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ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2017 in favour of the Republic of South Africa to be financed from the general budget of the Union

Action Document for Support programme to the National System of Innovation

1. Title/basic act/ CRIS number	Support Programme to the National System of Innovation - CRIS Number: DCI-AFS/040-022 Financed under Development Cooperation Instrument (DCI)			
2. Zone benefiting from the action/location	Southern Africa, Republic of South Africa The action shall be carried out at the following location: Republic of South Africa			
3. Programming document	South Africa Multi-annual Indicative Programme (MIP) 2014-2020.			
4. Sector of concentration/ thematic area	Sector 2 "Education, Training and Innovation" in particular Specific Objective 5 "improving the "functioning of a coherent and coordinated National System of Innovation" And to a lesser extent Sector 3 "Capable and Developmental State" in particular Specific Objective 2 "Relations between national, provincial and local government improved"		DEV. Aid: YES ¹	
5. Amounts concerned	Total estimated cost: EUR 15 000 000 Total EU Budget contribution: EUR15 000 000 of which: EUR 14 700 000 for budget support and EUR 300 000 for Evaluations and Communication			
6. Aid modality(ies) and implementation modality(ies)	Direct management – Sector Budget Support: Sector Reform Contract, procurement of services			
7 a) DAC code(s)	Main DAC code – 400 – Multisector / cross-cutting Sub-code 1 – 43010 Multisector aid.			
b) Main Delivery Channel	10000 – Public Sector Institutions in this case the Department of Science and Technology			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Gender equality (including Women in Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	x	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			
10. SDGs	Main SDG Goals SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation and SDG 8: Sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Secondary SDG Goals: SDG 5: Achieve gender equality and empower all women and girls (in particular 5b Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women); 6: Clean water and sanitation; SDG 7: Affordable and clean energy; SDG 10: Reduce inequality within and among countries; SDG12: Ensure sustainable consumption and production patterns.			

SUMMARY

Innovation is a source of sustainable growth and competitiveness, as well as a powerful engine for addressing social challenges, increasing inclusive access to socio-economic rights and services including a healthy environment, creating jobs and increasing productivity. Ultimately, innovation has the ability to markedly contribute to a reduction in poverty. In recognition of this, South Africa's National priorities, as reflected in its National Development Plan (NDP) Vision 2030 and other policy documents include innovation as one of the three priority areas to nurture inclusive economic growth, reduce poverty and raise living standards. A coherent and coordinated National System of Innovation (NSI) is identified as key to competitiveness and transformation. However, as indicated in the 2007 Organisation for Economic Co-operation and Development (OECD) review of the South African NSI, a 2012 Ministerial review and other reviews and evaluations, the NSI has as yet to live up to this promise, mainly because the NSI revolves around traditional players in the research and academic sectors, the involvement of the private sector is limited, and there is limited involvement of other government departments beyond the Department of Science and Technology (DST) or other stakeholders as equal partners in the NSI. Weak partnerships and the low rate of uptake and commercialisation of R&D outputs have also prevented the NSI from achieving its full potential in terms of socio-economic benefits, realisation of rights, and access to services for all South Africans.

In line with the rights-based approach, the current programme seeks to address weaknesses and challenges in the NSI by supporting improvements to its functioning so as to enhance South Africa's inclusive growth and development, increase access to socio-economic rights and services, contribute to a cleaner environment, and create employment opportunities.

The specific objectives/outcomes of the programme are:

- (i) to strengthen policy around innovation and learning in the NSI by ensuring wider and inclusive participation of Research & Development stakeholders including groups advocating for the rights of women and other vulnerable groups in science and business;
- (ii) to develop policy and programme interventions through dialogue and consultations with non-conventional partners that will stimulate investment in Research, Development and particularly Innovation for service delivery to improve access to socio-economic rights (for all/ in particular for the vulnerable groups); and
- (iii) to support learning from models that have been successful in applying innovation and commercialisation of technologies arising from existing cooperation and other projects.

The programme will allow for policy dialogue and policy experimentation and incorporation of lessons learnt from previous national and international initiatives, including the EU Framework Programmes in line with South Africa's National priorities and with the Sustainable Development Goals (SDGs) in Agenda 2030 (SDGs 5, 9, 8, 10 and 13). Based on previous positive experiences with sector budget support to the Department of Science and Technology (DST), the current programme is also foreseen through sector budget support to the DST, working with other key stakeholders.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

South Africa is an upper middle-income country. It maintains good fiscal health through sound macro-economic policy which resulted in a stable economy projected to grow with between 0.6 and 1% of the gross domestic product (GDP) in 2017. Although South Africa is competitive in a number of areas, it continues to face challenges of poverty inequality and unemployment, especially among women in general and black women in particular. It also faces problems in service delivery and access to socio-economic rights and development affecting women and vulnerable populations in particular, despite the inclusion of justiciable socio-economic rights in the Constitution. Innovation underpins the socio-economic development and global competitiveness of any modern state. It is a source of new and sustainable growth and competitiveness, as well as a powerful engine for addressing social challenges and holds the key, in both advanced and emerging economies, to improving access to and the quality of services by making service delivery more affordable, creating jobs and improving productivity and can reduce poverty. A well-functioning and mature national system of innovation (NSI) is important for transformative change, including efforts to enhance government service delivery, improve the quality of life of women and men, and enhance sustainable and inclusive development. A mature NSI is characterised by a variety of strong and dynamic partnerships between the various key players, government, industry, the non-profit sector, research organisations, and communities. While South Africa has made significant progress in this area, key challenges remain in ensuring that science, technology and innovation are able to contribute to increased realisation of socio-economic rights, better access to services and to addressing poverty in the country.

1.1.1 Public Policy Assessment and EU Policy Framework

The NDP Vision 2030 aims to address poverty and exclusion. It prioritises building a developmental state and growing the economy for inclusive growth and development. Education, training and innovation are among the priorities set out in the NDP. To that effect, science, technology and innovation are prioritised as enablers and at the forefront of South Africa's development and competitiveness. To harness the potential of technology and innovation, the NDP states that South Africa's development, competitiveness and transformation will rely on the NSI which includes continued advances in technological innovation and knowledge production. The NDP also refers to "research, development and innovation in human capital for a growing knowledge economy" as a way to ensure access to the right to health and education. In addition, the NDP also emphasises the need for the full participation of women in the economy. Several line Departments, including the Department of Science and Technology (DST) and the Department of Trade and Industry (DTI), also contribute to Gender Equality Policy through internal policies and initiatives. In line with the three phases for economic development and access to health, education and decent employment in the NDP, the DST Strategic Plan proposes Phase 1 (2014-19): use knowledge to increase economic efficiency; Phase 2 (2020-25): use knowledge to enhance industrialisation; and Phase 3 (2025-30): knowledge based economy.

Other key national policies include the **White Paper on Science and Technology (1996)** – currently under revision (see Section 1.1.2 below) - which first introduced the notion of a "national system of innovation" into South Africa's formal public policy discourse²; the **National Research and Development Strategy (2002)** that identifies three pillars to address the challenges facing science and technology (innovation; science, engineering and technology human capital and the transformation of the

² The White Paper defines the NSI as 'a means by which a country seeks to create, acquire, diffuse and put into practice new knowledge that will help that country and its people achieve their individual and collective goals'.

NSI); and the **New Growth Path (2011)** that addresses the need for skills development, especially in new or competitive sectors, and in the development of research and development (R&D) policy and capacity. Key legislation passed to encourage the growth of the NSI includes amendments to the Income Tax Act (58 of 1962) in 2006 to create an incentive for R&D and in 2008 to provide incentives for investors through a Venture Capital Company regime to address the lack of funding at the early stages of commercialisation. The Intellectual Property Rights from Publicly Financed Research and Development Act (51 of 2008) changed the legislative environment for the good and was supported by the establishment of new institutions such as the National Intellectual Property Management Office (under the DST); and the Technology Innovation Act (Act 26 of 2008) that, inter alia, established the Technology and Innovation Agency (TIA) to encourage the commercialisation of useful inventions. As part of the 2017 National Budget Review, National Treasury (NT) has proposed that companies and individuals no longer need the Reserve Bank's approval for standard intellectual property transactions and that the restriction for foreign entities to indirectly own South African assets be lifted for intellectual property transactions in certain conditions. This will allow intellectual property to be commercialised with less restrictions and is a major step towards unlocking private investment in Science, Technology and Innovation. The Municipal Systems Act (Act 32 of 2000) tasks municipalities with promoting social and economic development, quality of life, and a safe and healthy environment. In addition, in order to prioritise and improve service delivery by municipalities, the government adopted the **Back to Basics** programme to focus municipalities' performance on the delivery of basic services such as water, sanitation, energy, roads and refuse removal as well as promote good governance of municipalities.

According to the European Commission Staff Working Document (2016) on Priorities for international cooperation in research and innovation³, new impetus has been given to global Research and Innovation cooperation in governments' and companies' plans. The EU as "a stronger Global Actor", is one of the top European Commission priorities, and being "Open to the World" is at the centre of the EU's science, research and innovation policy. Challenges in areas such as health, food, energy and water are global, and the European Commission leads the way in a range of multilateral research and innovation partnerships to address these. The EU is implementing the 2030 Agenda for Sustainable Development through, *inter alia*, Horizon 2020 (H2020), which is expected to contribute at least 60% of its budget to sustainable development and 35% to climate action. The new European Consensus on Development (June 2017) also requires the EU and its Member States to promote science, technology and innovation; continue investing in R&D in and for developing countries, including enhancing national innovation systems; and to strengthen measurable impacts on progress towards the sustainable development goals through a responsible research and innovation approach.

The Joint Staff Working Document "Gender equality and women's empowerment: transforming the lives of girls and women through EU external relations 2016-2020", confirms the importance of Women's Economic and Social Empowerment. The programme will address objective 16 "Equal access and control over clean water, energy, transport infrastructure, and equitable engagement in their management, enjoyed by girls and women."

1.1.2 Stakeholder analysis

The White Paper on Science and Technology states that the NSI belongs to all South Africans. Accordingly, the final beneficiaries of this programme will be the people of South Africa, who will benefit directly from the innovative advancements and products, facilitated by an improved NSI and, indirectly, via opportunities for employment, academic or professional development that could arise from higher investment in STI and a better integrated and functioning NSI. The South African NSI plays out across all sectors and refers to the entire idea-to-market cycle. The target group of the Programme is thus all stakeholders directly involved in enabling STI, producing ideas and technologies and implementing (commercialising, applying, using or absorbing these ideas and technologies), and across all spheres of society: government, business, civil society and academia. The **key stakeholders** are:

³ Commission Staff Working Document (SWD (2016)329) "Priorities for international cooperation in research and innovation", accompanying the Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions "Implementation of the strategy for international cooperation in research and innovation" (COM(2016)657).

- The **Department of Science & Technology** which will lead implementation of the programme. The DST is at the forefront of leading transformation in the NSI and technology and innovation objectives of the government as stated in the NDP and expressed in the DST Strategic Plan. Amongst the priorities of the DST is to harness and create an enabling environment for science, technology and innovation that would contribute to national development and competitiveness. The DST's Strategic Plan paves the way for R&D-led new industrial development and provides the basis for the implementation of the NSI.
- The **Department of Cooperative Governance (DCoG)** is responsible for local government performance in South Africa. DCoG will be instrumental in ensuring that the testing of technology and innovation in municipalities is well received and will possibly advance policy reform in favour of technology and innovation to service delivery improvement. The Department, under the Back to Basics programme aims to increase access to basic services⁴.
- Mandated by its Strategic Plan 2014-2019, the DTI seeks to promote transformation towards a dynamic industrial and globally competitive economy, amongst others. The DTI has initiatives such as the **Technology and Human Resource for Industry Programme** that brings university and Industry together in the commercialisation of STI, as well as the **Support Programme for Industrial Innovation II** that funds the pre-commercial development of products and the building of prototypes. DTI is therefore important in the commercialisation efforts of R&D initiatives.
- The **Technology Innovation Agency** under the DST was established in terms of the Technology Innovation Agency Act (26 of 2008) with the objective of stimulating and intensifying technological innovation to improve economic growth and the quality of life, by developing and exploiting technological innovations and providing South Africa with appropriate and effective support for innovation, with high social and economic impact.

There are a number of government entities and civil society organisations that could become partners in implementation or whose activities could complement this programme. At a government level, the following stakeholders are identified as possible partners or direct stakeholders: Department of Environmental Affairs, Department of Women (to advance gender transformation in relation to inclusivity of the NSI, South African Local Government Association (to advocate for policy reforms at local government level in favour of technology and innovation for service delivery), the Academy of Science of South Africa, the Industrial Development Corporation, and the Council for Scientific and Industrial Research, as well as the Centre for Public Sector Innovation, which works on growing innovation for improved service delivery. Private sector entities, such as industry associations and business councils, could be secondary stakeholders and include interest groups/associations such as the Black Management Forum, Black Business Council, Business Leadership South Africa, the Business Women Association, Technology for Women in Business, Women in Science and organised groups that focus on start-ups such as the Innovation Hub and other incubators and accelerators.

Civil society organisations active in South Africa play a vital role in social justice and human development. Yet their ability to fulfil their missions is often constrained by their capacity, funding, and operating environments. In the innovation and technology space there are strong contingents of players that raise awareness and build capacity. Actors typically include non-governmental organisations (NGO's), professional organisations, social partners, and research organisations, as well as the media. They are represented in local communities and can therefore play a crucial role in development. These organisations raise the profile of technology usage, create role models as well as provide support and training to businesses and individuals in these fields. A number of these organisations strive to promote inclusiveness, get the youth involved or create opportunities for women.

1.1.3 Priority areas for support/problem analysis

While legal exclusion has ceased since 1994, structural exclusion from the NSI still persists on the basis of poverty, race, gender, age (youth) and geographic location. South Africa has a strong R&D Sector made up of interconnected stakeholders (research institutions and academia) at both national and international levels that generate valuable outputs. However, the impact of these outputs in the country's

⁴ In particular waste management, water, sanitation, energy and transport.

development, equal access to socio-economic rights and services, including access to a healthy environment, and the impact on the socio-economic wellbeing/living standards of all South Africans is limited by the low rate of uptake and commercialisation. The 2007 OECD review of the NSI and the 2012 Ministerial review identified the lack of coordination in the planning and implementation of the NSI among state organs as the main impediment to the ability of the NSI to address poverty reduction and inclusion. A mature NSI would comprise a variety of strong and dynamic partnerships between various key players (government, industry, the non-profit sector, research organisations, and communities). Yet, weak partnerships have resulted in numerous missed opportunities, limited positive results, wasteful duplication of efforts, and limited ability to exploit potential economies of scale and scope in STI programmes. Academia-industry linkages also need to be strengthened to encourage private investment and to overcome South Africa's growth constraints. Other weaknesses identified in the NSI include: (i) insufficient funding for innovation and resources stretched too thinly in many areas, which makes it difficult to make significant impact; and (ii) the need to strengthen innovation capabilities across a wider range of economic actors and activities, including SMEs and other stakeholders outside the formal NSI structures. Factors that prevent greater engagement of the private sector in STI activities include concerns regarding competition and intellectual property of technologies developed in partnership with academia or government institutions, and weak collective institutions. The need to encourage "smart specialisation" (bottom-up knowledge-based growth strategies that take into account the local strengths and comparative advantages⁵) was identified during the last EU-SA Joint Science and Technology Coordinating Committee meeting in 2016. While South Africa has achieved considerable progress with regard to service delivery in the past 15 years, various challenges still hamper progress towards equal access to quality basic services, in particular the lack of relevant and adequate STI skills and capacity at municipalities; enabling policy environment; and access to appropriate and validated innovative technology solutions.

1.2 Other areas of assessment

1.2.1 Fundamental values

South Africa has a strong framework for adherence to the fundamental values of democracy, human rights (including the rights of women) and the rule of law. It has also ratified all of the main international human rights conventions⁶. Peaceful, regular elections are held; constitutional/democratic institutions function well; checks and balances are in place; and a strong civil society and media significantly contribute to pluralism, oversight and accountability. The Constitution provides for the separation of powers, the Judiciary is independent and impartial, and the Bill of Rights (Chapter 2 of the Constitution) is widely regarded as one of the most progressive in the world and includes all civil and political rights as well as justiciable socio-economic rights including access to housing, health care, food, water, and social security and education, the rights of women and children and the right to a healthy environment. The political debate at all levels and among all strata of the society on the underlying principles, while at times chaotic, remains open and free.

1.2.2 Macroeconomic policy and performance

South Africa's main macroeconomic policies are the New Growth Path and the National Development Plan described in Section 1.1.1. As per the 2017 budget speech, government intends embarking on a process of "radical economic transformation" to address inequalities and slowing economic growth. This agenda will frame macro, fiscal and social policies; funding priorities will be given to programmes that create jobs, eliminate poverty and narrow the inequality gap; efforts will be made to mobilise private and public investment in social and economic infrastructure and new technologies and activities that help build a diversified economy; new opportunities for access to market will be promoted; cartels and oligopolies will be confronted; and improved connectivity and corridors between rural and urban will be promoted.

⁵ As incorporated in the EU 2020 Agenda and the 2013 OECD "Innovation-driven Growth in Regions: The Role of Smart Specialisation" Report.

⁶ In 2015, South Africa finally ratified the International Covenant on Economic, Social and Cultural Rights (ICESCR) whose Article 15b recognise the rights of everyone to enjoy the benefits of scientific progress and its applications.

After several years of sluggish global growth, there are signs that a more sustainable but still fragile growth is under way. In the US, GDP rose at 1.9% annual rate during the last quarter on 2016 and 1.6% for all 2016. In Europe, GDP grew by 1.7% in the euro zone and by 1.9% in the EU28, in 2016. For the BRIC countries (Brazil, China, India, Russia), economic growth remains somewhat buoyant in China and India, whereas for Russia and Brazil, recession is set to recede. Meanwhile, the International Monetary Fund (IMF) projects that the world economy will grow by 3.4% in 2017 and 3.6% by 2018. The South African economy is very sensitive to the external environment and performance is affected by global economic trends. Trade imbalances, tax evasion and financial stability cannot be addressed without global cooperation. Protectionist policies by the US and possibly others, if implemented, will certainly have an adverse impact on the South African economy and economic growth has stagnated in recent years. Although the Ministry of Finance expected GDP Growth to increase from 0.5% in 2016 to 1.3% in 2017 and continue to improve moderately over the medium term, recent events have lowered expectations considerably, with growth for 2017 currently expected to be between 0.6% and 1% - significantly lower than the 5% anticipated in the National Development Plan. However, the current moderate optimism about the macroeconomic outlook is offset by the political uncertainties prevailing in the country. Changes to the Minister of Finance and his Deputy in March 2017 and weak financial governance in state owned enterprises has sparked concern amongst credit ratings agencies, with one downgrading South Africa's foreign currency rating by one notch and one downgrading both the foreign currency and local currency ratings by one notch in April 2017.

The National Treasury (NT) is required to strike a balance between maintaining spending commitments and ensuring long-term health of public finances. Although it has no intention to support "austerity" measures that would harm service delivery, delay economic recovery and compromise tax revenue collection, expenditure ceilings will remain the rule of thumb and fiscal consolidation will continue. As indicated in the October 2016 Medium Term Budget Policy Statement, government will be required to raise an additional R28 billion in tax revenue and reduce spending by R26 billion over the next two years. For the fiscal year 2017/2018, the fiscal deficit stands at R149 billion (3.1% of GDP), while government debt now stands at R2.2 trillion (50.7% of GDP) and the debt service amounts to R169 billion. The service sector was the main contributor to growth in 2016, providing an additional 120,000 job opportunities. The performance of the mining industry continued to be subdued (mining and manufacturing employment declined by 80,000 jobs in 2016), whereas the petrochemicals, the beverage and food industry and the automotive industry were the main positive contributors to manufacturing output.

At the end of 2016, despite an increase of 2 percentage points of the repo rate, inflation ended slightly above the Reserve Bank target of 6%⁷, but by May 2017, the rate had slowed to 5.7%, the lowest rate since December 2015. Considering the full year 2016, the trade deficit shrank to R3 billion compared to R52 billion in 2015, as exports went up 5.8% and imports grew at a much slower 1%. Weak business confidence and low levels of profitability have weighed on investment across all sectors of the economy. In 2017, the NT is betting on higher growth based on a number of positive trends: higher international commodity prices; appreciation of the exchange rate that bodes well for capital inflows, inflation, business and consumer confidence; drought conditions that have abated in most of the country; less tense industrial and labour relations and more stable energy supplies.

To promote investment in the short term, government needs to urgently undertake a series of measures such as finalising land reform and mining development legislation; transitioning from analogue to digital communication channels and release of broadband services; continuing the Independent Power Producer programme both in renewable and gas technologies; streamlining investment approval processes; production-friendly industrial relations and rapid resolution of disputes; creating an enabling environment for Small, Medium and Micro Enterprises and public-private partnerships; focusing on labour intensive sectors (agriculture, agro processing, tourism); and expanding regional and trade links. While acknowledging certain risks for this eligibility condition (cf Risk Management Framework 2016), the

⁷ Mainly due to food prices as a result of a prolonged drought.

Delegation continues to believe that the country will stay within acceptable macroeconomic and fiscal boundaries and therefore be eligible for budget support.

1.2.3 Public Financial Management (PFM)

The National Treasury remains the custodian of South Africa's national government finances in terms of Chapter 13 of the Constitution. Its legislative mandate is found *inter alia* in the Public Finance Management Act (PFMA, 1999) at national and provincial levels, and the Municipal Finance Management Act (MFMA, 2003) at local government level. The annual Division of Revenue Act provides for an equitable distribution of nationally raised revenue between national, provincial and local government under the supervision of the Treasury, which also monitors the implementation of provincial and municipal budgets. Solid foundations for the Treasury have been built over 20 years of critical reform such as the creation of a unitary fiscal system, a medium term budget framework (the October Medium Term Budget Policy Statement, the February Budget and Medium Term Expenditure Framework), and extensive budget transparency. This three-pillar system enables a more predictable, open and transparent budget process, provides the opportunity for Parliament to discuss and shape government's approach to the Budget and empowers it to amend the fiscal framework or change appropriations. Overall, the PFM system in South Africa is robust and highly regulated and fiscal discipline is the rule⁸. Although public procurement still needs to be strengthened, government appointed its first Chief Procurement Officer in 2013 to manage and control procurement across government, reduce corruption and increase fiscal space and public expenditure efficiency.

State Owned Companies are an important part of the restructuring, transformation and strengthening of the economy and are well placed to partner with private sector investors in growing the productive capacity and infrastructure of the economy. But while these are governed by a strong legal framework, reform is required and increasing State Owned Companies' contingent liabilities constitutes a financial risk that needs to be addressed. To this end, Cabinet has endorsed stringent governance and accountability measures on boards and managers. Poor PFM capacity at local government level continues to lead to lack of service delivery and give rise to local unrest. Implementation of the Back to Basics programme remains problematic and progress is uneven, constrained by political interference, corruption and nepotism. Tax administration is one of South Africa's institutional strengths and the South African Revenue Service has played an integral role in building the democratic state by ensuring revenue is available to fund spending programmes. However, the Revenue Service must continue to develop the skills and human and technical capacities needed to enforce legislation, meet revenue collection targets, strengthen its efforts to curb tax avoidance and evasion, and address transfer pricing. **Recent PFM assessments include: National Public Expenditure and Financial Accountability (PEFA) 2014:** Overall, PEFA 2014 scored slightly better than PEFA 2008 with some slippages related to Budget Credibility⁹ and to predictability and Control in Budget Execution¹⁰.

On the positive side, Comprehensiveness and Transparency and Policy based Budgeting have both improved with better scores for PI-9: Oversight of aggregate fiscal risk from other public sector entities and PI-11: Orderliness and participation in the annual budget process. **Provincial PEFA 2015:** Overall, the nine provincial PEFAs indicate that provincial governments perform reasonably well, generally mirroring the strengths and weaknesses in PFM systems and processes at national level¹¹. **Auditor General South Africa (AGSA): PFMA Audit outcomes (2015-2016).** For the 2015/2016 financial year, 484 departments and public entities (169/315) with a total budget of R1.2 trillion were audited. The national and provincial treasuries have recorded much-improved audit results, although the AG highlighted the slowness of the Auditees in addressing audit recommendations aimed at improving internal control systems, eliminating governance risks and other concerns¹². The **Risk Management**

⁸ Expenditure ceiling—"rule of thumb" and debt to GDP/ratio

⁹ PI-4: Stock and Monitoring of Expenditure Arrears

¹⁰ PI-21: Effectiveness of Internal Audit

¹¹ The Western Cape and Gauteng were top performers, followed by Kwa Zulu-Natal, Mpumalanga and Eastern Cape. Those performing the lowest are Limpopo and the North West.

¹² Overall, the AGSA required Auditees to perform the following basics properly and consistently: (i) implementing plans to address deficiencies in financial control, (ii) providing effective leadership and monitoring achievement of performance targets and (iii) reviewing and monitoring compliance with key laws and legislation over financial matters.

Framework summarises the assessment of the PFM system in South Africa. The risk level is low for the following clusters: comprehensiveness of budget controls in revenue collection and budget execution and External audit. The risk level is moderate for the cluster linked to procurement. The risk level related to corruption and fraud is moderate. For both the PFM and corruption section, the risk level remains unchanged compared to 2015. The EU Delegation confirms that on the basis of the 2015-2016 annual monitoring report, South Africa's PFM system is robust, transparent and constantly evolving to face the challenges posed by the global, regional and local economic and financial environment and remains eligible for Budget Support.

1.2.4 Transparency and oversight of the budget

Budget Transparency (Open Budget Index 2015). South Africa scored 86 out of 100 in the 2015 edition of the OBI Survey- third after New Zealand and Sweden. This score is substantially higher than the global average of 45 which illustrate that government is transparent with its budget. In terms of **public participation**, South Africa scores 65/100 thus indicating that the public is provided with adequate opportunities to engage in the budget process. Government financial audit reports are easily available to the public through the Auditor General's website. Auditor General (score 100/00) provides adequate budget oversight and has full discretion under the law to undertake audits as it sees fit. The Auditor General cannot be removed without the legislature's or judiciary's approval, which bolsters its independence, and it is provided with sufficient resources to fulfil its mandate and has an adequate quality assurance system in place. **Budget Oversight:** The legislature (85/100) provides adequate oversight in the planning and implantation stages of the budget cycle. **Update April 2016:** As of 30 April 2016, the Government of South Africa makes all of the eight key budget documents available to the public in a timeframe consistent with international standards. In the view of the EU Delegation, this eligibility criterion is thus fulfilled.

Gender sensitive budgeting. South Africa was the first country to introduce gender based budgeting in sub-Saharan Africa and has thus far achieved successes in this area through fiscal policies and budget-making procedures. Several departments have continued to undertake gender budgeting related activities, including the Department of Trade and Industry and, more recently, the Ministry of Women, attempted to restart gender budgeting at the national level.

2 RISKS AND ASSUMPTIONS

There are no major risks identified that jeopardise Budget Support operations in South Africa. However, a number of areas, such as social discontent and politically driven disturbances, need to be closely monitored. Other risks specific to the innovation sector relate to the high level of disconnection among different stakeholders:

Risks	Risk level	Mitigating measures
1. Political Risk: High unemployment (above all youth) and inequality are a permanent source of dissatisfaction which may manifest itself in violent eruptions.	Moderate Risk	There are a number of Government of South Africa measures ongoing or intended to increase government efficiency and service delivery thus fighting poverty and corruption. This and other EU programmes support these efforts including in the areas of justice, good governance, health and education. The Policy Dialogue Forum that will take place at least once a year will open opportunities for civil society organisation (CSO) participation.
2. Macro-economic Risk: The macro-economic context is stable but politically sensitive indicators –investors' confidence– may be affected in the build up to the ruling party's leadership election in December 2017.	Moderate Risk	The Government of South Africa has repeatedly stated their commitment to follow a path of macro-economic stability. Progress in this area will be monitored by the EU Delegation. From an operational perspective, budget support operations also contribute to increase (mutual) accountability and transparency. The long-standing relationship and co-operation (20 years) between the National Treasury and the EU on improving the Public Finance Management systems is instrumental in enhancing and strengthening fiscal discipline, strategic allocation and operational efficiency.

3. The DST fails to initiate a constructive dialogue with and integrate non-conventional partners.	Moderate Risk	A wide range of players including those outside the formal NSI structures have been consulted during formulation and inputs from relevant specific stakeholders have been incorporated to the design of the intervention. Additionally, key stakeholders - such as National Treasury, Department of Trade and Industry and Department of Cooperative Governance - will be part of the Programme Steering Committee and the intervention will also include Policy Dialogue with a wider range of stakeholders around the different areas. The monitoring and evaluation plan will include mechanisms to continuously measure partner satisfaction and introduce changes accordingly.
4. Industry and private sector actors fail to find a common voice and join efforts around common interests.	High Risk	The implementation will include identification of good practices and success stories that would be used to raise awareness of potential benefits among industry associations and other groupings.
5. Limited capacities at local level to implement innovative services delivery and cost effective measures.	Moderate Risk	Long term and strategic support to capacity development should be provided by the Government and embedded into national training plans. Innovative solutions will be specifically adapted to less advanced municipalities and focus on pro-poor service delivery.
6. Gender equality and crosscutting issues are not sufficiently integrated in the implementation.	Moderate Risk	<p>The Department of Women will be part of the PSC. Additionally, DST Gender Desk and the South African Human Rights Commission and the relevant parliamentary forums will attend all the meetings of the Policy Dialogue Forum and specific working groups as necessary.</p> <p>Relevant stakeholders, such as the Black Management Forum, the Black Business Council, Business Leadership South Africa, the Business Women Association, Technology for Women in Business, Women in Science and other relevant organised groups have been consulted during formulation. The intervention will continue to engage with these stakeholders through policy dialogue throughout implementation. Additionally, these stakeholders would be able to respond with specific proposals to the foreseen calls for proposals under the different activity areas. The monitoring and evaluation plan will also include indicators and sources of verification specifically relevant to the crosscutting issues.</p> <p>The DST is committed to fight climate change and has included resource efficiency, the circular economy or zero-waste economy, as a priority area in which to promote innovation.</p>
<p>Assumptions:</p> <ul style="list-style-type: none"> • Non-conventional NSI role players will see the long-term advantages of and want to be included in the NSI linkages and will be willing and able to invest time and resources. • It is possible to find certain innovation outcomes with potential to add benefit to the selected industries as a whole and benefit all competitors in the same industry. • Academics will see the advantages of working with the industry and will feel motivated to participate in the project. • The Government and the specific institutions involved in the programme, in particular the DST, have the political will to address crosscutting issues and are willing to contribute time and resources. • Willingness to change business behaviour and willingness to accept testing innovative services delivery measures at local level 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

A number of lessons have been learnt from past and current programmes and have informed programme design with some of the issues highlighted from these lessons to be addressed through this programme. The lessons are: 1) links between the public and private sector must be strengthened for commercialisation of R&D efforts¹³; 2) there is a need to increase an understanding about linkages in the National System of Innovation (NSI) and to include rural innovation systems, include more women, youth and the private sector¹⁴. Under the Framework Programme 7, South Africa's Science & Technology Policy embraced internationalisation and social sciences in its discourse; 4) need to increase private sector involvement and integrate entities that have capacity to scale up new solutions, increase linkages with partners outside the NSI structures and build capacity to facilitate technology and innovation absorption¹⁵; 5) investment in STI paves ways for green technologies and economy.

3.2 Complementarity, synergy and donor coordination

The proposed programme will complement and be complemented by programmes funded by the EU and other development partners. Synergy will be ensured through liaison and sectoral coordination done by the EU Delegation and DST. Major programmes to complement this programme are 1) Horizon 2020 of which South Africa is eligible; 2) various agreements between Africa-EU Cooperation such as the Joint Africa-EU Strategy which focuses on, amongst others, capacity building in research whilst integrating gender equality; EU-Africa Research & Innovation Partnership on food and nutrition; and the 11th EDF EU-ACP initiative to strengthen inclusive Research and Innovation capacity in African, Caribbean and Pacific (ACP) countries. On testing the application of technology and innovation to service delivery, complementarity will be with projects to be funded by the EU Delegation under the Development Cooperation Instrument's Thematic Programme on Civil Society organisations and Local Authorities to support initiatives that enhance capacity and good governance for effective development and service delivery by LAs. The new EU PFM support programme to the Republic of South Africa will complement the current programme by strengthening PFM for improved and inclusive service delivery by LAs. The EU-SA Dialogue Facility will contribute to ongoing dialogue in the area of technology and innovation. Synergy in the area of strengthening innovation and achieving maximum impact from the NSI will be ensured by close liaison with Finland's Southern African Innovation Programme and Germany's support in South Africa around the area of innovation in energy efficiency, renewable energy and adaptation initiatives; and the UK's Newton Fund to strengthen science and innovation capacity and unlock further funding to support poverty alleviation in partner countries. For service delivery, synergy will be with Belgium's Tirelo Boshua Public Service Improvement Facility. Other development partners provide ad hoc support, such as fellowship exchanges and sponsoring participation to networking events and seminars. This will complement and create synergy with Result 3 of this programme. Sectoral coordination between South Africa and the EU on Science, Technology and Innovation is through the annual Joint Science & Technology Cooperation Committee meetings, Joint Coordinating Committee and various cooperation agreements. Donor coordination is through the EU S&T working group attended by Science Counsellors from the EU Member states. DST coordinates both an Ambassadorial Forum with the Minister of Science and Technology and Donor Forums. The EU Delegation led Gender Donor Group will also be instrumental in coordinating gender issues in support of inclusivity to the NSI and synergy with similar initiatives.

3.3 Cross-cutting issues

South Africa has a rights based Constitution that contains a Bill of Rights that is premised on equity and safeguards human and socio-economic rights. All legislation, policies and practices in the country must be in line with the prescripts of the Constitution, most notably the respect for human rights and equality. Any law or conduct that is not consistent with the Constitution is illegal. Despite the robust laws in place, challenges still remain with regards to equitable service delivery and participation of women in various spheres of society including in Science & Technology. Through Result 1, this programme, in line with

¹³ EU-SA Science & Technology Cooperation Agreement Review.

¹⁴ National Innovation Policy & Systems Dialogue- DST & DG RTD.

¹⁵ Innovation for poverty alleviation.

South Africa's gender policies, will strive to ensure that the NSI is equitable and inclusive of non-traditional players including women. The National Gender Policy Framework (approved by Cabinet in 2000), requires all government departments in South Africa to have gender desks or at least gender focal points to ensure gender mainstreaming and equality. The DST & DTI gender desks will be included in the Policy Dialogue Forum under this programme. A process is also underway to develop a gender framework for the NSI. The demonstration of innovation and technology applications for improved service delivery will prioritise women, especially as they are often overrepresented in rural and underserved municipalities. Wherever possible, data will be required to be disaggregated by sex.

In the area of **environment and climate change**, South Africa has included in the Constitution a right to a healthy and safe environment. However, eco-innovation has not yet gained momentum as other innovation domains partly because regulations and public initiatives - including the NSI - are not fully developed or coordinated. In 2008, Cabinet approved the South Africa National Framework for Sustainable Development. Support to the NSI will create opportunities to investigate the barriers and create an enabling policy environment to the diffusion of clean technologies and the governance mechanisms that could improve clean energy access and productivity in South Africa. Support will, as far as possible, prioritise eco-innovation and investments in waste management, water services, energy services, energy-efficient technology and renewable energy infrastructure and resource efficiency manufacturing as a component of the NSI (including transferring EU domestic experience on the Eco-innovation Action Plan and lessons learnt from the EU Eco-innovation Observatory to RSA). In addition, and in line with the "do no harm" approach, care will be taken to ensure that no support leads to negative impacts on climate and the environment.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This programme is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG Goal 8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", but also promotes progress towards Goal 1 "End poverty in all its forms everywhere", and Goal 5 "Achieve gender equality and empower all women and girls". This does not imply a commitment by the Republic of South Africa.

The **overall objective** of the programme is to support the Government of South Africa to improve the National System of Innovation responding to the priorities of the National Development Plan

The **specific objectives/outcomes** of the programme are:

1. To strengthen policy around innovation and learning in the NSI by ensuring wider and inclusive participation of Research & Development stakeholders, including groups advocating for the rights of women and other vulnerable groups in science and business.
2. To develop **policy and programme interventions** through dialogue and consultations with non-conventional partners that will stimulate investment in Research, Development and, particularly, Innovation for service delivery to improve access to socio-economic rights to all and in particular women and vulnerable groups.
3. To **support learning from models** that have been successful in applying innovation and commercialisation of technologies arising from existing cooperation and other projects.

4.2 Main activities

4.2.1 Budget support

The **expected results** of this intervention are:

- I. Increased inclusive participation of relevant partners in the NSI
- II. Stimulated use of innovative applications with demonstrated/clear potential to close gaps in access to social infrastructure and services in particular in rural and underserved municipalities
- III. Developed model(s) for commercialisation and absorption of technologies arising from cooperation/interventions in Research, Development and Innovation

Main activities in this respect will include:

1. R&D Partnerships for Competitiveness

This component will explore ways to increase industry competitiveness by encouraging the participation of new and key stakeholders (including increased numbers of women and other groups) in R&D and Innovation partnerships with government that advance national priorities and further stimulate private sector investments.

The activity would prioritise: (i) technologies and innovations that support the competitiveness, local value added and modernisation of priority industrial sectors in the short to medium-term, (ii) resource efficiency, the circular economy or zero-waste economy, (iii) a more inclusive and gender balanced economy and (iv) strengthening the growth of small and medium enterprises (SMEs) and new entrants.

2. Viability validation of innovation for Service Delivery

This activity will entail selecting and supporting a small number of pilot projects that will serve to demonstrate the systemic viability of innovation(s) (or specific technologies) - notably those that have received public funding - for improving the access, the availability, the acceptability, the adaptability and the quality of essential/basic services¹⁶ with a view of promoting the realisation of socio-economic rights for all and in particular women and other vulnerable groups.

In so doing, (i) the ability of municipalities to integrate innovative technology solutions in the delivery system would be enhanced, (ii) the evidence gathered through these pilot demonstration projects would contribute towards improved decision-making by municipalities, and (iii) systemic requirements for the adoption of demonstrated technologies would be addressed.

3. International Innovation Support Actions

This activity will support learning from different approaches to facilitate the creation of social or commercial value for R&D outputs originating from International Cooperation Programmes (in particular from EU-SA Framework Programme 7) or the translation of those R&D outputs into adopted policy or social or commercial value.

A number of projects related to the EU 7th Framework Programme for Research and Technological Development with South African participation could be selected, either by assessing such projects against a set of pre-defined criteria. or by means of a call for expression of interest. Possible partners for the implementation of this activity include Technology Innovation Agency. The DST will also liaise with the Directorate-General for Research and Innovation (DG RTD).

4.3 Intervention logic

Support provided to the NSI sector specifically aims to address issues highlighted in the 2007 OECD and the Ministerial reviews, in particular:

- (i) the exclusion of the private sector and other key stakeholders, including women and other vulnerable groups, as equal partners in a healthy, developed and balanced NSI that leads to a capable state and inclusive growth for all;
- (ii) the weak partnerships which have prevented the NSI from achieving full potential in terms of results and benefits for the country and the people of South Africa; and
- (iii) South Africa's limited capacity to turn R&D outputs into development and improved living conditions/socio-economic wellbeing for all South Africans, and in particular women and other vulnerable groups, as a result of the low rate of uptake and commercialisation.

The programme also aims to increase contribution from the sector to the national priorities reflected in the National Development Plan and to effectively support the further development of the NSI in order to improve equal access to socio-economic rights for all South Africans, with a particular focus on women and children and those living in rural areas. The programme will explore ways to make the NSI more

¹⁶ In particular services related to waste management, water, sanitation, energy and transport, in line with CoGTA's Back to Basics programme.

inclusive and more efficient by (i) increasing the participation and involvement of relevant partners, (ii) including new stakeholders and role players, particularly women and other underrepresented groups, in the NSI; (iii) developing models for absorption and commercialisation of technologies to extract the highest benefit from STI investments, and (iv) stimulate the use of innovative applications with demonstrated/ clear potential to advance in equal access to social infrastructure and services for all.

It is envisaged that the demonstration of innovative technology for service delivery would increase access to socio-economic rights and improved service delivery, especially for women and children especially in rural areas. The programme will also continuously explore actions to address the low levels of women in STI, as well as to promote the mainstreaming of gender analysis within the NSI.

Importantly, the programme will allow for policy experimentation and incorporation of learnings from previous national and international initiatives including the EU Framework Programmes. Through support to the sector, it is envisaged that the programme will also increase opportunities for employment and enhance the delivery of socio-economic rights and services, particularly at local levels and for underserved populations, and contribute to a clean and healthy environment through the prioritisation of eco-innovation and investments in energy-efficient technology and renewable energy infrastructure.

Overall responsibility for the programme will fall under the DST Director General (DG). The programme will be strategically managed through a Programme Steering Committee (PSC) that will meet at least twice a year, will be chaired by DST, and include as members the NT, Department of Trade and Industry, Department of Cooperative Governance, the Department of Women in the Presidency, the EU Delegation, and possibly other relevant stakeholders.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2) (b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 14 700 000, and EUR 300 000 for Evaluations and Communication. This amount is based on a broad qualitative assessment of the following elements:

- Financing needs based on the policy supported and the use of Official Development Assistance funding for piloting new experimental approaches not otherwise feasible with voted budget due to lack of sufficient track record or perceived risk. The South African Government has shown great commitment in allocating national budget resources to Science Technology and Innovation¹⁷ – and it is anticipated that the private sector will increase levels of commitment given the specific focus of the programme in bringing new role players on board. But even so, levels of funding are generally regarded as insufficient when it comes to driving innovation, particularly at the local government/primary service delivery levels. The level of value for money and impact that the support will provide is potentially high, especially when new technologies are brought to market.
- Management capacity: National Treasury issued a document reflecting the commitment of the overall management capacity of the government to ensure proper application of Budget Support funds in

¹⁷ The National Treasury Budget allocation to Science Technology and Innovation is R20.6bn (approximately EURO 1.5bn) for the 2017/18 fiscal year.

South Africa. The Department of Science and Technology has a good track record of managing budget support (EUR 30 000 000 Innovation for Poverty Alleviation Programme, 2008 to 2013).

- Ownership: The DST implements its Strategic Plan through five Individual Programmes. The activities covered by the Support Programme to the NSI will contribute to three of the DST Individual Programmes: Programme 2 – Technology and Innovation (which aims to enable technology transfer and technology commercialisation in order to promote the realisation of commercial products, processes and services from R&D outputs through the implementation of enabling policy instruments); Programme 3 – International Cooperation and Resources; and Programme 5 – Socio Economic Innovation Partnerships. The DST must reflect their allocations in their annual performance plan, budget overview and Medium Term Expenditure Framework.
- Transparency: The funds are released to the South African government, through the RDP (Reconstruction and Development Programme) Account, when the agreed conditions set out in the Financing Agreement have been met. The Auditor-General of South Africa audits the financial statements.
- Monitoring and Evaluation: South African systems of monitoring and evaluation are used to assess the performance of activities funded under the programme.

5.3.2 *Criteria for disbursement of budget support*

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the DST Strategic Plan and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the general PFM reform agenda;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are the following:

- KPI 1: % increase in the rand value of research, development, and innovation partnerships between the DST and industry¹⁸.
- KPI 2: Number of additions to the DST portfolio of science and technology-based methodologies, models and tools available for use by municipal governments for planning, programming or service delivery.
- KPI 3: Number of use cases by municipalities of science and technology-based methodologies, models or tools developed to support planning, programming, or service delivery from 1 April 2018¹⁹.
- KPI 4: Increase in the number of innovation, commercial or knowledge applications introduced to South Africa as a direct result of International Cooperation through FP7²⁰.
- KPI 5: Number of international technical exchanges²¹ to build or reinforce South Africa's capacities in key STI domains specifically referenced in the DST Strategic Plan, undertaken with the support of international partners facilitated by the DST from 1 April 2015

The DST is currently revising its Strategic Plan. As part of this revision, there is ongoing work in refining and developing indicators. The proposed KPI 1 to KPI 5 are being proposed to be included in the new Assessment and Reporting System and in the Strategic Plan 2021-2025, which will be launched in 2020.

¹⁸ KPI 1 is a sub-set of an indicator in the Outcome 4 chapter of the Medium-Term Strategic Framework which measures the rand value of R&D partnerships across the government of South Africa. This indicator represents the rand value of DST partnerships only.

¹⁹ A use case is the use by a municipality of a methodology, model or tool in the available portfolio. Where a specific municipality uses more than one tool, each instance will be counted as a separate use case.

²⁰ Applications will be broadly measured and includes technologies and innovations as well as scientific tools and methodologies that offer value to government, industry or other social actors in South Africa.

²¹ In line with the strategic objective "Enhance South Africa's national STI capabilities through access to international knowledge, capacities and resources", here international technical exchanges includes: (1) students participating in international training programmes (2) number of international partner organisations (legal entities) collaborating with South African partners and (3) the number of dedicated international exchanges (workshops, seminars etc.) to reinforce South Africa's capacities in the STI priorities in the SP.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the National Authorising Officer (NAO) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into South African Rand will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

Support is provided as both fixed and fixed/variable tranches, targeted budget support. The indicative disbursement table is given in the Table below:

Indicative timetable of disbursements of budget support (EUR million)

	Fiscal year 2018/19				Fiscal year 2019/2020				Fiscal year 2020/2021				Fiscal year 2021/22				Total
	Quarters				Quarters				Quarters				Quarters				
Type tranche	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Fixed		4				4				2.5				1,2			11.7
Variable									1					2			3
Total		4				4				3.5				3,2			14.7

5.4 Implementation modalities for complementary support of budget support

N/A

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)
Budget support - Sector Reform Contract	14 700 000
5.9 – Evaluation	200 000
5.11 – Communication and visibility	100 000
Totals	15 000 000

5.7 Organisational set-up and responsibilities

Overall responsibility for the programme will fall under the DST Director General. The programme will be strategically managed through a Programme Steering Committee (PSC) chaired by DST, and including as members the NT, Department of Trade and Industry, Department of Cooperative Governance, the

Department of Women in the Presidency, the EUD, and possibly other relevant stakeholders. The role of the PSC will be primarily to provide strategic guidance and direction and overall oversight for the programme. Recommendations from the PSC will be presented to the DST Director General for approval. The PSC will meet at least twice a year throughout the programme and may call for extra ad-hoc meetings if and when required. The PSC may establish further working committees as required.

Policy dialogue will take place through a Policy Dialogue Forum established by the DST that will include a range of stakeholders such as CSOs and Chapter 9 institutions working on gender and human rights in addition to the representatives of the PSC.

5.8 Performance monitoring and reporting

Performance monitoring by the South African government takes place annually based on a fiscal year that runs from April to March. Mechanisms to conduct monitoring and evaluation are covered in the work of the Departments including National Treasury, Statistics South Africa and the Auditor General and are overseen by the Department of Performance Monitoring and Evaluation established in the Presidency. The DST together with other implementing partners also reports in line with government requirements and publish their annual performance plans and reports in April and September respectively.

With the exception of the first payment, performance monitoring for the programme is expected to take place on an annual cycle consisting of four main steps: (i) the Annual Performance Plan published in April of each year; (ii) the Annual Report published in August/September of each year, including the Auditor General's report; (iii) the formal request for disbursement from the DST via the National Treasury (NAO) approximately in May/June of each year; and (iv) the payment planned for August. For the assessment of the general condition regarding satisfactory progress in the sector policy, assessments in year N will, as far as possible, be based on the performance in year N-1 for disbursement in year N+1. The exception to this annual cycle will be the first payment which is foreseen to take place, following the signature of the Financing Agreement. The DST will be responsible for collecting the data for the request for disbursements of budget support tranches.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner will procure the necessary resources (including human resources) and shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Reporting will take place at least twice a year in the form of reports on technical and financial progress against the workplan endorsed by the PSC, which will be presented and discussed at the PSC. Reporting against indicators will be required to be disaggregated according to sex and age as far as is possible given the nature of the indicators themselves and in line with the Cabinet requirement that data be disaggregated by gender. For Key Result Indicators 2, 3 and 4 in particular, DST will be requested to disaggregate how many of the actions specifically targeted women and/or children and any impact that can be determined related to the increase in access to rights and services for women and children.

5.9 Evaluation

Having regard to the importance of the action, a mid-term and a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. The mid-term evaluation will be carried out for learning purposes and to adjust the programme accordingly. A final evaluation will be carried out for accountability and learning purposes at various levels (including for

policy revision) taking into account in particular the fact that the main purpose of the programme is experimentation for policy learning.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively 2 contracts for evaluation services shall be concluded in 2020 and 2022.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above. Visibility actions may cover all priority areas of the Multiannual Indicative Programme in force at the time of execution of this project and of relevance to the project components. At a minimum, the communication and visibility plan will include awareness and visibility of programme activities to a wide audience including specific focus on reaching stakeholders outside STI formal structures, wide dissemination of the projects results and lessons learnt and adequate visibility of the Policy Dialogue Forum.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

In addition, the implementing partner shall invite the EU Delegation to site scheduled visits and will facilitate programme related site visits by EU officials when requested by the Delegation of the European Union for visibility purposes.

The communication and visibility budget of this Financing Agreement may be pooled with the respective budgets of other Financing Agreements in the context of a larger communication programme.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)²²

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	Overall objective: The overall objective of the programme is to support the Government of South Africa to improve the National System of Innovation responding to the priorities of the National Development Plan	<ol style="list-style-type: none"> 1. Average Global Competitiveness score 2. Investment in Research and Development as % of GDP 3. Number of Emerging/new industry sector and cross-cutting interventions towards growth, employment creation and higher incomes for poor households underway 	<ol style="list-style-type: none"> 1. 4.47 Score/49 Ranking (2016–2017)²³ 2. 0.77% (2014/15) 	<ol style="list-style-type: none"> 4.5 Score/47 Ranking (2022) 1.5% by 2020 Emerging/new industry sector and cross-cutting interventions²⁴ implemented 	<ol style="list-style-type: none"> 1. WEF Global Competitiveness Report 2. DST Annual Report 3. DST Annual Performance Plan 3. Annual R&D Survey Statistical Report²⁵

²² Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'. Indicators aligned with South Africa's National Development Plan are marked '***'

²³ http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

²⁴ As per the 2014 Emerging Industries Action Plan (EIAP)

²⁵ The R&D Survey Statistical Report is published annually (with a two year delay) by the Human Science Research Council (HSRC) and is approved by Statistics SA

Specific objectives: Outcomes	<p>SO 1. To strengthen policy around innovation and learning in the NSI by ensuring wider and inclusive participation of Research & Development stakeholders including groups advocating for the rights of women and other vulnerable groups in science and business</p>	<p>1.1. Institutional mechanism for the strategic management of public funding for research, development, and innovation</p> <p>1.2. % Rand value of investment by government and the private sector²⁶ in research and development partnerships</p> <p>1.3. % of women as R&D personnel in headcounts and full-time equivalents</p>	<p>1.1. None</p> <p>1.2. ZAR 4.1 billion (in 2013/14)</p> <p>1.3. Headcount: 44% FTE: 43% (in 2014/15)</p>	<p>1.1. System in place by 2019</p> <p>1.2. 300% by 2020</p> <p>1.3. Headcount: 47% FTE: 46% (by 2020)</p>	<p>1.1. DST Annual Performance Plan</p> <p>1.2. Annual R&D Survey Statistical Report</p>
	<p>SO 2. To develop policy and programme interventions through dialogue and consultations with non-conventional partners that will stimulate investment in Research, Development and particularly Innovation for service delivery to improve access to socio-economic rights to all and in particular women and vulnerable groups.</p>	<p>2.1. Number of DST portfolio of science and technology-based methodologies, models and tools available for use by municipal governments for planning, programming or service delivery.</p>	<p>2.1. 6²⁷ (2017/18)</p>	<p>2.1. 10 by 2022</p>	<p>2.1. DST Annual Report</p> <p>2.1. DST Annual Performance Plan</p> <p>2.1. DST Assessment and Reporting System</p>

²⁶ Private Sector is defined as business + non for profit

²⁷ Number of science and technology-based methodologies models and tools in 2017/2018: (1) CARRS, (2) Bioenergy Atlas, (3) STEPSA, (4) Sanitation Decision Support Tool, (5) Risk and Vulnerability Atlas, (6) AFIS

	<p>SO 3. To support learning from models that have been successful in applying innovation and commercialisation of technologies arising from existing cooperation and other projects.</p>	<p>3.1. Number of innovation, commercial or knowledge applications introduced to South Africa as a direct result of International Cooperation through Framework Programme 7 (FP7)</p> <p>3.2. Number and of international technical exchanges to build or reinforce South Africa's capacities in key STI domains specifically referenced in the DST Strategic Plan, undertaken with the support of international partners facilitated by the DST</p>	<p>3.1. 0 (2016/2017)</p> <p>3.2. 25 (between 1 April 2015 and 31 March 2017)</p>	<p>3.1. 8 by 2022</p> <p>3.2. 150 (between 1 April 2015 and 31 March 2019)</p>	<p>3.1. ESASTAP Reports</p> <p>3.2. DST Assessment and Reporting System</p>
Induced outputs	<p>RA 1. Increased inclusive participation of relevant partners in the NSI</p> <p>RA 2. Stimulated use of innovative applications with demonstrated/clear potential to close gaps in access to social infrastructure and services in particular in rural and underserved municipalities</p> <p>RA 3. Developed model(s) for commercialisation and absorption of technologies arising from cooperation/interventions in Research, Development and Innovation</p>	<p>RA 1.1. % change in the rand value of research, development, and innovation partnerships between the DST and industry.</p> <p>RA 2.1. Number of use cases²⁸ by municipalities of science and technology-based methodologies, models or tools developed to support planning, programming, or service delivery from 1 April 2018.</p> <p>RA 3.1. Number of innovation, commercial or knowledge applications introduced to South Africa as a direct result of International Cooperation through Framework Programme 7 (FP7)</p>	<p>Rand value of RDI DST and industry in 2016/17 financial year²⁹.</p> <p>Number of use cases between 1 April 2017 and 31 March 2018</p> <p>3.1. 0 (2016/2017)</p>	<p>25% increase by 2022</p> <p>50% increase by 2022.</p> <p>3.1. 8 by 2022</p>	<p>ENE Department of Science and Technology (DST), Vote 34</p> <p>DST Annual Report 2022.</p> <p>DST Assessment and Reporting System</p> <p>Independent Final 3.1. Evaluation Report of the Programme</p>

²⁸ A use case is the use by a municipality of a methodology, model or tool in the available portfolio. Where a specific municipality uses more than one tool, each instance will be counted as a separate use case.

²⁹ Rand value of partnerships to be calculated over the financial year of the government of South Africa, that is, 1 April to 31 March. Baseline is the value of such partnerships in the 2016/17 financial year which is currently being finalised for release by end September 2017.

Direct outputs	1.0. Experimentation for policy learning and decision making	<p>1.0. Number of R&D Partnerships for Competitiveness put in place with the support of the programme and private investment leverage disaggregated by sex of partners.</p> <p>1.0. Number of pilot projects to demonstrate the systemic viability of innovation for service delivery put in place with the support of the programme.</p> <p>1.0. Number of social or commercial value for R&D outputs originating from Framework Programme 7 facilitated through the programme.</p> <p>1.0. Presence of organisations promoting the rights of women and other vulnerable groups at the Policy Forum.</p> <p>1.0. Number of public participation programmes held with programme support to provide strategic communication for the DST and its entities through marketing, media branding initiatives and the Science Engagement Strategy</p>	<p>1.0. 0 (2016/2017)</p>	1.0. Targets to be defined during programme inception	<p>1.0. DST Annual Report</p> <p>DST Annual Performance Plan</p> <p>1.0. DST Assessment and Reporting System</p> <p>1.0. Independent Final Evaluation Report of the Programme.</p> <p>1.0. Demographic and gender analysis of the beneficiaries of the programme.</p>
	1.1 Budget contribution by the EU to National Treasury	1.1. Annual disbursements	1.1. 0 disbursement made	1.1. 4 disbursements by 2022	1.1. Programme implementation reports
	1.2 Project Steering Committee	1.2. Programme Steering Committee (PSC) chaired by high-level representatives from DST	1.2. No PSC meetings	1.2. PSC is established and meets twice per year	1.2. Programme implementation reports Minutes of PSC

