

Agreement SA/73200-00/30

RIDER N° 1

TO

FINANCING AGREEMENT

between

THE EUROPEAN COMMUNITY

and

THE GOVERNMENT OF THE REPUBLIC OF SOUTH AFRICA

for the operation:

Water Services Sector Support Programme (WS-SSP)

(SA/8030/000)

RIDER N° 1

FINANCING AGREEMENT No. SA/73200-00/30

The European Community ("the Community"), represented by the Commission of the European Communities ("the Commission"),

of the one part,

and

The Government of the Republic of South Africa, represented by the National Authorising Officer ("the recipient")

of the other part,

have agreed to amend the Financing Agreement as follows:

Special Conditions

Will read as follows:

All other Articles will remain in force as specified in the Contract:

Article 2 - Commitment of the Community

The commitment of the COMMUNITY is fixed at 75,000,000 EURO (seventy five million EUROS) hereinafter referred to as the "EC GRANT"

The time limit for the implementation of this commitment is set at 48 months.

Payment of claims have to be presented at latest within six months following the expiry of the time limit.

The end of implementation period of the Financing Agreement is hereby set at 15.12.2004

Any balance of funds remaining available under the EC Grant shall be automatically cancelled 6 months after the end of implementation period of the Financing Agreement.

Article 3 - Addresses

Replace Delegation of European Commission in South Africa telephone and fax numbers as follows,

Telephone: +27 12 452 5200

Fax: +27 12 460 9923

Technical and Administrative Provisions

The respective paragraphs of the Technical and Administrative provisions of the Financing Agreement are replaced by the attached paragraphs.

In witness whereof the undersigned, being duly authorised thereto, have signed and sealed the agreement in duplicate in the English language, both being equally authentic.

The present rider shall enter into force on the date of signature of both parties.

Done in Brussels

On 10 DEC. 2003

Done in Pretoria

On 12 December 2003

The Commission of the
European Communities

The Republic of South Africa



Amir NAQVI

Director of EuropeAid Co-operation Office, Directorate C

Modified paragraphs of the

TECHNICAL AND ADMINISTRATIVE PROVISIONS

1. Summary

This agreement is for the second phase of a 4-year multifaceted water services sector support programme (WS-SSP) to the government of South Africa in the water and sanitation services sector. The objective of the programme is to provide basic water supply and sanitation services through a variety of activities including the support of strategic policy development, water and sanitation services provision to selected poor rural communities in three provinces (Limpopo Province, KwaZulu Natal and the Eastern Cape) and through institutional support to assist various levels of public sector institutions.

2.4 Activities

A variety of activities will be undertaken through the sector support programme in order to achieve the planned results. The activities outlined below only reflect a proportion of the activities being undertaken in the programme as a whole. For a more detailed overview please refer to the programme proposal.

Activities related to Result Area 1: Sector Orientation

- Assistance in the development of a new policy white paper.
- Creation of public awareness on the water policy through road shows and dissemination of information leaflets in local languages.
- Stimulation of stakeholder participation in the policy formulation process through workshops and provincial and national steering committees.
- Recruitment of technical assistance through a TA-framework contract.

Activities related to Result Area 2: Service delivery

- Support to planning and management activities within DWAF and Local Government structures (e.g. review of designs and development of water service development plans).
- Preparation and implementation of Environmental Impact Assessments
- Implementation of water supply projects, including health and hygiene education
- Transfer of schemes to Water Service Authorities (WSAs)
- Recruitment of technical assistance through a TA-framework contract.

Activities related to Result Area 3: Institutional support

- Support to DWAF senior management to strengthen the leadership role of the Department in the sector
- Establishment of a gender unit within the water services chief directorate.
- Strengthening of the DWAF function to provide technical assistance to Local Government structures, Water Service Authorities, Water Boards and Community Water Committees.
- Strengthening of local government structures to provide functions related to water service delivery (e.g. management training and capacity building in technical and administrative areas)

- Capacity building for Water Service Providers.

Within the overall frame of the programme, taking into account the Action Plan developed following the mid-term review, implementation in 2003/04 will give special emphasis to the following:

- improving the sustainability of water and sanitation schemes by the integration of mechanisms into all aspects of the programme.
- accelerating the delivery of more sustainable sanitation services
- clarifying the role and involvement of non-state actors and developing appropriate procedures for local partnerships. (for example, the establishment of call down contracts for non-state actors that can be used by the Water Service Authorities). In addition a strategy to increase the pool of NGOs in the Water Services Sector is being developed. Capacity building initiatives to improve performance are linked to this.
- The gender mainstreaming programme is focussing on the development of a national sector strategy for mainstreaming as well as the integration of appropriate key performance indicators into the monitoring and evaluation system. Roll out of the programme to other provinces and continued development of advocacy and promotions materials as well as capacity building and training of sector players.
- appropriate technology guidelines (at the level of the business plan and project evaluation cycle) will be adopted and followed for each scheme delivered during the 2003-04 financial year.

2.5 Indicators

During 2003/04 the monitoring, evaluation and reporting system will be enhanced to include additional indicators to capture and monitor sustainability, the use of appropriate technology and the integration of local government into the delivery of water and sanitation services.

3.1. Physical and non-physical means

The EU grant of 75 million Euro will be used as a direct financial support to the government budget for the implementation of the programme. The programme is based on Multi Annual Action Plans (MAAPs), elaborated by DWAF in close co-operation with the main stakeholders in the three provinces. Procurement will be done through South African government procurement procedures.

3.2 Organisational and implementation procedures

DWAF is responsible for the overall implementation of the programme. The Regional offices of the Department will be responsible for the direct implementation. The Sector Support Programme for water and sanitation in Limpopo Province, Eastern Cape and KwaZulu-Natal is monitored through MAAPs and their associated work plans. They indicate the objectives, results and detailed activities with verifiable indicators and include relevant budget breakdowns, timetables and specific modalities of implementation. The MAAPs have been prepared using the Logical Framework approach and provide the planning, implementation and monitoring basis for the programme.

This programme will be in form of a direct contribution to the programme's budget. In derogation to the provisions of art 5 of the General Conditions, the implementation will be undertaken according to the DWAF procurement procedures. First phase payments were made to the Government RDP account as follows:

The first instalment of Euro 22,080,000 was released upon request after signature of the Agreement and after submission to EC and approval of the MAAP's.

The second instalment of Euro 25 million was released upon acceptance by the EC of a detailed plan of action for financial year 2002-2003 (outlining the expected results and the planned activities); the annual programme report (covering the implementation and results achieved during financial year 2001-2002); the financial audit for financial year 2001-2002,

The second phase contribution (third instalment) of Euro 27,920,000 is to be made to the Government RDP account upon acceptance by the EC of a detailed plan of action for financial year 2003-2004 (outlining the expected results and the planned activities); the annual programme report (covering the implementation and results achieved during financial year 2002-2003); the financial audit for financial year 2002-2003.

3.4 Timetable; Cost and Financing Plan

The Rider shall be concluded by 31 December of the year in which the global financial commitment was adopted. Failing this, the corresponding appropriations will be cancelled. The end of the period of execution of the Rider is hereby set at 15/12/2004. Any balance of funds remaining available under the EC grant, shall be automatically cancelled 6 months after the end of period of execution of the Rider.

Table: Summary of Programme Financing (in ZAR and Euro million)

	SA Rand	%	Euro
Total cost of program	3,161	100.0	328.6
Government of South Africa	2,336	73.9	242.85
Other sources	825	26.1	85.75
Indicated donor support			
European Commission	721	22.8	75
Ireland	61	1.9	6.25
Netherlands	43	1.4	4.5
Total indicated Donor support	825	26.1	85.75

Based on audited figures for 2001/02, preliminary figures for 2002/03 and draft work plan for 2003/04

Exchange rate on 1.6.03: ZAR 9.62 = 1 Euro.

The EU contribution will be implemented through the existing budget management system, the Medium Term Expenditure Framework (MTEF), of DWAF for the financial years 2001/02 to 2003/04

3.5 Special conditions and accompanying measures to be taken by the government

- DWAF will enhance the monitoring, evaluation and reporting system to include indicators to capture and monitor sustainability.

4.1 Reviews/evaluations/audits: procedures and reports

An external mid-term review was carried out between November 2002 and January 2003 on the basis of terms of reference agreed between DWAF and the EC. A Financial Audit for 2001/02 has been completed and another one will commence in June 2003 for the 2002/03 financial year. A final evaluation and financial audit will be carried out after the completion of the programme.

A provision for audit is included in the budget of phase II of the programme in order to verify compliance with relevant rules and procedures. It is understood that the Chief Authorising Officer, in accordance with Art. 23 of the Financial Regulation, may use this provision to organise an independent audit of expenditure realised under this project.

Audit and evaluation contracts and framework contracts are always concluded by the Commission acting on behalf of the recipient State.

Attachment B to Rider No1 of the Financing Agreement SA/73200-00/30

SUMMARY BUDGET (IN MILLION ZAR)

Total	Theme 1 Sector orientation	Theme 2				Theme 3			
		Service delivery				Institutional support			
		KZN	EC	LP	HO	KZN	EC	LP	
3161,207	133,12	1050,762	790,668	849,439	104,851	116,035	78,604	37,728	
Theme totals	133,12	2690,869				337,218			
Theme %	4,21%	85,12%				10,67%			

ANNUAL TOTALS (IN MILLION ZAR)

	Total	Year %
2001-02	890,862	28,17%
2002-03	1117,618	35,35%
2003-04	1152,927	36,47%
TOTAL	3161,207	

DETAILS BUDGET IN THREE THEMES (IN MILLION ZAR)

Theme 1: Sector orientation				
TOTAL	2001-02	2002-03	2003-04	
133,12	39,253	40	53,867	

Theme 2: Service Delivery												
KwaZulu Natal					Eastern Cape				Limpopo			
TOTAL	2001-02	2002-03	2003-04	Sub-total	2001-02	2002-03	2003-04	Sub-total	2001-02	2002-03	2003-04	Sub-total
2690,869	290,498	365,4	394,864	1050,762	206,7	308,65	275,318	790,668	243,42	297,641	308,378	849,439

Theme 3: Institutional support																
KwaZulu Natal					Eastern Cape				Limpopo				Head Office			
TOTAL	2001-02	2002-03	2003-04	Sub-total	2001-02	2002-03	2003-04	Sub-total	2001-02	2002-03	2003-04	Sub-total	2001-02	2002-03	2003-04	Sub-total
337,218	37,6	59,6	18,835	116,035	37,5	11,769	29,335	78,604	4,94	9,897	22,891	37,728	30,751	24,861	49,439	104,851

Notes

2001/02 based on audited figures for 2001/02

2002/03 based on preliminary figures for 2002/03 given in the 4th quarterly report for 2002/03

2003/04 based on draft work plan for 2003/04

Attachment C to Rider No 1 of the Financing Agreement SA/73200-00/30

DETAILED BUDGET TABLE

Theme	Initial budget (Euro)	Augmentation by rider (Euro)	Total budget after rider (Euro)
Sector orientation	376.640	223.360	600.000
Service delivery	41.216.971	24.343.029	65.560.000
Institutional support	5.486.389	3.233.611	8.720.000
Evaluation/Audit		120.000	120.000
	47.080.000	27.920.000	75.000.000

A SUMMARY OF THE PRINCIPLE RECOMMENDATIONS EXTRACTED FROM THE MID-TERM EVALUATION REPORT

1 Masibambane's Sector-Wide Approach

1. Collaboration at National Level, within DWAF and between DWAF and other role players needs to be reviewed, with a view to accelerating assumption of the agreed roles and responsibilities for the programme by role players. Framework of accountability needs to be formalized and implemented in a consistent fashion to support the sector orientation of MSB.
2. The current restructuring of DWAF needs to be formally incorporated into the planning and reporting cycle of Masibambane to avoid alienation of the programme.
3. The Masibambane Programme Management Unit (PMU) needs to be recognized to effectively support and promote the sector, utilizing best practice in programme management.
4. Alignment of the role players capacity building strategies with that of DPLG will enhance the decentralization process and sustainability of the role of local government in service provision.
5. Collaborative forums – there is a need to review commitment, capacity and effort demanded for the participation of district municipalities to determine further support.
6. Issues related to decentralization and the legal status of collaborative structures in provinces needs to be examined. These may provide part of the “modeling” for options to be considered by other provinces.
7. Documentation of lessons learned is needed, especially on the nature of collaborative structures just cited.
8. Sustainability and cross cutting issues need to be addressed both in terms of formal incorporation in the planning and implementation processes as well as substantive issues specific to their content.
9. The weaknesses at a policy and operational level for mainstreaming gender in the sector may be summarized as:
 - The lack of a champion for gender mainstreaming;
 - The lack of a sector-wide strategy;
 - Absence of tools and checklists for ensuring that gender considerations are built into every dimension of project planning and implementation; and
 - Lack of key performance indicators for ensuring that gender is mainstreamed.

2 Programme Efficiency – Organisation and Management

1. Limited capacity among the municipalities at this stage of the programme significantly retards aspects of decentralization. Greater focus should be given to WSP functionality.
2. The transfer of retail infrastructure should be accelerated and the functional and financial assessments should address issues that ensure municipalities receive assets that are functional and financially viable.
3. The slow progress on sanitation is an issue that needs to be addressed.
4. It appears that the budgeting process relies far too much on centralized decision-making for final selection of ‘projects’. In anticipation of the greater reliance on direct cash transfer to DM’s in the future, the ‘projects’ approach will need to be reviewed.

