherwise) and regional levels (see Figure 5). While national development needs are an important aspect, it was not the primary focus for interviewees. Focusing primarily on national needs – especially within a poverty reduction framework – was felt to be too restrictive and did not take into account the larger development gains that could be won through engagement on the regional and strategic levels. Also, some felt that the complexities and political sensitivities of tackling inequality limited the role of donors.

However, this view was not uniform. On the one hand, more senior officials from member states and locally based academics tended to argue that strategic (for development or otherwise) and regional approaches were a more credible basis for cooperation. On the other hand, NGOs and staff implementing projects in the EU Delegation tended to favour prioritising national and regional levels. The overall conclusion reflects explicit and implicit shifts in donor discourse and policy regarding South Africa (e.g. the approaches of Germany, Sweden and the UK³³).

Figure 5: Arguments for development cooperation in South Africa



5. The future of EU aid in South Africa: objectives and policy approach

Following on from the above section about the rationale for an aid programme in South Africa, this section explores the objectives of EU aid, the policy of differentiation and the EU programme in South Africa.

Koch (2012: 5) argues that the **EU's current approach can 'best be described as a mismatch between policy objectives and partner country portfolio'**, exemplified by its overarching objective of poverty reduction, compared to its global presence in 145 countries, which is often mooted to be one of the EU's comparative advantages. This mismatch of objectives can also be seen in distinct policy areas.

The policy of differentiation has been discussed in the context of many objectives. Often these objectives are used interchangeably in the same report or speech and some are mutually exclusive. At least five overlapping objectives can be identified in relation to the policy of differentiation, detailed in Table 6.

³³ Notably, DFID (2012b) entitles its programme 'Southern Africa' instead of 'South Africa', indicating its strong regional focus.

Table 6: The different objectives of differentiation

Objectives	Source/s
(1) To target resources where they are needed ³⁴ most (vis-à-vis 'tight' development budgets)	European Commission (2011b); Piebalgs (2012); European Commission (2011c)
(2) To target resources where they could have greatest impact and value for money	European Commission (2011b); Piebalgs (2011); European Commission (2011c)
(3) To provide new forms of partnerships for MICs that graduate from grant-based bilateral aid, known as 'differentiated development partnerships' To shift relations with some emerging countries towards a partnership based on mutual interest rather than development cooperation	European Commission (2011d); Piebalgs (2011)
(4) To respond better to the specific needs/capacities of each country	European Commission (2011e)
(5) Geographical differentiation (e.g. to focus more on certain geographic regions and less on others)	European Commission (2011f)

The EU's development programme in South Africa is also characterised by multiple objectives that cannot all be achieved through one policy approach. In fact, 11 different policy documents govern EU–South Africa relations (detailed in Annex 1). Notably, the TDCa (signed in 1999) forms the legal basis for overall relations between South Africa and the EU. It covers key areas of cooperation: political dialogue, development cooperation (national and regional), and cooperation in trade and trade-related areas (European Commission, 2006). While the TDCa includes multiple objectives in different issue areas, the majority of the budget for EU–South Africa cooperation comes from the DCI bilateral allocation, which has the overarching objective of poverty reduction (see Annex 1).

The problem of multiple and diverging objectives is certainly not particular to the EU, but is prevalent in the approaches of many development actors. By their nature, multilateral bodies represent the interests of many actors. This has various advantages for developing countries – particularly the mediation of political, commercial and strategic interests – that may not be in the interests of the developing countries and may undermine development outcomes. It also has various limitations, particularly that policy is a result of multi-actor negotiations and compromise. This could explain the diversity of issue areas that EU policy tackles and the diversity of its stated objectives. Rather than battle with this institutional inevitability, it may be more worthwhile to 'work with the grain' of EU policy-making, and to work on how to order and simplify the multiple objectives.

In the context of MICs, the 'mismatch' of policy objectives, country selection and practice is more acute because the EU has yet to outline a clear and comprehensive strategy for these countries in light of the aforementioned shifts in the development landscape. As Kragelund (2013: 2) notes, 'On the donor side, the specific aid modalities adopted as well as changing strategic and (geo)political purposes of aid change the overall bargaining power and thereby aid relations'. The EU must endeavour to clarify and prioritise the objectives of its relationship with South Africa, and to evaluate if poverty reduction is the correct overarching aim for aid in that country.

³⁴ 'Need' is defined strongly along income lines with key criteria including GNI per capita and share of global GDP (Herbert, 2012a).

6. Conclusion: options for the future

As this paper demonstrates, diverging perspectives around the debates on ‘aid in MICs’ indicate that many development actors are struggling to redefine and shape their work and relationships with MICs. It also indicates that the internal and external context shaping development actors has changed significantly and warrants a revision of, if not a change in, policy approach.

As section 1 explains, general arguments for and against aid in MICs could simplistically be categorised as falling into three overlapping areas of reasoning: (1) national development needs; (2) regional/global development needs; and (3) strategic relations (for development or otherwise (see Figure 1). While development approaches are inevitably based on all three areas of reasoning, the areas prioritised are significant, because this will determine the hierarchy of objectives, type of engagement, development partner, beneficiary, modality, sector, etc. This final section explores three policy options for the EU and South Africa, based on the EU prioritising one of the three overlapping rationales for aid.

6.1 Option 1: prioritise aid at the national level: an ‘inequality reduction approach’

A first option – an ‘inequality reduction approach’ – would see the EU continue to prioritise aid activities focusing on the national level. If this option were pursued, the EU and South Africa would need to make changes in three areas to ensure value for money and to adapt to changing national and global contexts.

First, **to ensure a coherent approach, the EU would need to set out a clear rationale for its aid programme in South Africa by clarifying the vision, purpose and hierarchy of objectives.** As section 4 illustrates, there are diverging perspectives on the rationale for aid in South Africa, particularly from EU member states’ officials in the country. Also, 11 policy documents govern EU–South Africa relations, some with conflicting prioritisation of objectives.

Second, as inequalities are at the heart of South Africa’s development challenges, **the EU would need to review whether its poverty reduction approach should instead be an ‘inequality reduction approach’.** A decision to move to the latter approach could signify a revision of the sectors of engagement (e.g. targeting funding at specific inequality-reducing policies); the development partner (e.g. the specific actors involved in those inequality-reducing policies and potentially assigning a different share of funding to specific CSOs vis-à-vis government partners); the modalities used; and the type of engagement (e.g. policy dialogue would still be a priority, but new initiatives could be developed to target the broad cultural, political and legal factors that support inequalities).

Third, **the EU would need to maintain the grant-based bilateral aid budget** (or the ‘DCI bilateral envelope’) for South Africa and, depending on the size of the budget, would need to revise the modalities used. If the size of the budget stays the same, then the EU could continue to channel a substantial amount of its resources through budget support with a focus on its ‘value-added’ role by funding and facilitating innovative, pilot projects. This would also maintain its strong relationship with the government and its platform for dialogue. This possibility is most like the initial proposal by the European Commission to exempt South Africa from differentiation (assuming this means exemption from all three levels).³⁵ With a lower budget, the incentives for dialogue would change: in some areas the incentives would reduce (e.g. initiatives with high transaction costs), while other initiatives that do not require as much money (e.g. technical assistance) could become of

³⁵ See section 2 for details of the three levels of differentiation.

increased relative importance. The future of budget support will depend significantly on the volume of funds allocated in the next budget period.

Pursuing this option would be a clear indication that the EU and South Africa value the theory of intervention and that the DCI bilateral envelope can play an important role in financing pilot development projects and incentivising dialogue on development issues. It also recognises the need to have dialogue and cooperation through a national programme, and not only through thematic programmes. Crucially, the South African government wants a continued EU aid programme.

The South African government's National Development Plan 2030 sets out an ambitious development programme, but implementation is the real challenge. The structural inequalities and divisions established by apartheid will take considerable time to dismantle. If an 'inequality reduction approach' were introduced rather than a poverty reduction approach, it could modify the areas of activity, which could contravene the aid effectiveness principles of aligning with the national development strategy and country ownership. Furthermore, the EU's financing instruments might need to be adapted to enable this, particularly those used to contract CSOs.

- **Rationale:** Order of priority: (1) national development needs; (2) regional development needs; (3) strategic (for development or otherwise) (see Figure 2)
- **Policy approach:** National and regional poverty reduction approach; or national inequality reduction and regional poverty reduction approach
- **In whose interest?** Enlightened self-interest.

6.2 Option 2: prioritise aid at the regional/global level: 'supporting regional anchors'

A second option – 'supporting regional anchors' – would see the EU modify its aid programme to focus more on regional and global development challenges. If this option were pursued, both the EU and South Africa would need to make a series of significant changes.

First, as in option (1), to ensure a coherent approach, **the EU would need to set out a clear rationale for its reformed aid programme in South Africa** by clarifying the vision, purpose and hierarchy of objectives. The EU would also need to clarify the type of differentiation to be used and the objectives of the changed policy approach. Second, under this approach the EU would have to mutually agree on a nationally focused **aid exit strategy with South Africa** to phase out remaining activities, although some national development activities that impact on regional development would continue.

Third, by **prioritising regional and global development needs** the EU would need to revise the sectors of engagement (e.g. targeting regional initiatives or regional-impacting issues like infrastructure and migration); the development partner (e.g. supporting regional forums and CSOs working on cross-border issues); the type of engagement (e.g. regional policy dialogue would be a priority, as opposed to just national dialogue); and the types of modalities. For example, budget support would need to be revised because the South African government would not necessarily be the entry point for regional development initiatives, and with a potentially smaller budget available the EU would finance a more limited programme.

The proposed differentiated development partnerships could be valuable to this option. A focus on blending using the new blending facility (the Infrastructure Investment Programme for

South Africa) could be a good option to crowd in funds, particularly in light of South Africa's prioritisation of infrastructure. Meanwhile, increased use of technical cooperation could finance capacity development, knowledge-sharing activities and expert advice, or strengthen the implementation of services, investments or regulatory activities (European Commission, 2008). It would be particularly valuable to invest in co-funded initiatives with the South African government – e.g. twinning – to ensure a high level of relevance and buy-in on both sides.

Fourth, in terms of implementing the policy, pursuing the regional option would probably have **staffing implications** for the EU both in Brussels and in South Africa, in terms of geographic and thematic specialisation.

Fifth, under the current proposals from the European Commission, to do this **the EU would need to maintain the DCI bilateral envelope, because at present South Africa does not have access to other sources of regional funding**. Also, without this there would not be an overarching strategic direction for regional development cooperation activities, nor the associated platform for discussion and negotiation. The funding for the DCI bilateral envelope could be reduced, but it should be recognised that while South Africa already receives regional funding (see Table 3), this is sourced through the DCI bilateral envelope and the amount of funding is relatively low.

This funding option is most similar to the differentiation policy which is expected to be pursued for the EDF – with differentiation only at levels (2) and (3), and not at level (1) (see section 2, above). It is also similar to the proposal initially made by the European Commission for South Africa. Informally it has been suggested that if the EU maintains the DCI bilateral envelope for South Africa, the remaining budget could be cut by between 25% and 90%.

Like the first option, this option recognises that the DCI bilateral envelope plays an important role in financing pilot projects. It also recognises the role this plays in incentivising and providing a platform for dialogue through a national programme, but aimed at regional and global initiatives, and not only through regional and thematic programmes. By potentially reducing the DCI bilateral envelope, this option focuses on South Africa's capacity to fund its own development: in this option aid does not fulfil an essential funding gap, so the volume of aid is not as important. It also recognises that many of South Africa's development challenges lie in the implementation of its policies, so activities that foster information sharing are more important than the actual financing of projects.

In light of public pressure in some donor countries to reduce or stop aid in some MICs, this option could be a strategically valuable move for the EU to make to increase the sense of donor citizen accountability.

Managing ODA represents a significant commitment for local development actors, especially the government. Any reduction in aid volumes will inevitably reduce the incentives for dialogue and donor leverage over policy issues. The proposed differentiated development partnerships could act as a bridge between an asymmetrical 'aid-centric' model of cooperation and a more symmetrical and partnership-based model. However, as yet there is little detail and potentially limited funding for these new forms of cooperation.

While blending may leverage in extra funds, it is important to underline that, as a development bank, the EIB is only able to fund revenue-generating projects. In terms of technical assistance, the EU may not currently have a comparative advantage in delivering this compared to other donors, e.g. the German government's technical cooperation agency, GIZ,³⁶ already has a large programme in South Africa.

³⁶ Deutsche Gesellschaft für Internationale Zusammenarbeit.

- **Rationale:** Order of priority: (1) regional development needs; (2) strategic (for development or otherwise); (3) national development needs
- **Policy approach:** Global public goods approach or strategic development relationship
- **In whose interest?** Collective interest or enlightened self-interest.

6.3 Option 3: prioritise the strategic level: a ‘strategic development partnership’

A third option – a ‘strategic development partnership’ – would see the EU modify its programme, with greater focus on strategic challenges (for development and otherwise). If this option were pursued, both the EU and South Africa would need to make a series of significant changes.

First, by **prioritising strategic development needs (for development and otherwise)**, the EU would need to change the sectors of engagement (e.g. targeting global issues in which South Africa can play a significant role); the development partner (e.g. supporting global forums for South–South donors and international CSOs); the type of engagement (e.g. policy dialogue on global trade issues); and the types of modalities. For example, budget support would probably not be suitable, with a potentially much smaller budget.

Second, both sides would need to **recognise that with less money, incentives for dialogue and policy influence would greatly reduce** and stop altogether in some areas. This is not to say that development cooperation activities would cease, because funding would still be available through thematic and regional programmes (see Table 3). As in option 2, there would be staffing implications both in South Africa and Brussels.

Third, **activities under the framework of the TDCA and the Strategic Partnership would grow in relative importance**. Both include development cooperation activities, but also focus on much broader strategic issues like trade and foreign policy linkages. These two initiatives have limited funding and are currently predominantly funded by the bilateral envelope, with only a small amount (€5.4 million) funded through the ICI+ instrument (see Table 4).

Fourth, as explained in the discussion of option 2, under current proposals from the European Commission, to do this **the EU would need to maintain the DCI bilateral envelope** for South Africa. This is because at present, without this there would be no overarching strategic direction for development cooperation activities and the associated platform for discussion and negotiation. This funding option is similar to the funding for option 2 and to the funding policy currently proposed for South Africa. Like option 2, the EU should mutually agree a nationally and regionally focused aid exit strategy with South Africa to phase out remaining activities.

If the EU wanted to eliminate the DCI bilateral envelope, it could explore options such as increasing the funding, remit and staffing of the EU–South Africa Strategic Partnership. However, this may not be the ideal framework for a strategic development partnership. Also, non-ODA funding would be limited.

Fifth, **the donor-recipient framing would become less important, leaving space for both sides to strengthen a non-aid-based partnership**. Both would need to explore the opportunities to co-fund projects of common interest in a bid to replace the former aid-funded activities. This reduced role may present opportunities for other donors to scale up their activities in South Africa.

This option, like the previous two, recognises the role the DCI bilateral envelope plays in incentivising dialogue. It focuses more narrowly on funding information sharing and facilitating contact, as opposed to actually funding development activities. Thus, it would not require as much funding, but would still need a budget line. It could foster better relationships with some parts of government for a more equal partnership.

Instead of eliminating the DCI bilateral envelope, this option recognises that the EU has not yet designed a coherent alternative that would allow a strategic framework to include global strategic development concerns. This approach could be understood to reflect concerns about donor countries' economic positions more than those about South Africa's national and regional development needs.

- **Rationale:** Order of priority: (1) strategic (for development or otherwise); (2) regional development needs; (3) national development needs (see Figure 4)
- **Policy approach:** Strategic development relationship or global public goods approach
- **In whose interest?** Collective interest and mutual interest.

Annex 1

Table 7: The different objectives of EU development cooperation with South Africa³⁷

Objectives (summarised)	Source/s
(a) provide a framework for dialogue; (b) support the economic and social foundations of South Africa's transition process; (c) promote regional cooperation and economic integration; (d) promote trade in goods, services and capital; (e) integration into the world economy; (f) promote cooperation between the regions, in mutual interest.	TDCA (European Community and Its Member States and the Republic of South Africa, 1999)
The principal objective is to promote the achievement of the UN Millennium Development Goals (MDGs) in Africa. This objective is strengthened and complemented by the specific objectives pursued within the Cotonou Agreement, the TDCA ... including the support to political reform and economic modernisation.	EU's Strategy for Africa (European Commission, 2005a)
The primary and overarching objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs) We reaffirm that development is a central goal by itself; and that sustainable development includes good governance, human rights and political, economic, social and environmental aspects.	European Consensus on Development (European Commission, 2005b)
The primary and overarching objective of cooperation ... shall be the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs), as well as the promotion of democracy, good governance and respect for human rights and for the rule of law.	DCI regulation 2007-2013 (EU, 2006)
The aim of the partnership is to promote peace, security and stability in Africa and allow closer cooperation between the two parties at regional, continental and world level. It also sets out to enhance existing cooperation on development and trade and to extend cooperation to other fields.	Communication on a Strategic Partnership with South Africa to the Council and Parliament, dated June (European Commission, 2006)
It is envisaged that the existing cooperation between the EU and South Africa will be enhanced by moving from political dialogue to shared objectives and strategic political cooperation on regional, African and global issues including conflict prevention and resolution in Africa. It is also envisaged that the Strategic Partnership will develop stronger and sustainable economic cooperation, fully implement the TDCA provisions on trade related areas and extend cooperation to the social, cultural and environmental fields.	EU-South Africa Strategic Partnership Council Conclusions, (Council of the EU, 2006)

³⁷ Note that 13 policy documents are actually reviewed, but only 11 are active at any one time. The text in this table is sourced directly from the stated policy documents. Where possible the wording is left intact, but in some cases it is edited and summarised.

The primary objective is the reduction and, in the long term, the eradication of poverty.	Lisbon Treaty (EU, 2007)
The overall objective will be the reduction of poverty and inequality. The MIP focusses on the objectives of poverty reduction, sustainable economic and social development and the smooth and gradual integration of developing countries into the world economy.	Multi-annual Indicative Programming 2007-2013 (European Commission, 2007)
The Strategic Partnership shall be built on the existing relations between the EU and South Africa, with the objective to strengthen and to bring added value to these relations. Enhancing existing cooperation by moving from political dialogue to active political cooperation on issues of mutual interest, at bilateral, regional, continental or global level.	South Africa–European Union Strategic Partnership Joint Action Plan (Council of the EU, 2007)
<ol style="list-style-type: none"> 1. The political objective is to support South Africa’s political role as a stabilising factor in the region, the continent and beyond; 2. The economic and trade objective is to help South Africa play a role in the economic integration of the region and be a trading partner; 3. The development objective is to reduce poverty and inequality, promote internal social stability and environmental sustainability. 	<p>Joint country strategy paper 2007-2013 (European Commission, 2010)</p> <p>(This document acts to consolidate all the objectives cited in the other policy documents.)</p>
Supporting developing countries’ efforts to eradicate poverty is the primary objective of development policy. Development policy also helps address other global challenges and contributes to the EU-2020 Strategy.	Agenda for Change, (European Commission, 2011c)
<p>The primary objective shall be the reduction and eradication of poverty. It will also contribute to other objectives of EU external action, in particular:</p> <ul style="list-style-type: none"> - fostering sustainable economic, social and environmental development. - promoting democracy, the rule of law, good governance and respect for human rights. 	Proposed DCI regulation, 2014-2020 (European Commission, 2011a)

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