



**EMBASSY OF FRANCE
IN SOUTH AFRICA**

**FRANCO - SOUTH AFRICAN
Partnership Framework Document
2006-2010**

TABLE OF CONTENTS

I. South African context

1.1 South Africa's uniqueness

1.2 Major challenges for South Africa

II. The development strategy of South Africa

III. Financial backers' strategy

IV. Orientation of French assistance in South Africa 2006-2010

V. Priority Programs of French Assistance

5.1 The three sectoral programs of concentration

- **Development of infrastructures**
- **Productive sector**
- **Environment**

5.2 Transversal programs

- **Communicate with French-speaking Africa**
- **Promote cultural diversity**
- **Governance and reinforcement of capacities**
- **Reinforcement of science and technology**

VI. Implementation Methodology of the PFD

VII. Appendixes

I. Appendix 1: Articulation of French strategic interventions with South African priorities

II. Appendix 2: Articulation of France's interventions together with other financial backers

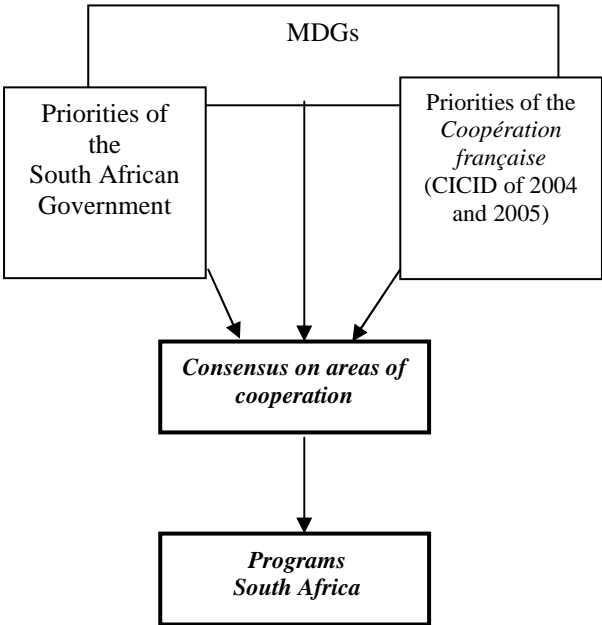
III. Appendix 3: Indicative programming of actions

The Franco - South African Partnership Framework Document is the guide of French cooperative action in this country for the next five years (2006-2010).

- It includes all French co-operative, public, private and associative members.
- It is inspired from the major guidelines of French co-operation (CICID and MDGs).
- It presents a logical framework of intervention, which moves from "demand" to methods of implementing the operations.
- It works hand-in-hand with national priorities.
- It is driven by partnerships.
- In annex, it contains elements of programming as much for the French Foreign Ministry as for SA.

Once validated, the PFD will be communicated to South African partners, other financial backers, French operators and technical assistance.

The diagram of the PFD



I. SOUTH AFRICAN CONTEXT

South Africa has unique characteristics among the countries of intervention of the *French Cooperation*; the duality of its economy in terms of its level of development, its government policies in terms of development strategy, its recourse to external financing and its growing importance in the African continent economy. This uniqueness has a direct impact on the methods of intervention and the structure of the French Official Development Aid (ODA) in South Africa.

1.1. *The uniqueness of the economy and development of South Africa*

South Africa is the economic "engine" of the African continent. Since 2004, its GDP has been higher than 200 billion USD, which represents approximately one third of the GDP of sub-Saharan Africa. The growth of its economy was 5% in 2005 and its public deficit was limited at 0,5%.

The economy of the country is characterized by its duality and heritage of the system of racial segregation that existed until 1994: The duality is evident in the existence of a developed "first economy" comparable to most developed countries; and a second less developed economy that exists on the periphery of the first. The first economy, operating on an international level, represents about 30% of the population whilst the "second economy" represents the remainder of the population. This results in South Africa being one of the most unequal societies in the world: The Gini-coefficient is the second highest in the world (0.58). There is a high rate of unemployment (around 26.7%), widespread poverty (close to 50% of the black population live on the border of the poverty line) with 10,5 % of the population estimated to live on less than one dollar a day.

Social transformation has occurred at a rapid pace since 1994 characterised by a significant redistribution of resources and basic service delivery to disadvantaged communities. By end of 2005 at least 85% of households have clean water, 64% of the population now occupy formal housing, electricity is available to at least 70% of all households. Secondary school enrolment is around 89% and great strides are being made in immunisation, providing antenatal clinics treating people with ART.

In spite of these important progressive achievements since 1994, the segment of the "historically underprivileged population" still has insufficient access to basic economic and social (water, electricity, education, health) services. In addition, the AIDS pandemic has particularly affected South Africa with the rate of infection among pregnant women reaching 24% in 2004. Lastly, the urban structures inherited from apartheid (dwellings for Blacks and *Coloureds** isolated from all activity) constitute an unquestionable constraint in the spatial development and the reduction of the inequalities of the country. * *Term used in South Africa*

2.2. *Major challenges for South Africa*

In this context, the challenges [of the] for growth and development in this country is largely targeted at tackling the structural causes of the underdevelopment

of the majority of the population and facilitating its progressive integration in modern economy by establishing linkages to the positive impact the growth of the first economy has on the second economy.

South Africa has reviewed this position and has now embarked on direct intervention in the development of the second economy through the Accelerated and Shared Growth Initiative (ASGI-SA) with a 10-year programme of action for sustainable growth and development. It is based on two pillars: Creating an enabling environment for productive investment by enterprises and investing in skills and human capabilities.

Promoting stability and the development of the sub-Saharan countries also form part of the priorities for the sustainable development of South Africa. In this respect, the country has certain favourable conditions to accomplish its transformation. These include, among others, the entrenchment of credible democratic institutions, Rule of law (political stability), a modern globally integrated modern economic sector, and capacity to define and implement innovative public policies of international recognition.

II. DEVELOPMENT STRATEGY OF SOUTH AFRICA

A strategy of growth for the eradication of poverty

2.1. The SA Government's objective is to decrease the prevailing poverty and unemployment levels by half by 2014. This would require an annual growth rate of 6% per annum. Furthermore, in the Government's program at the time of its re-election in 2004 and in the State of the Nation address in 2006, President Thabo Mbeki made a commitment that all South Africans shall have access to drinking water by 2008 and electricity in all housing by 2012.

The global economic strategy of the government rests at poverty eradication through growth, with particular emphasis in terms of job creation. Social transfers funds (budget related) in favour of the most underprivileged would continue with systematic graduation of the second economy into the mainstream economy gradually reducing the social security resource allocations. These self initiated economic & social policy directives have been further reinforced with the launching of the *Accelerated and Shared Growth Initiative in South Africa* (ASGI-SA). The strategy makes available ZAR 372 billion over three years for development through the Expanded Public Works Programme to help develop a bridge between the first and second economies.

A plan for the modernization of infrastructures (ports, roads, water supply system and electricity) costing 180 billion ZAR (22,5 Billion Euros) has been committed to remove the bottlenecks in the economy's growth.

Job creation and the development of small and medium-sized companies remain a priority. Measures have been taken particularly in terms of apprenticeship training, simplification of administrative procedures and less constraints in the labour laws.

The policy of Black Economic Empowerment, beyond providing access to company shareholding to Black interests, has extended to a widened social base with its Broad Based Economic Empowerment, one of the provisions of the policy contributing to absorb the social inequalities inherited from Apartheid. Expression of the strong social responsibility of the government is gradually being applied in the form of BEE charters per industry sector.

The Government's environmental responsibility largely manifests itself at local level in terms of environmental sanitation investments, which is widely carried out in the last 10 years. At a global level, SA is involved in the conservation and extension of nature conservation parks, located in particular in transborder areas. Since the recent adoption of the Kyoto Protocol, the South African authorities are giving increasing attention to the fight against climatic changes in a country where 90% of its energy is produced from coal.

2.2. On a regional level, the development of the country focuses within the broader scope of the NEPAD initiative of which South Africa, a founding country together with Senegal, Algeria and Nigeria, is one of the principal pillars - the country where the Secretariat currently resides. NEPAD is a force of impetus and innovation as much in its policy, with its 'peer to peer review' mechanism of overseeing good governance; as it is in its economic plan, with the implementation of the first regional infrastructure projects (roads, telecommunications and energy transport) forthcoming. South Africa also has a regional support system through the African Renaissance Cooperation Fund, the DBSA and through trilateral partnerships initiatives to further enhance the support to the development of the region and continent.

South Africa is member of the pilot group created during the Conference in Paris on Innovative Financing for Development and is ready to take part in studies on this subject.

III. FINANCIAL BACKERS' STRATEGY

3.1. External aid of limited importance but focused on value-adding governmental priorities

In 2004, South Africa was the seventh biggest African recipient of the ODA with 617 million American dollars (MUSD) per annum. In comparison with many sub-Saharan Africa countries where the ODA represents a significant share of their resources, this amount is limited on the country's scale: approximately 0,5 % of the GNP and less than 2 % of the State annual budget.

In addition, the structure of the ODA is directed by the policy of the South African Government in matters relating to external financing including recourse to capital markets rather than to loans from bilateral and multilateral development institutions for reasons of better local & international financial benchmarking and preservation of its autonomy in economic choices. Financing through loans by multilateral institutions (the World Bank, African Development Banks) thus remains marginal.

The greatest portion of the ODA comes from countries of the European Union (435 MUSD), the main financial partnership support coming from the European Commission with 125 million euros (M€) annually donated as well as the *Banque Européenne d'Investissement* (European Investment Bank) leading to annual average commitments to the order of 100 million euros (M€) of non sovereign loans.

The principal characteristics of Community support, as per the Country Strategy Document, can be summarized as follows:

- Strategic priority areas: (i) support to the second economy, with emphasis on job creation (ii) supply of essential social services to underprivileged communities (health, education, infrastructures), (iii) governance with emphasis on the reinforcement of capacities at municipal level, fight crime, corruption and strengthening the criminal justice system ...etc.
- More widely, to offer support to the following thematic areas (i) regional integration (SADC, SACU and NEPAD), (ii) science and technology, (iii) environment and land reform.
- Modalities of implementation: Side-by-side with traditional instruments of assistance (technical assistance, grant based programs and projects), development of sector support (budgetary support) and possible application of structural fund (regional development models) for economic development.

The main bilateral financial supporters in the EU, beside France, are the United Kingdom and Germany. The former concentrates her actions regionally, focusing on the productive sector and AIDS. The latter provides support to the productive sector, professional training, infrastructures and governance.

3.2. Effort of harmonization and coordination undertaken within the framework of the Union European

The SA government and the European Commission Delegation in SA have embarked on an exercise of coordination with Member States to develop a new country strategy. France, together with 9 other member states, forms part of the working group constituted for this purpose. The focal sectors of the Community support are shared with the EU member states, (with some exceptions) and by all large financial support institutions currently active in South Africa.

IV. ORIENTATION OF FRENCH ASSISTANCE IN RSA FOR 2006-2010

France is one of the largest bilateral partner countries providing ODA to South Africa (27 MUS\$ in 2003/4) after the United Kingdom, the United States, Germany and the Netherlands. Nevertheless, in terms of commitments, the increase of loans granted by the AFD, amounting to about 120 M€ in 2005, brings France to the forefront of bilateral donors.

The structure of France's assistance is characterized by the relatively weak weight of grants (approximately 11%) in comparison with loans (89%). Moreover, the non sovereign character of borrowers of SA creates a unique situation and is a direct consequence of the policy of the South African Government of limited recourse to loans from external lenders.

France's strategy of intervention is centred on two priority objectives, in accordance with the South African government's priorities and with those as defined by the European Union and the other member states:

- The reduction of inequalities and the fight against poverty and an improvement in the living conditions of the historically underprivileged populations;
- Contributing towards the realisation of the MDGs on the African continent, supported by NEPAD's initiatives.

Within this framework, French assistance will be concentrated on three strategic axes with transversal actions. These strategic axes are sectors where France is in the forefront of financial backers and could play a leading role.

V. THE PRIORITY PROGRAMS OF FRENCH ASSISTANCE

5.1. The three sector-based programs of concentration

- **Strategic priority 1: the development of infrastructures**

There are two types of infrastructure development initiatives: basic infrastructures on one hand and essential service and economic infrastructures on a mostly regional level on the other.

Urban development is one of the principal challenges that South Africa faces, with the integration of the townships in urban areas, the resorption of informal settlements and the restoration of urbanized areas. The AFD will intervene in aspects particularly in social housing – a sector where the SA authorities envisage a strong increase in expenditure and proposed schemes that will permit an increase in the production of social housing for certain categories of currently disadvantaged populations.

The financing of social infrastructures will remain a priority, in keeping with the governmental objective of providing basic services to the population in need that meet the criteria. This financing will contribute to the enhancement of South African sanitary and educational infrastructures, through loans to local governments intended for local communities, in conformity with the government's strategy of bringing together public and private partners (PPP).

The reinforcement of capacities at municipal level will continue using the funds of INCA Capacity Building Fund (created with Infrastructure Finance Corporation Ltd, a private financial establishment specialized in financing municipalities), funded in particular by AFD which benefits from the punctual support of resources from the French Embassy (SCAC). The *Centre d'Etudes Financières et Bancaires* (CEFEB) (Centre of Financial and Banking Studies) of the AFD will also be able to contribute to the reinforcement of capacities.

On a regional level, France will continue to provide its support to NEPAD, giving emphasis to concrete projects of infrastructure development in order to reap tangible results of improvement on economic effectiveness underpinning enhanced regional good governance. The NEPAD Funds managed jointly by the AFD and Development Bank of Southern Africa (DBSA), through the financing of feasibility studies of projects on a regional level, brings a significant contribution to emerging operations in the energy, science and technology and the environment sectors. Further down the line, the group AFD will be in a position to examine its possible participation in the financing of these operations through various available tools - direct loans, line of credits, guarantees, PROPARCO, FFEM.

Concerning infrastructures, a specialized coordination is sought with others institutions involved in this sector (BAfD, EIB, KfW)

- **Strategic Priority 2: the productive sector**

Actions in this sector will focus on job creation and development of businesses.

The SME sector plays a prominent role in promoting durable and equitable growth. The number of small, micro and medium-sized companies in RSA is

evaluated between 1 and 3 million, and between 250.000 and 650.000, excluding micro businesses.

The SME sector represents to date 50% of the GDP, 25% of investments and 60% of jobs in the South African economy, and 80% of newly created jobs every year. It also plays an important role in local development. In terms of activity, the SME are more present in the four principal sectors (agriculture, retail trading, manufacturing and neighbourhood 'close-by' traders). For historic reasons, entrepreneurs from historically underprivileged communities are still few in numbers. Their development is constrained by limited access to finance particularly access from banking finance.

The development of the SME sector is at the heart of governmental priorities, and in particular the expansion of Black SMEs within the framework of the Broad Based Empowerment policy.

The AFD group will continue its interventions in favour of small and medium-sized Black businesses by means of lines of credits from South-African banks:

- support to South African public development banks (IDC,..etc) in their financing strategy of SMEs or financing of commercial banks for projects targeting black SMEs,
- guarantee of AFD-ARIZ funds for loans to SMEs.

Contributing to the financing of projects of local economic development (LED) will be possible through financing set up with the DBSA.

A partnership is in progress with the Banking Association of South Africa to promote new methods of SME risk analysis; with its National Treasury study fund allocations, the AFD supports studies on new initiatives in favour of financing businesses (e.g. for the creation of interbank fund guarantees) as well as for the preparation of projects.

In addition, a study is in progress with the European Union, the EIB and the DTI to increase "Risk Capital Facility" fund for strengthening capacities of the SME sector.

- **Strategic Priority 3: Environment (fight against climate change and other environmental related areas)**

South Africa is a country with strong energy intensity, a major emitter of greenhouse gas. It emits half of the greenhouse gas emissions of the African continent.

This situation is connected to several factors: (i) the significant role of the industrial sector in its GDP; (ii) the dominance of coal in its energy balance (more than 80% of the power consumed); (iii) in general, the weak energy efficiency of the sectors (industry, housing, transport, electricity), due to low prices of energy, which does not encourage to save energy.

Eskom, after having had comfortable production capacities for a long time, must now invest massively to face the growing demand. The country must face a potential deficit of electricity production within one to two years, and there is now an imbalance in *supply and demand*. Alternative methods of electricity production are being examined (PBMR nuclear system, clean coal).

The country is also equipped with a renewable energy strategy, which sets its objective of 10.000 GWh coming from Renewable Energy from now to 2013, that is to say 4% of the production of 2004. Moreover, the document framework recently released by the Department of Minerals and Energy on saving energy, fixes an objective of 15% savings by 2015. Biomass (bagasse, sawmill waste...) also has important potential. The development of biofuels is also in course of study. More widely, the entire industrial and mining sector is concerned with energy efficiency.

The signature of a bilateral memorandum of agreement between France and RSA on the themes of the Department of Minerals and Energy within the framework of the Kyoto Protocol is in preparation.

The AFD has financed a first project in the field of Renewable Energy - electricity production from methane emanating from the three landfills of Durban. The major municipalities, as significant potential role-players, should not be dismissed in terms of energy efficiency. The housing sector, where the AFD is strongly involved, also carries these type of projects.

In this context, the AFD is solicited to provide financial support for experts (provision of the Department of Minerals and Energy with a Technical Assistant with funds available for specific studies) for the study and the setting up of programmes as well as for institutional support. The sectors which offer concrete project opportunities will be privileged.

Dedicated lines of credit or specific funding could be set up for the projects. Support from the French Global Environment Facility (FFEM) is also under consideration.

France is associated with a working group bringing together the principal financial supporters in this sector (UNDP, RU, Denmark...).

Concentration on these three priority sectors does not exclude non sovereign loans for projects in the Health, Water and Education fields.

Regarding the health sector and the fight against the AIDS, and in addition to the completion of the FSP 2001-094 project "Implementation of training for hospital directors" with the Department of Health, France gives technical support, on the one hand, to this department and, on the other hand, to the regional delegation of the ONUSIDA.

Concerning water and sanitation, the FSP 2000-140 project "Training Centre for careers in water" will be concluded by the Cooperation and Cultural Action Department (SCAC, Service de Coopération et d'Action Culturelle) in partnership with NCWSTI (*National Community Water and Sanitation Training Institute*) and the Department of Water Affairs and Forestry.

5.2. Cross-cutting programs

These programs fall within the decisions taken in agreement with our South African partners at the June 2004 Bilateral Commission and will comprise of direct grants of about € 25 million over the period.

- **To communicate with French-speaking Africa**

Wanting to be a part of world competition while radiating on the entire continent, South Africa finds itself increasingly confronted with the need of communicating with French-speaking Africa: this means an increasing demand from companies and administrative structures to learn French. In July 2005 the Embassy therefore concluded a bilateral agreement to teach French to diplomats of the Department of Foreign Affairs. The same priority is considered in the Audio-visual sector. Large South African media (TV-SABC), as well as para-public professional structures (NFVF for the cinema, NEMISA for multi-media training) want a transfer of competences in order to be able to direct their activities to a new audience in French-speaking Africa (image and program transfers, French classes, access to French-speaking African cinema).

In this context, the Embassy of France and the Alliance Française will implement the following actions:

- French classes in institutions and companies, while being assisted in particular by a French technical assistant based at the Department of Foreign Affairs of the Republic of South Africa and French trainees based at the French Departments of Universities; underprivileged students will be given priority;

- training of teachers of French and pedagogic support, in particular through a resource centre with the Internet site *Centre d'Information sur la France Contemporaine "Dibuka"* (Information centre on Contemporary France "Dibuka"); particular priority will be placed on training teachers from historically underprivileged areas (Soweto);

- promotion of audio-visual industries in Africa (training, broadcasting productions, access to markets, protection of authors, conservation of patrimony), in particular through a new FSP "audio-visual diversity" in course of installation and support to South African institutions (movie houses, Television, radios, music, journalism colleges). French support for the creation of a French-speaking continental television channel, launched by the SABC would be of strategic import.

- **To promote cultural diversity**

In view of central role played by our two countries in its adoption, the Convention on the protection of cultural diversity constitutes a framework of reference, which our bilateral cultural co-operation simply cannot ignore.

It will be based on the developed infrastructures of South Africa to carry out operations of cultural radiation, following the example of the exposition "*Picasso et l'Afrique*". The two countries will reflect on a new exposition of this scale before 2010. In addition, it will privilege cultural development (artist residences,

professionalisation of artists and local operators, a number of projects in the townships). The priorities in place fulfil local demands: music (jazz and music from the continent), contemporary dance, photography, books. This policy aims to reach a new public and facilitate their access to culture.

The French Institute of South Africa, basing itself on great African events such as the Photographic meetings of Bamako, the Biennial Dance of Africa/Indian Ocean or the Biennial of Dak' Art, facilitates triangular operations with South Africa and other African partners, including those that are French-speaking. This allows a downshift in broadcasting policies on a continental scale. Through its research component (IFAS/Recherche), it intervenes as a supplement to our political dialogue with South Africans, thanks to the conference organizers joining academics and experts on topics of common interest (maintaining peace in Africa, international trade negotiations, city policies...).

The central part played by the IFAS in this scheme would justify that it be given more resources.

- **Governance and reinforcement of capacities**

Co-operation in the fields of the Rule of law and the fight against crime will be reinforced. In response to the 2005-2010 strategy defined by the interdepartmental South African group "Justice, prevention of crime and security" (*JCPS Cluster*), our intervention will be implemented according to the following axes:

- Support to the South African police force in its fight against organised transborder crime and terrorism (maintenance of technical assistance to the *South African Police Service* and deployment of a second FSP in this domain); Achievement of the FSP of support to judicial restructuring;
- Fight against corruption (implementation of the law 2004/12 "*Prevention and Combat of Corrupt Activities Act*"), in particular by forming new bonds and co-projects with the Auditor General of the Republic of South Africa and its regional offices;
- Support to civil partnerships (academic institutions and NGO), inter alia by mobilization of the FSD (Fonds Social de Développement).

- **To reinforce science and technology**

The depletion of its human resources is threatening science in South Africa: practicing scientists, mainly white, over fifty are ready to retire. Their replacement, which counts on the demographic weight of the black population, is tricky: low level in historically underprivileged populations, disadvantaged students are mostly unable to access quality studies due to very high costs, the dislike for scientific studies and attraction by the private sector eager to improve its *Affirmative Action* quota. However, South Africa, which clearly bases its development on science and technology, aspires to become a knowledge-based society.

In order to resolve these challenges, in line with ASGI-SA and JIP-SA, the Department of Science and Technology (DST) is doubling up on ambitious projects: SALT telescope, candidature for the reception of the giant radio telescope SKA, program TIC, biotechnological programs, nanotechnological programs, space

programs, etc. The strategy consists in creating a dynamic, which will make the S&T attractive by creating jobs, and reducing the deficit in human resources without any compromise on scientific excellence. To achieve its objectives, South Africa counts significantly on international co-operation.

The French-South African co-operation is varied. The CNRS, represented locally, has published more than 500 joint studies during the three last years; the IRD and the CIRAD also have local representatives; researchers of the CEMAGREF are assigned at the IWMI. It is developed through IFAS/Recherche (within the French Institute of South Africa), dedicated to human and social sciences and a French-South African network, the French-South African Technical Institute of Electronics (F' SATIE) a project launched together with the Paris Chamber of Commerce and Industry and its Engineering School (ESIEE), which is considered as a perfect prototype by our partners, integrates training, research and technological innovation (the students, further trained, are all graduates and rapidly integrated in projects with Franco-Southern African industrial partners) and could be extended to other countries, i.a through of the IAST network launched by the World Bank Institute; with a rich tradition of co-operation in palaeontology/archaeology.

Our strategy, in agreement with our partners, will be implemented according to these three points:

- To organize co-financed perennial networks in strategic sectors and facilitate access to the *Espace de Recherche Européenne* (European Research Area): Launching in 2006 of a Research Programme in the network of Science and Water Technologies and of a Science Program and an Information and Communication technology Program (STIC South Africa); the launch of a network in science and technology for archaeology.
- To support our partners in major strategic projects: training of managers of innovation in biotechnologies at the *Géno pole d'Evry* and co-operation in Science and Space Technology.
- To contribute to the reinforcement of the capacities thanks to local bursaries allotted to post-graduated students integrated in teams cooperating with France.

VI. IMPLEMENTATION METHODOLOGY OF THE PFD

A large array of instruments

The Instruments of French co-operation are varied and include interventions by donations from the Embassy and the AFD for specific projects (Study Funds and Reinforcement of Capacities) and, essentially, a complete array of financial tools from the AFD group:

- Non- sovereign loans, in particular but not exclusively through public and commercial banks:
 - Soft loans and concessional terms for projects having a strong impact on the historically underprivileged communities or environment;
 - Loans at market rates, either from AFD or its subsidiary PROPARCO (dedicated to financing the private sector), interventions in form of guarantees;
- Grant funding for Studies and Reinforcement of Capacities (FERC), allowing the mobilization of expertise necessary for the implementation of new operations, through technical aid and specific studies;
- Guarantee Funds;
- Special Investment Facility in favour of micro-credit operators;
- Grant funding for the implementation of FSP, FSD;
- and, as a memorandum entry, possibilities of training managers of the Centre for Financial, Economic and Banking Studies (CEFEB - training centre of the AFD).

The implementation of non-sovereign loans is on condition of finding credit-worthy and interested borrowers and the attainment of financial agreements.

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The co-operation axes mentioned above will be re-examined at the next Bilateral Commission meeting. In the interim, meetings of experts, when necessary, will ensure follow-ups.

Done at Paris, the 11th of September 2006, in two originals (each in the French and English languages)

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