

Main Report

Response to TORs and key definitions	22
The review process	23
Challenges in the review process	24
Background	25
Policy background	25
Aid management in South Africa	27
ODA flows to South Africa: a quantitative perspective	27
Sources of data on ODA	28
An overview of ODA to South Africa	29
Commitments and disbursements by donor, sector and type of aid (OECD DAC)	29
Overview of ODA commitments on the adjusted DCIS database	32
Analysis of ODA by year: mining the adjusted ENE database	34
Ownership and alignment	36
Defining ownership and alignment	36
Findings on ownership and alignment	37
Integration of Aid in South Africa's Systems	41
Defining the scope of enquiry	41
Findings on the integration of aid into South African systems	42
Harmonisation and coordination	51
Defining the scope of the enquiry	51
Preliminary findings	51
Managing for results and mutual accountability	53
Defining managing for results and mutual accountability	53
Findings on managing for results and mutual accountability	54
ODA to provinces	57
Distribution of ODA to provinces	57
Management of ODA in provinces	58
Aid by sector cluster	60
Use of aid for innovation, risk taking and capacity building	62
Piloting and taking risks	63
Capacity Building	64
What is meant by effective aid?	68
Key factors for aid effectiveness in the project cycle	70
Key factors for aid effectiveness in the programme budget cycle	71
Other key factors for aid effectiveness	73
ODA modalities and aid effectiveness	74

Section 1: Introduction	21
Section 2: ODA to South Africa (an overview)	24
Section 3: Key findings	35
Section 4: When was ODA effective?	67
Section 5: Conclusion and recommendations	75

Main Report

Section 1: Introduction

1.1 The Development Cooperation Review III aims to conduct an assessment of the effectiveness of official development assistance (ODA) during the period 2000-2008 in relation to South Africa's own development objectives as outlined in the Medium-term Expenditure Framework (MTEF). The specific objectives of the study are to:

- Conduct an analytical assessment of how ODA has been aligned or integrated into the budgetary planning process and the quality of reporting.
- Analyse the reporting of ODA in the financial management system of South Africa including the Estimates of National Expenditure (ENE) and departmental reports and other reporting mechanisms including the Development Cooperation Information System (DCIS) and the OECD DAC.
- Examine the modality of ODA funding that has been predominantly used by development partners and critically assess the effectiveness and the lessons learnt over the period 2000 to 2008. In particular, establish the split between budget or sector support approach and activity based project financing and investigate the trend on a yearly basis and illustrate the findings graphically.
- Establish progress made by the country in the implementation of the Paris Declaration especially along the key issues of ownership, alignment, harmonisation, managing for development results and mutual accountability.
- Evaluate the impact of ODA to five clusters of government.
- Analyse the provincial distribution/coverage and the impact of ODA for the period 2000-2008 in the following provinces; Eastern Cape, Limpopo and KwaZulu Natal.

The consultants were to summarise lessons learnt and make recommendations on the future on how the management and delivery of ODA can be strengthened in South Africa.

1.2 This study forms part of a larger response by the European Union, known as the Official Development Assistance Programme (ODA-P) with the stated aim of providing support of effective delivery of government initiatives. The programme's purpose is to enhance efficient, effective and sustainable management of ODA which will act as catalyst for better management in development and impact strategic development priorities of SA.

1.3 The Chief Directorate: International Development Cooperation (IDC) in the National Treasury appointed Alta Folscher, Matthew Smith and Theresa Davies to undertake the work through the European Commission Technical Assistance for Official Development Assistance Programme (ODA-P).

1.4 This report is the final report. It follows on an inception report (27 November 2009) and an interim report on preliminary findings (7 February 2010). The report is structured as follows:

- **Section 1: Introduction** provides an overview of the team's response to the TORs, key definitions, the research process and limitations on fulfilling the TORs.
- **Section 2: ODA to South Africa (an overview)** provides background information on South Africa and information with regard to ODA flows to South Africa from 2000 to 2008 drawing on various databases and sketches the basic structures of ODA management in the country.
- **Section 3: Main findings** provides a systematic discussion of findings against key elements of the TORs.
- **Section 4: When was ODA effective/ineffective?** is a concluding section that draws on the findings in Section 3 to analyse aid effectiveness in South Africa.
- **Section 5: Conclusions and recommendations** distils key recommendations arising from the report.

1.5 A series of annexes are also provided. Annex 1 is the bibliography and list of interviews, Annex 2 provides a copy of the TORs; Annex 3 provides an analysis of the MTSF/MTEF priorities over the period; Annex 4 provides a cluster-by-cluster review of ODA and Annex 5 provides a review of ODA in the three highest grant and TA receiving provinces.

Response to TORs and key definitions

1.6 In its response to the TORs the team acknowledged that the mandate is a broad one and that the depth in any one area would be limited, given time and resource constraints. It opted for a research process that drew on existing primary and secondary sources of information (see discussion in the sub-section below on the research process).

1.7 Overall the team focused their work on a series of key questions, namely:

- What was the level and composition of ODA commitments, disbursements and use?
- How well was aid aligned with government priorities at different levels of government and levels of programming?
- Was aid reflected in budget documentation and annual reports? How well was aid integrated into budget planning and reporting? If not, why not?
- Was aid reported comprehensively locally and internationally? Is aid predictable?
- What are the lessons about the use of the different modalities in the South African context? When did which modalities work?
- What evidence is there of government through central departments, line departments at different levels of government exercising leadership and ownership in directing and managing ODA?
- Did donors coordinate their activities? Through which mechanisms?
- Was ODA managed for results? Under which circumstances? What evidence is there of mutual accountability? How accountable are sectors/departments for the use of aid, and when?
- Did aid contribute to the achievement of sector priorities? Did ODA programmes achieve their objectives in sectors?
- What criteria did donors use to select provinces? Was the resulting distribution equitable?
- Does ODA add value? Is aid used effectively to pilot, take risks and build capacity? Are ODA interventions sustainable?
- Is aid effective? Under which circumstances? And if not, why not?

1.8 The team narrowed their focus to look at official development assistance to general government programmable at country level. This includes both loans and grants: the focus of the report to a large degree however, is on grants and technical assistance, the main form of ODA to government departments. The study does refer to ODA delivered as loans to public sector entities and ODA to civil society, but these were not studied in depth. The narrower focus was necessary in the trade-off between resources for the study and the need to provide some degree of depth to the findings and conclusions. The study uses the previous department names and units for analysis, as these were the structures that were in place for the period reviewed.

1.9 Also, the study focused largely on ODA to national government and the provinces, but also includes findings for local government. A local government specific focus however was not pursued.

Box 1.1: Definition of ODA

For the purposes of the review ODA is defined as:

Grants or loans provided by official agencies (including state and local governments, or by their executive agencies) to developing countries (countries and territories on the DAC List of Aid Recipients) and to multilateral institutions for flows to developing countries, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) it is concessional in character and contains a Grant Element of at least 25 per cent (calculated at a rate of discount of 10 per cent). In addition to financial flows, Technical Cooperation is included in aid. (OECD Glossary online).

The review focused on country programmable ODA to the general government sector. This is defined by the OECD DAC as:

ODA disbursed in the context of an agreement with administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government. This includes works, goods or services delegated or subcontracted by these administrations to other entities such as:

- *Non-Governmental organisations (NGOs);*
- *semi-autonomous government agencies (e.g. parastatals), or;*
- *private companies. (OECD DAC, 2006 and updated 2008)*

The review process

1.10 The approach to the study was based on the premise that the study – given the resource and time allocated to it – cannot undertake primary field work to a sufficient depth or coverage to reach reliable conclusions. It was also not desirable to duplicate work already done by government agencies and donors, which often had been undertaken by sector specialist the expertise of whom the team could not replicate.

1.11 An inception report was delivered on 27 November 2009. The report divided the work into four phases:

- Phase 1 and 2 (27 November to 5 February 2010): Literature scan and mapping of ODA flows; analysis of aid

flows, testing of hypotheses and analysis of key success and failure factors.

- Phase 3 (8 February to 19 February 2010): Testing findings
- Phase 4 (20 February to 6 April 2010): Study Report
- In practice the team found that the research period would need to be extended after Phase 3 and agreed this with the IDC.

1.12 A first principle of the study therefore was to utilise existing ODA work and documentation of various kinds (studies, reports, reviews, evaluations, programming documentation, donor country strategy documentation, national strategic, budget and review documentation etc.). The team undertook a scan of the documentation to build an overview of ODA flows and lessons with regard to the key study dimensions (budget alignment and integration, ODA reporting, Paris Declaration principles, ODA effectiveness).

1.13 A second principle of the study process was to utilise the fieldwork time and resources to add depth to the preliminary conclusions. This was done through:

- The use of sample cases to assess key and/or uncertain hypotheses (findings).
- An analysis of the factors that resulted in sample cases either supporting or contradicting the proven hypotheses and the development of conclusions with regard to good/bad practices.
- Testing the hypotheses and analysis of factors with focus groups held in early February
- Undertaking follow-up interviews with selected government institutions and donors during February, March and April.

1.14 Many of the findings reflected below draw on the documentation studied. However, the team found that there were gaps with regard to the reflection and integration of aid in South African processes and how this relates to ODA coordination mechanisms. Previous studies have tended to focus on aid effectiveness from the perspective of aid management, and less on aid effectiveness from the perspective of overall management of government effectiveness. This report therefore provides significant space for a discussion of these aspects.

Challenges in the review process

1.15 By and large the review process ran smoothly. The team however faced challenges in getting responses from stakeholders, both within government institutions and from development partners. This was partly on account of the annual holiday season occurring in the middle of the research period, but also because many stakeholders were slow in responding and some never did despite repeated efforts by the team. However, sufficient information has been collected to present defensible findings regarding most aspects of the TORs.

1.16 The team faced particular difficulties in arranging meetings in the target Provinces, to follow up on engagement in the December IDC Coordinators workshop and the February DCR III workshops. The team however used information gained and discussions at the workshops, reports and audio recordings of previous IDC workshops and responses to e-mail queries to draft provincial annexes. In the case of KwaZulu Natal interviews were conducted as is reflected in the provincial annex.

1.17 A significant challenge has been the collection and collation of data on ODA programmes and projects to fulfil the TOR requirements and IDC needs regarding analysis of the composition of ODA commitments, disbursements and actual use. There is not a single source that provides complete, consistent and reliable data for fully credible analysis of year-by-year trends. This is partly the result of the DCIS database structure in use over the period under review not being conducive to reliably collecting comprehensive information, appropriately disaggregated in the right formats, incomplete entry of projects and programmes on the database and of poor information flow from donors. Other sources of information are similarly incomplete, with the result that there are significant limitations to the team's findings regarding ODA trends. These are detailed in Section 2 and 3, where relevant.

1.18 The data limitations also meant that the team could not fulfil one specific TOR requirement: the mapping of ODA modalities (projects, programmes, budget support) on a year-by-year basis. The DCIS database does not provide this information – it does not even provide information on the channel of the flow (albeit grants, TA or loans). The OECD databases do not provide this either. The ENE provides the opportunity for departments to classify their aid as cash or 'in-kind' (i.e. the channel), but the quality of the information is so poor that the team did not provide this analysis. From a review of programmes and projects in place, it would seem that there is a shift to programmes and budget support over time. However, many interventions are called programmes although in nature they are really projects and in the absence of informative documentation on every intervention, it is difficult to classify them correctly.

Section 2: ODA to South Africa (an overview)

Background

Policy background

2.1 South Africa is a middle income country with a well diversified economy which is among the most developed in Africa. Since 1994, the country has made tremendous progress in addressing the social inequalities but despite this still has a very high Gini Coefficient (see box below which provides key socio-economic statistics for South Africa). One of the major challenges therefore continues to be the issue of addressing the redistribution of wealth and resources in order to reduce the unacceptably high levels of poverty and the low levels of human development among the majority of the population.

Box 2.1 South Africa: background information

The first democratic elections of SA were held in 1994, which brought an end to the apartheid regime. The country has since held a further three national and local elections peacefully and has achieved some degree of political stability. Socially however the country has seen rising social dissatisfaction and unrest in the last decade in the face of continued deep poverty and high inequality, despite good macroeconomic performance.

Before 1994 the South African economy was characterised by high inflation, large fiscal deficits, declining investments and negative growth. Since 1996, the country has achieved a higher degree of macro-economic stability and fiscal robustness. Prior to the post October 2008 slow down, South Africa experienced one of its longest periods of expansion since the 1960s. Between 1994 and 2007 real per capita GDP increased from R20 215 to R25 444.⁵ Growth accelerated from around 3% per annum in the early 2000s to in excess of 5% in the years 2005 to 2007. In 2008 in the face of the global financial crisis, growth slowed to 3.7% (SA National Treasury, Budget Review, 2003, 2006, 2010). During the 2000s the South African government reduced net public loan debt from 48.3% (in 1999) to 22% in 2008 and in the last few years of the period under review, ran close to a balanced budget.

Whilst South Africa has been successful in developing a robust and stable economy, it has been less successful in improving its key socio-economic statistics. The United Nation's Human Development Index for South Africa in 2007 was 0.683, which gives the country a rank of 129th out of a 182 countries. This can be compared to its index of 0.688 in 2000, as well as its index of 0.658 in 1988. In terms of life expectancy at birth, South Africa in 2007 was ranked 158th, with a score of 51.5 years. In other aspects however, it fared better. For example its adult literacy rate of 88% put it at rank 80. Its combined gross enrolment rate for schooling of 76.8 at rank 77 and its GDP per capita of US\$ (purchasing power parity) 9 757 at rank 78th (UNDP, 2009). SA's Gini Coefficient (57.8) is one of the highest in the world. Unemployment, having fallen from 27% in 2003 to 22% in 2007, rose again to 24.3% in 2009. The HIV and AIDS prevalence rate is 19% (one of the highest in the world), land distribution is also one of the most unequal in the world with 85% of the land in the hand of 55 000 white farmers, 53% of the population of 47 million account for less than 10% of total consumption and female-headed households have a 50% higher poverty rate than male-headed households.

Between the 1996 and 2001 Censuses, measured income poverty increased in South Africa. Simultaneously real household incomes at the higher end of the income spectrum increased, resulting in a widening of inequality. In 2001, 58% of households fell below a poverty line of R250 (in 1996) per person in the household per month (Brown, 2005).

In its response to South Africa's on-going social disparities, government has stepped up its spending on social welfare during the 2000s and made progress in providing the poor with access to housing, water, electricity and sanitation services, all of which affects quality of life positively (see table below). Government has also increased spending, particularly social spending, significantly over the last 8 years. Particularly, government social security grant programmes have made a difference to the lives of millions of poor South Africans. By March 2006 just over 13.4 million South Africans (against 3 million in 1999) were receiving state grants.⁶

	1994	2008
Percentage of households living in permanent structure	77.6	73.9
Percentage of households with access to electricity	62.9	81.5
Percentage of households with access to clean drinking water in the home	48.9	71.5

Stats SA, October Household Survey 1994, General Household Survey 2008

⁵ IJR, 2008, Risk and Opportunity, Economic Transformation Audit, IJR, Cape Town

⁶ National Estimates of Expenditure, 2009 and the National Expenditure Survey 1999.

2.2 In response to this inequality a series of programmes have been adopted by the government. The first, in 1994, was the Reconstruction and Development Programme (RDP). Followed in 1996 by the Growth Employment and Redistribution (GEAR) strategy with the specific objective of rebuilding and restructuring the economy. Conscious of the fact that inequalities still persisted in the economy, the government in 2006 launched the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

2.3 In support of budget reform and to strengthen expenditure of public funds, the government introduced the Medium-Term Expenditure Framework (MTEF), a three year rolling expenditure plan in 1997. Since 2004 the policy priorities funded through the Medium-Term Expenditure Framework draw on government's Medium-Term Strategic Framework (MTSF), which sets the apex priorities for five year periods coinciding with national and provincial elections⁷. The 2004–2009 MTSF outlined nine complementary policy priorities, directed at enhancing broad-based development supported by accelerated growth. The priorities outlined are:

- To grow the economy
 - By making deliberate trade-offs in macroeconomic and fiscal policy
- To increase investment
 - By facilitating private sector investment
 - By increasing public sector investment in economic services
- To facilitate activity in the second economy
 - Through an expanded public works programme and supporting small and micro enterprises
 - By facilitating job creation, skills development, and work experience, land reform and agricultural support programmes
- To preserve and develop human resources through and for economic growth
 - By implementing the housing strategy
 - By improving primary health care, using the HIV and AIDS comprehensive prevention and treatment programme to build infrastructure
 - By improving education (further education and training colleges; primary school feeding programme)
 - By addressing needs and changing balances in welfare support
- To improve state capacity for growth and development
 - By improving the capacity of local government
- To combat crime
 - By improving the safety of the transport system
 - By increasing police numbers
 - By profiling and intervening in contact crime areas
 - By improving the efficiency of the justice system
 - By minimising illicit trade and drug dealing
 - By building the capacity of the intelligence services
- To develop international relations for growth and development
 - By focusing on the Southern African Development Community area
 - By marketing the country

2.4 These priorities were echoed in the MTEF budget policy priority frameworks in the 2000 to 2008 period. Annex III provides an analysis of expenditure and budget policy priorities 2001/2 to 2008/9 against the MTSF priorities. It shows that the seven main priorities outlined in the MTSF were budget priorities to a lesser or a greater degree in the years under review prior to 2004, and consistently after 2004.

2.5 Various papers, policies, strategies and development plans that have been drawn up at the sub-national level have given guidance on South Africa's development priorities. Such instruments have sought to ensure that donor support is correctly aligned with the country's development agenda. Provincial governments have developed Provincial Growth and Development Strategies (PGDS) that are aligned to national growth and development strategies and municipalities are required to have Integrated Development Plans (IDPs).

⁷ With the introduction of a National Planning Ministry in the Presidency the MTSF is likely to be formulated within a longer-term planning vision, as set out in the Green Paper on National Strategic Planning (Presidency, 2009)

Aid management in South Africa

2.6 The IDC published its policy on ODA harmonisation and alignment in South Africa in October 2003. Known as the Policy Framework and Procedural Guidelines for the Management of Official Development Assistance it provides a guide to the processes and procedures to be followed regarding donor assistance to South Africa.

2.7 Although ODA amounts to about 1% of the budget, aid plays a critical role in government's poverty reduction strategy. South Africa continues to struggle to banish the legacy of apartheid in particular ongoing inequalities in income distribution, high levels of unemployment, and the growing divide between the first and second economies. The public sector – in a labour market in which high and middle-level skills are scarce – also faces significant capacity and skill challenges, exacerbated by high institutional transformation over the fifteen years since democratisation.

2.8 For the first five years of independence (1994 to 1999), the focus of Development Aid was on developing overall government policies and strategies, but subsequently emphasis shifted to building capacity in service delivery. To some degree the experience that was built up in the first five years, had to be adjusted to respond the challenges associated with ODA directed towards implementation support. However, the key issue remains that ODA must be aligned to the development priorities of the country and should complement government expenditure and must be managed in a manner that fully supports the country's development agenda and is also in line with the Paris Declaration on Aid Effectiveness.

2.9 The ODA guidelines specifically call for piloting, risk taking and capacity building. The updated 2007 draft Guidelines (to be approved by Cabinet at the time of writing the report) echo these principles and place even higher emphasis on the need for government leadership and ownership and the necessity of using country systems to deliver ODA support.

2.10 Salient features of ODA structures, their functions and aid management procedures in South Africa are:

- The International Development Cooperation Unit in the National Treasury coordinates all aid flows into the country, albeit to central, provincial or local government. The IDC maintains the DCIS database.
- As provincial and local governments are autonomous, in the context of a decentralised model of decision-making and since there is not a statutory body that centralises aid allocation decisions, all spheres and departments are in principle free to approach donors for funding. However (i) the ODA guidelines stress the importance of coordination and the negative impact of a 'free for all'. It therefore establishes a system where all requests for funding need to flow through the IDC (programme or project proposals) and all donors need to approach work in South Africa also through the IDC and (ii) provinces and local authorities may not sign international agreements (only national Ministers are authorised to sign). The President signs all aid agreements.
- Aid coordinators operate at national and provincial level in departments, often having other responsibilities besides ODA. Provinces have central ODA coordinators (sometimes units) that direct and monitor aid flows to the province.
- Two forums exist: the Development Counsellors Forum (membership donors and IDC) and the Development Coordinators Forum (ODA coordinators at national and provincial and the IDC). In addition, the IDC unit meets annually with each development partner and its recipient institutions to review the effectiveness of their aid programme.
- The arrangements through which each programme is managed, is determined in the financing agreement. Mechanisms such as steering committees, dedicated units for implementation are set up, but not in all cases. The financing agreement also determines the disbursement channel for the ODA flow (see box below on disbursement channels).
- The main legal instruments governing aid are the Public Finance Management Act, the treasury regulations and the RDP Fund Amendment Act.
- The RDP Fund is the responsibility of the Office of the Accountant General in the National Treasury. Procedures around it are managed by the IDC. The fund receives disbursements from donors and makes disbursements to departments, once the necessary paperwork (a duly signed requisition form and copies of the financing agreement) is in place. For provincial departments and municipalities it disburses to provincial treasuries, that passes the funds on to the recipient institution. In some cases it disburses directly to municipalities.

ODA flows to South Africa: a quantitative perspective

2.11 The team was tasked with providing a picture of aid flows to South Africa. As discussed above, this proved to be challenging since no single source provides a consistent, comprehensive picture of aid flows that can be analysed by sector (and recipient institution), donor and flow type on a year-by-year basis for commitments, disbursements and actual use. While some of this information can be found, in most cases there are significant issues with regard to the coverage and use of the data.

Box 2.2: Different channels for disbursing aid

It is important to be precise about different possible disbursement channels for aid and distinguishing the channel from the nature of the flow and the purpose of its use. In principle three channels are possible

- Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the government institutions responsible for budget execution. Note that Channel 1 funds may or may not be earmarked for specific expenditures. *In South Africa the RDP Fund offers the only 'Channel 1' option and the only legal option for cash disbursements. By law aid cannot be channelled through the National Revenue Fund.*
- In Channel 2, external funds are provided directly to a particular government institution – most often a sector Ministry, and managed through special accounts outside of the regular government system. Thus, Channel 2 funds, although held by a government body, do not follow the normal government procedures. In South Africa this option is illegal.
- In Channel 3, expenditure is undertaken by the development partner agency itself or by non-government agents (PIUs, CSOs) on its behalf. Assets or services are delivered to the government in-kind, but government does not handle the funds itself.

Sources of data on ODA

2.12 The table below shows what information can be found from which sources, with the qualifications for each source. Of course, in each case individual donors are a source of information as well and in the past reviews have gone to considerable lengths to survey donors to collect information. These however were processes that provided a snapshot at a particular moment in time against review-specific data needs. The focus here is on sources that are supposed to be maintained accurately with consistent information over time as bases for comparison.

Table 2.1 Sources of ODA data

	Commitment	Disbursement	Planned Use by Institution	Use
INFORMATION ON GRANTS (cash and in-kind)				
Cash	OECD DAC CRS Does not distinguish between Cash and In-Kind grants. Provides new amounts committed by development partner, type of commitment, sector descriptor and project.	OECD DAC Does not list cash disbursements separately from in-kind disbursements, does not list by institution or project, only by sector.	Strategic and operational plans Few institutions include donor support in plans, and if they do, specific financial information is not provided. No distinctions made between cash, in-kind and funding for TA.	ENE and provincial budget statements Information incomplete and inconsistent across years. Financial information poor. Does not consistently and accurately distinguish between in cash and in-kind grants.
	DCIS Does not distinguish between cash and in-kind grants. Incomplete coverage of projects. Financial Information inconsistent, of dubious accuracy and incomplete.	RDP Fund Annual Reports Provides disbursement from donor to SA and from RDP fund to institution.	ENE Information incomplete and inconsistent across years. Financial information poor. Does not consistently and accurately distinguish between cash, in-kind and TA in grant composition.	Institutional Annual Reports Narratives seldom provided or incomplete. Financial statement information on donor funds, irreconcilable across years and to plans or not complete.
In Kind	OECD DAC CRS See above	OECD DAC See above	Strategic and operational Plans See above	ENE and provincial budgets See above
	DCIS See above		ENE See above	Institutional Annual Reports See above
Technical assistance (funded in cash or in kind, loans or grants)				
All TA	OECD DAC CRS The CRS lists TA separately. See above for qualifications. DCIS See above	OECD DAC The OECD DAC database provides the capacity to look at disbursements for TA separately. See above for qualifications	Strategic and operational Plans See above. TA not indicated separately. ENE See above. TA not indicated separately.	Strategic and operational Plans See above. TA not indicated separately. ENE See above. TA not indicated separately.
ODA LOANS				
Loans	OECD DAC CRS Loans are indicated separately on the CRS, with additional information with regard to type and costs. See above for qualifications on the data for analytical use. DCIS See above	OECD DAC Disbursements for loans can be extracted separately, a net and gross numbers. See above for qualifications	Strategic and operational plans The plans and budgets of specific institutions – outside of general government – provide information on the allocation of loan funding. There is no central source of information on the allocation of ODA loans.	The annual reports of loan receiving institutions There is no central source of information on the use of ODA loans.

An overview of ODA to South Africa

Commitments and disbursements by donor, sector and type of aid (OECD DAC)

2.13 OECD DAC data is provided by the 22 member countries of the OECD's Development Assistance Committee (DAC), the European Commission and other international organisations. The data is part of DAC members' official statistical reporting to the OECD (non-DAC donors' reporting takes place on a voluntary basis). ODA is defined for the purposes of the database as provided in Section 1 above.

2.14 The aid flows covered in the database include both bilateral ODA and multi-lateral ODA. By bilateral activities, OECD DAC is referring to:

- "Activities undertaken directly with an aid recipient or with national and international non-governmental organisations active in development; and
- Promotion of development awareness and other development-related spending in the donor country (e.g. debt reorganisation, administrative costs)".

2.15 Multilateral activities, according to OECD DAC, are "aid activities financed from the multilateral institutions' regular budgets are referred to as "multilateral outflows". The Aid Activity database includes those of the World Bank, the regional development banks and some UN agencies".

Limitations

2.16 As with all databases the quality of the analysis is dependent on the reliability and validity of the data that is captured in the database. Several problems with regard to OECD DAC data exist, these include:

- Data missing (for instance data may not have been reported that year)
- Financial year of donor very different to the financial year that OECD DAC observes
- Classification interpretation varies (for example data to civil society could flow directly to the NGO or it could first flow to a public sector entity from which it is then transferred to the NGO – in some instances this will be classified as a contribution to civil society in other instances it may be classified as flowing to the public sector)
- With respect to the sectoral classification of ODA, significant portions of ODA have been broadly classified as either 'other' or as 'non-specified'

Overview of ODA to South Africa (OECD DAC data)

USAID and EC most significant ODA contributors:

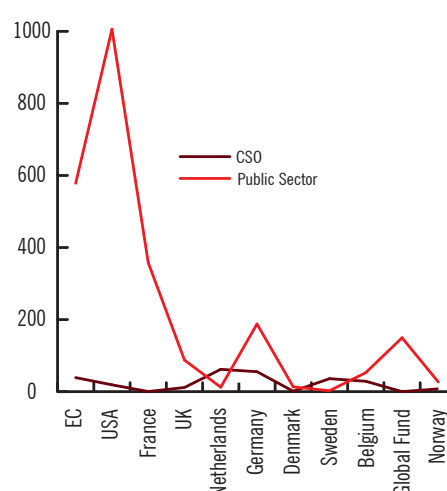
2.17 According to OECD DAC data a total of approximately \$ billion of all ODA⁸ (in constant 2007 USD) was committed to South Africa between 2000 and 2008, of which slightly more than \$6,2 billion (77% of the amount committed) was actually disbursed. The USA and the European Commission provided the largest amount of all ODA to South Africa in this period (Table 2.2).

Table 2.2 Ranking of donors by % contribution to total ODA disbursed to South Africa, 2000 – 2008

Donor	% of total ODA disbursed to SA, 2000 - 2008
USA	23%
European Commission	13%
United Kingdom	12%
France	10%
Germany	10%
Netherlands	7%
Global Fund	3%
Sweden	3%
Norway	3%
Belgium	3%
Denmark	2%

(Source: OECD DAC)

Figure 2.1: ODA disbursed by recipient, 2004 – 2008 (constant 2007 US\$ millions)



Source: OECD DAC

⁸ All ODA refers to assistance flowing through all channels, which includes the Public Sector, NGOs & Civil Society, Public Private Partnerships and Multilateral Organisations.

2.18 ODA flows mostly to the public sector: The majority of ODA flows to the public sector (see Figure 2.1 showing the gap between public sector and CSO), and this gap has widened since 2005. By 2008, for instance of the \$1,133 million gross disbursement to South Africa, \$714,7 million (63% of disbursed funds) flowed through the public sector, \$111,3 (10%) went through NGOs and Civil Society, \$14,9 million (went through the Multilateral Organisation channel, \$0,2 million went through the Public Private Partnership channel, and \$248,8 million went through other/ unspecified channels.

2.19 In terms of channelling ODA through the public sector versus civil society, Figure 2.2 shows that donors such as France, the European Commission and Denmark have in the period under review primarily disbursed their respective ODA contributions to the public sector. In contrast, donors such as Sweden, the Netherlands and Belgium have disbursed significant portions of their respective ODA to civil society.

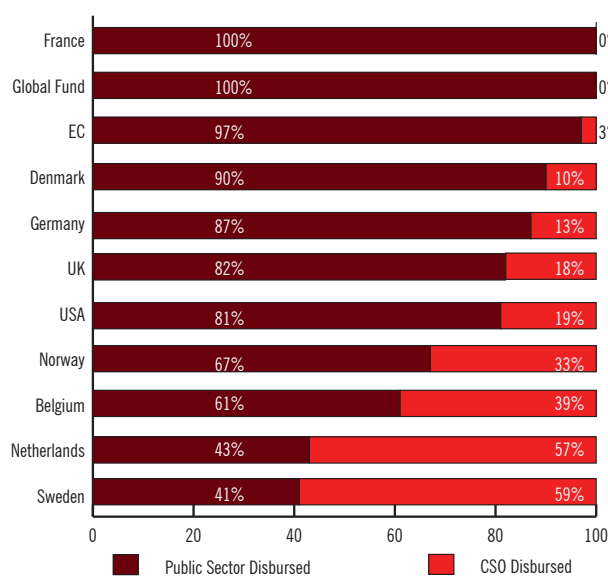
2.20 Most ODA flows in form of grants, but ODA loans are increasing: The majority of ODA provided to South Africa is in the form of ODA grants (Figure 2.3 & Figure 2.4). During the period under review approximately two thirds (63%) of ODA disbursed according to OECD DAC took this form. Technical Cooperation Grants accounted for 26% of ODA, and ODA loans accounted for 11% during this period.

2.21 It should be noted that ODA to the government sector – in other words delivered in terms of an agreement with government – which is disbursed to NGOs as delivery agents is still counted on the DAC and CRS databases as aid to the public sector. USA contributions to civil society for example, are contributions in support of civil society.

2.22 In the period 2000 through to 2007, the distribution by type of receipt (Figure 2.4) has remained fairly constant, albeit that ODA loans are gradually increasing and Technical Cooperation Grants are decreasing. In 2000 ODA loans accounted for 7% of ODA, by 2007 this had increased to 24%. Technical Cooperation Grants have decreased from 31% in 2000 to 14% in 2007.

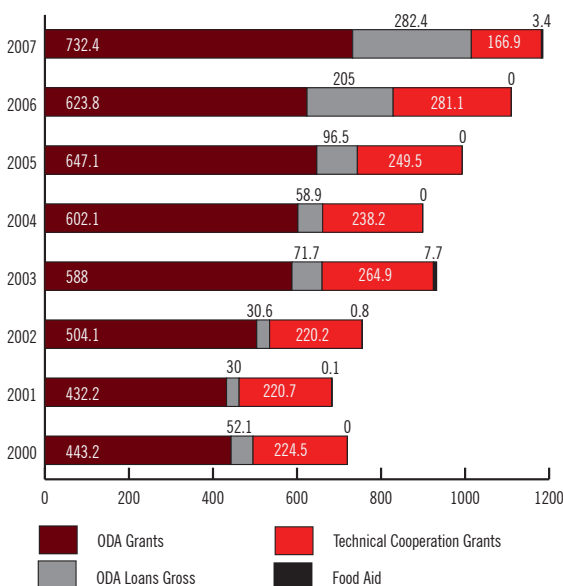
2.23 EC has lowest disbursement to commitment ratio for the period: Whilst examining year on year committed versus disbursed data is misleading (for the simple reason that donors make multi-year commitments that do not necessarily imply that the funds will be disbursed over the same time period), it is nevertheless instructive to note the aggregated pattern of disbursement versus commitment for the period under review. The US has the lowest disbursement to commitment ratio for the period 2005 to 2008: Whilst examining year-on-year committed versus disbursed data is misleading (for the simple reason that donors make multi-year commitments that do not necessarily imply that the funds will be disbursed over the same time period), it is nevertheless instructive to note the aggregated pattern of disbursement versus commitment for the period under review. As figure 2.5 illustrates the US has the lowest ratio (partly on account of such multi-year commitments), followed by the EC. The UK and Sweden disbursed more funds than they committed.

Figure 2.2: Gross disbursement of ODA through different channels 2000 - 2008, by donor (constant 2007 US\$ millions)



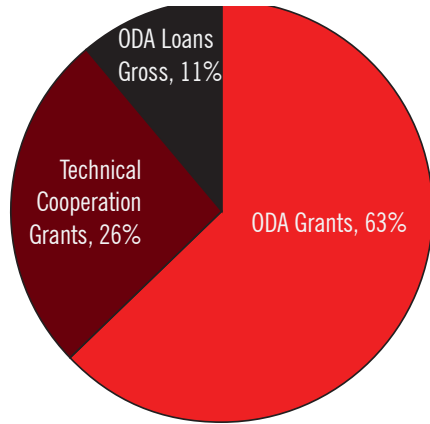
Source: OECD DAC

Figure 2.4: Annual distribution of ODA, by type of receipt, 2000 - 2007



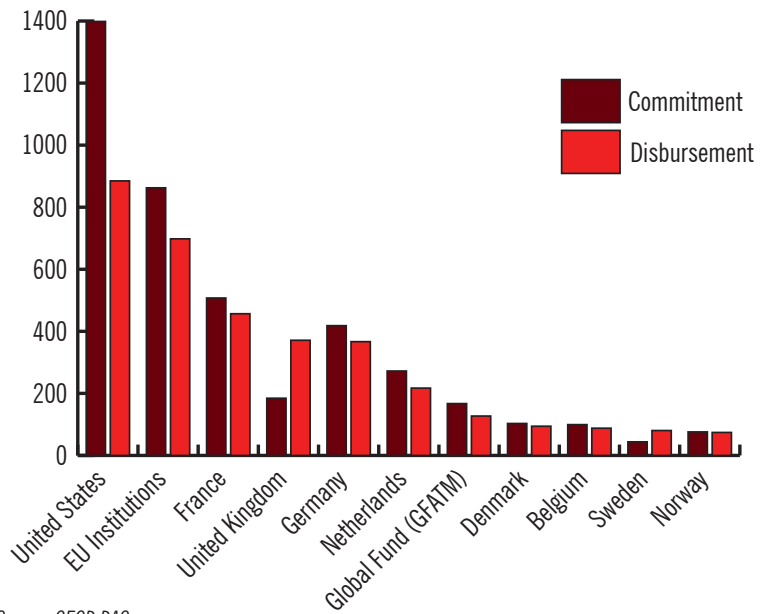
Source: OECD DAC

Figure 2.3: Percentage of ODA provided, by type of receipt, 2000 – 2007



Source: OECD DAC

Figure 2.5: Committed funds versus disbursed funds, by donor for the period 2000 to 2008 (constant 2007 US\$ millions)



Source: OECD DAC

2.24 Strongest support overwhelmingly for social infrastructure and services over period, but shift towards economic infrastructure. The OECD categorises ODA primarily into four sectors, these are defined as follows:

- Social infrastructure and services: This sector includes education, health, population and reproductive health, water supply and sanitation, government and civil society, and other social infrastructure and services.
- Economic infrastructure and services: This sector includes transport and storage, communications, energy, banking and financial services, business and other services.
- Production sectors: This sector includes agriculture, forestry, fishing, industry, mining, construction, trade policies and regulations and tourism.
- Multi-sector: This sector includes general environmental protection

Figure 2.6 reflects ODA distribution (for all types of ODA) by sector from 2002 to 2008. Data for prior to 2002 is not available. It also is only for aid distributed to the public sector, i.e. it excludes support of the NGO sector.

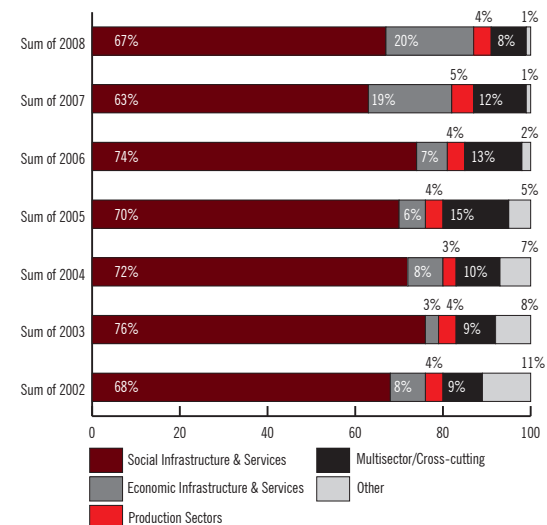
2.25 With respect to the primary sectors (as defined by OECD) the overwhelming contribution by donors in all years is to the Social Infrastructure Sector (Figure 2.7), namely between 67% and 74%. A clear shift however is the increase in ODA disbursement for economic infrastructure and services, which grew from 8% in 2002 to 20% in 2008 of total aid provided. If one takes the growth in the economic infrastructure and services and production sectors together and include the water supply and sanitation sector (roughly equal to the Economic Affairs and Employment sector in the SA clusters) the trends reflected below are in broad terms similar to the trends showed by the ENE dataset below.

2.26 Looking at the ten largest donors to South Africa, the USA disbursed the most of its aid to the social sector (92%). Germany and the UK on the other hand provided the smallest proportion of its aid to the social sector (40% and 51% respectively), but provided the largest proportion of aid to the economic infrastructure and services sector (Figure 2.8). Belgium, the Netherlands, Sweden and Denmark provided less than 5% of their aid to this sector.

2.27 The Netherlands according to OECD DAC provided 22% of its aid to 'other' sectors, including general budget support and ODA unallocated to a specific sector.

2.28 Without wanting to belabour an earlier point made above with respect to the categorisation of ODA by the OECD, it is nevertheless important to note that vast amounts of ODA do not fit neatly into the main OECD sector categories. When one looks at commitment data (from the CRS database) Figure 2.8 illustrates that a significant

Figure 2.6: Total disbursement by all DAC donors to the main sectors by year 2002 to 2008



proportion of ODA commitments is not assigned to a sector. Certainly until 2006 the majority of ODA is listed by OECD's Credit Reporting System as "to be defined".

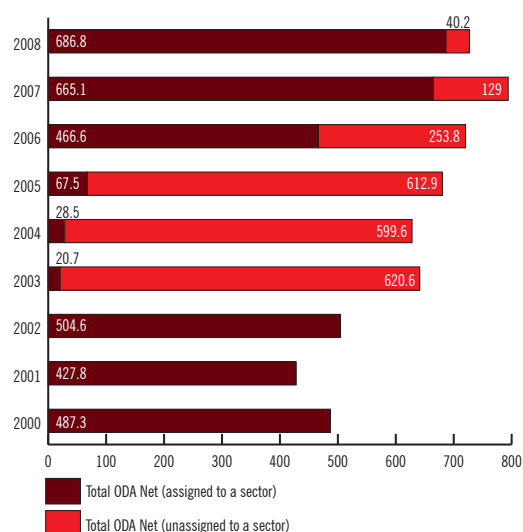
Overview of ODA commitments on the adjusted DCIS database

2.29 The set of records combines five data sets on project funding. These include the DCIS set; the ODA set (the trial of a new DCIS format used recently); a set of records of funding from Italy; a set of records of funding from Denmark and a set of UK funding records. The different data sets did not all have the same detailed information, but did share common variables, namely (i) time period of project; (ii) donor; (iii) title; (iv) recipient department; (v) sphere of government; (vi) sector; and (vii) funding amount.

2.30 Information on type of funding and region was not available for each one of the data sets and thus analysis for these variables is not inclusive of all records.

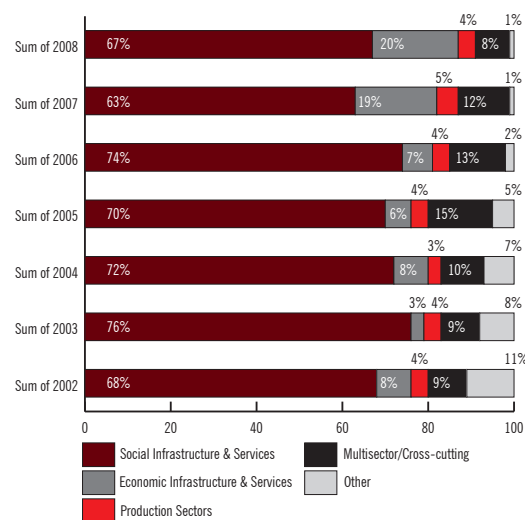
2.31 Besides merging the datasets, the base data sets – the DCIS and ODA datasets – also had to be cleaned to eliminate duplicates. The box below briefly outlines the main adjustments made to generate an adjusted dataset, referred to in this report as DCIS.

Figure 2.7 Percentage breakdown of ODA contribution by sector, by donor 2002 to 2008



Source: OECD DAC

Figure 2.8: ODA Net, total assigned to a sector vs. total unassigned to a sector by year, 2000 - 2008 (constant 2007 US\$ millions)



Source: OECD DAC

Box 2.3: Cleaning the DCIS dataset

Duplicate records in the DCIS and ODA sets were identified and removed. Records that did not have an amount indicated were removed (which will result in undercounting; however many of the records in the original datasets which gave R1 as the funding amount were found to be duplicates of records that had funding amounts attached). After merging the five datasets, duplicate records were again identified and removed. The following classifications were then applied:

- **Time Period:** The time period for the analysis is 2000 to 2008. Many of the items did not fall in this time period. Projects were therefore categorised as (i) falling completely within, (ii) falling partly in; (iii) not falling within the time period and (iv) no detail given. As 471 of the 909 valid records fell into the categories 1 and 4 above, the resulting data has to be qualified for its applicability to the time period.
- **Donor:** The donor classification was done according to the donor's country of origin. The exceptions are the UN, EIB, WHO, EC, Global Fund and EU, which are not countries, per se.
- **Sphere of government:** This variable was created to indicate the sphere of government in which the first recipient in terms of the financing agreement falls. The classifications are national, provincial, local and multiple.
- **Recipient Department:** This variable indicated which department is the primary recipient of the funds. Multiple departments in one record were classified as 'Multiple' and a category 'Other' was also used, to indicate instances where the recipient could not be indicated by a single organisation.
- **Sector:** Each item was then classified into one of the five clusters of the report, depending on the recipient department.
- **Region:** Many items indicated distribution to and use within a province. These would be indicated by a 'P' in the sphere and the name of the province in region. Where the original recipient is at national level, the province where the funds were to be applied is still indicated. Many of the items listed multiple regions: in such cases the indicated amount was split evenly between the regions indicated. Again, it must be noted that this qualifies the analysis. Items that were designated for the region were also classified as national. There are a number of items for which it was not possible to deduce the region. These were left blank.
- **Funding amount:** Donor amounts were converted to Rand. The conversion used the interbank rate for the starting year of the projects (on the logic that it is commitment data and therefore acceptable to use the value at the time of commitment). In many cases, multiple regions or multiple donors were specified for a single item. To accommodate the analysis, the assumption was made that funds were spread evenly between regions and that multiple donors donated equal amounts of the given fund amount. This may result in some inaccuracies in the findings.

Analysis of DCIS dataset

2.32 The total amount committed for the period was found to be R50 287 million. If ODA loans are removed, the total amount is R38 661 million. ODA (loans and grants) that fell wholly within the period amounted to R16 336 million.

2.33 If loans are excluded the DCIS dataset indicates that an almost equal share of ODA is committed to the social and economic affairs and employment creation sector. However, if loans are included the economic affairs and employment creation sector was set to receive twice as much support as the social sector.

2.34 An analysis of commitments on the DCIS by province is provided in Section 3: ODA to provinces.

2.35 On the DCIS the donor with the highest value of commitments is the EC, followed by the European Investment Bank (ODA loans only). Figure 2.9 on the next page provides picture of the commitments on the DCIS by donor and sector (all time periods and all types of ODA).

2.36 Together the top five donors (loans excluded) spend have committed three times as much as the rest (20 in total) combined. The bottom ten donors have committed 3.4% of total committed resources, calculated based on the DCIS.

Table 2.3: Total spend by sector

	Total amount committed (R million)	Percentage Share
Grant	22 237	44%
In Kind	3 634	7%
Combination of types	8 401	17%
TA	3 604	7%
Loan	11 637	23%
Not specified	785	2%

Table 2.4 ODA commitments on DCIS by type of flow

	Total Commitment (R million)	Percentage share
Grant	22 237	44%
In Kind	3 634	7%
Combination of Types	8 401	17%
TA	3 604	7%

2.37 In terms of type of flow the DCIS records commitments in the form of grants as 44% of the total commitments, TA as 7% and a combination of types (mostly grant and TA) as 17%.

2.38 A final comparison is by sphere of government. The data indicates a significant favouring of national government, but it is likely that the DCIS database does not provide sufficient detail in terms of region of activities for all projects in order to undertake analysis.

Analysis of ODA by year: mining the adjusted ENE database

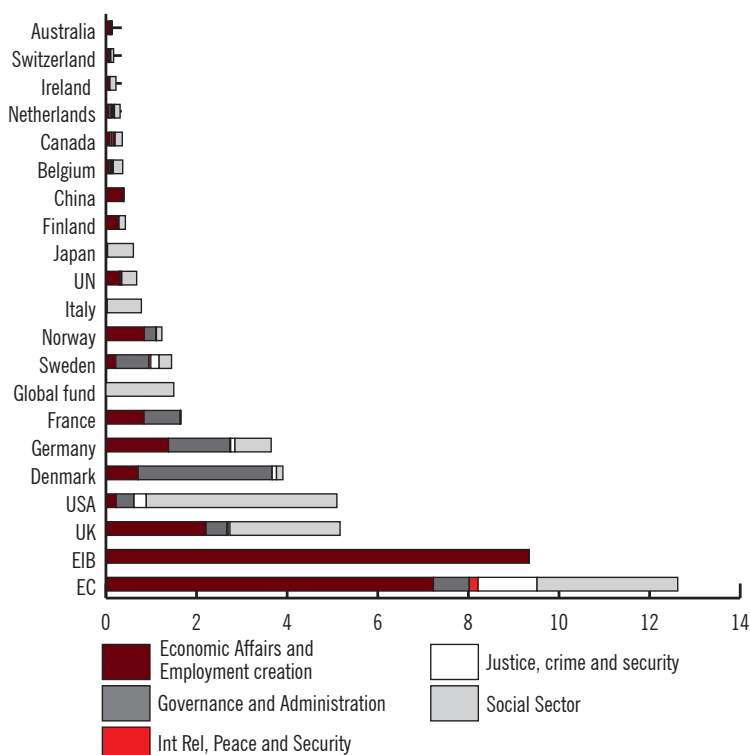
2.39 Not one of the databases is able to provide a picture of ODA by year for the period under review. The closest is the OECD DAC data, but the information is only provided at a high level, not by the cluster categories in use in South Africa and not for all the years under review. The only source for this information is the ENE database.

2.40 The team undertook an analysis of the ENE database of submissions at national level (2003/04 to 2010/11) to ascertain the degree to which ODA is reflected on budget against ODA on the DCIS database and ODA reported to the OECD. Box 2.4 below sets out the process to clean the data and construct a dataset for analysis. It is important to note that the data has significant limitations and the analysis should only be seen as descriptive of ODA reporting, and may not present a balanced picture of ODA to national departments. The quality of the financial data in particular is likely to be low (see discussion in Section 3: Integration aid into South African systems on the comparison between the ENE and Annual Reports).

Table 2.5 Total spend by Sphere of Government

	Total Commitment (R million)	Percentage share
Local Government	1 179	3.0%
National Government	30 983	80.1%
Provincial Government	6 019	15.6%
Multiple spheres	438	1.1%
Unknown	43	0.1%

Figure 2.9: Distribution of ODA commitments by donor and sector



Box 2.4: Processing ENE reporting on ODA

The data set comprises submissions from ENE departments on actual use of ODA for the four years preceding the budget year and projected use for the budget year and two subsequent years. In theory a dataset of all the submissions from 2003 to 2010 should therefore allow one to construct a data series for each programme/project at national government level, of budgeted and actual expenditure for analysis. In practice, however, this is not the case. As a review of the published ENEs shows, only some departments provide forward projections and then for only some of the programmes/projects. In addition, projects are not described in the same way across or even within years, making it difficult to match records. When records are matched to a specific project or programme, in addition, it becomes clear that different amounts of money are reported against a specific year across years for most projects.

Construction of a consistent database therefore becomes a matter of judgement, using a constant set of rules for classifying and adjusting individual data records and points. Only records where the donor is another country or a multilateral organisation were used, and records where a government department or entity funded through the budget is listed as the recipient. Records were matched by cross referencing information about the recipient, department, programme, economic classification, aid type and the amount across years, between the listed projects and programmes and between the ENE and DCIS. Where amounts conflicted, the later records were usually used – on the assumption that amounts firm up as more information comes in – unless there was a compelling reason not to do so. Outlier amounts, such as a R1.3 billion for research reported for one department and R750 million for the Swedish child justice programme in DoJCD, were assumed to be a decimal error and adjusted in line with the commitments on the DCIS, amounts reflected in department’s annual report or other spending by the same donor. The financial information extracted only refers to reported actual spending, since there was very little information on projected spending to process for any of the years.

2.41 Figure 2.10 provides a picture of the distribution of aid by cluster between 2000 and 2008. What is immediately clear is the likely under-reporting on the ENE of the social cluster, particularly since large investments in the cluster has been in the health sector, where significant funds flowed through the NGO sector. Overall ODA seems to be under-reported on the ENE, with a total of only R12.78 billion reported. This is approximately a sixth of the amounts reported as disbursed on the OECD DAC. Although the OECD DAC includes amounts for development partners own expenses, such as administration, and refers to disbursements while the ENE records actual use of funds, the gap is still very large.

2.42 Figure 2.11 provides an analysis of the use of funds per year which were reported on the ENE database (with adjustments as set out in the box above). If growth in social spending on account of high spending in the health sector in the outer years is supposed, spending in economic services and the social sector still drives ODA in South Africa. The emergence however of trilateral aid in the international relations, peace and security sector is also apparent.

2.43 Although it is tempting to undertake an analysis of the trends between datasets, this would not be fruitful. Each dataset refers to a different universe and captures aid at a different point in the project cycle. In addition, each has its own limitations which in combination would render any analysis not credible.

Figure 2.10 Distribution of spending by sector (adjusted ENE database)

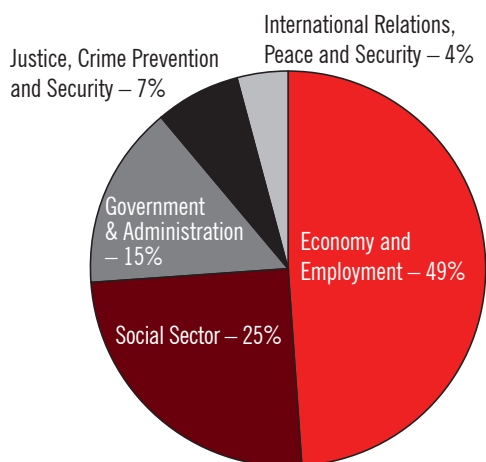
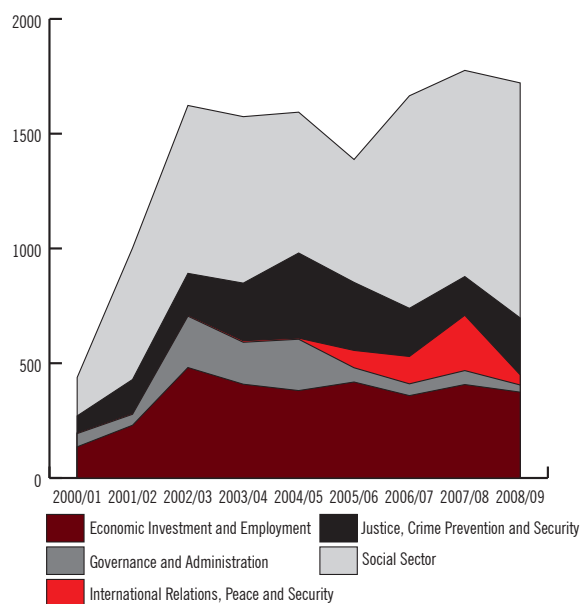


Figure 2.11 Distribution of spending by sector by year (adjusted ENE database)



Section 3: Key findings

3.1 This section sets out the findings of the study, structured by the main areas of the investigation as set out in the inception report, namely

- Ownership and alignment
- Integration of aid in South African systems
- Harmonisation
- Managing for results
- Reporting of aid to OECD DAC and South Africa
- Aid to provinces
- Aid to main sector clusters
- Value-add of ODA to South Africa

The section provides a series of singular findings, based on the research. It does not yet analyse how the different findings relate to each other. However, given that aid effectiveness is a key theme of the Review, the findings will be related to how different factors impact on aid effectiveness throughout. The next section of conclusions – on when aid is effective and when not – will draw on this section and provide a more complete analysis.

Ownership and alignment

Defining ownership and alignment

3.2 The TORs required the team to look at country ownership and alignment of aid. The team used the Paris Declaration framework to unpack the meaning of these concepts (see box below). The Inception Report indicated that key questions for these aspects of development cooperation would be:

- What evidence is there of government through central departments and line departments at national and provincial level (and local where evidence is found) exercising leadership in directing and managing aid?
- What prevented effective government leadership?
- How well was aid aligned with government priorities at national, sector and provincial level for the review period? What proportion of ODA can be mapped to budget priorities at macro and micro-level?

Box 3.1: Ownership and alignment defined

The Paris Declaration (PD) defines country ownership of aid to mean that partner countries exercise effective leadership over their development policies and strategies and coordinate development actions. It defines alignment of aid to mean that donors base their overall support on partner countries' national development strategies, institutions and procedures. This means that:

- Donors align with partner countries' strategies and use strengthened country systems
- Partners improve their development capacity, public financial management capacity and procurement systems
- Donors untie aid

The PD monitoring and evaluation framework measures alignment amongst other as the percentage of aid flows that are reported on partners' national budgets; the percent of ODA capacity-development support provided through coordinated programmes consistent with partners' national development strategies; the percentage of donors and of aid flows that use public financial management systems in partner countries and the percentage of donors and of aid flows that use partner country procurement systems; the number of parallel project implementation units (PIUs) per country and the percentage of bilateral aid that is untied.

For the purposes of this review therefore, the following issues were key in relation to ownership and alignment:

- The importance of South Africa's strategies at national, provincial and sector level in determining what aid is used for, at macro and micro-level.
- The leadership exercised by South Africa overall with regard to aid and by the specific institutions that receive aid
- The ownership of ODA programmes by South African government institutions
- The predictability of aid
- Whether and in what ways aid is tied

The reflection of aid on budget, the use of country systems and the use of technical assistance (TA) are discussed separately.

Findings on ownership and alignment

3.3 The ownership by South African government structures of ODA increased significantly over the period under review, as did the role South Africa's strategies played in determining what aid was used for.

The 2003 Policy Framework and Procedural Guidelines for Managing ODA pegged South African ownership, leadership and alignment of ODA with South African objectives as a priority in ODA management⁹. Subsequently increasing awareness of the Paris Declaration and a drive by the IDC and many donors towards aid management practices that would increase ownership have put this policy into practice¹⁰. The 2007 draft Guidelines formulate an even stronger stance on ownership, stating categorically that ownership is the most important of the Paris Declaration principles and a non-negotiable priority for South Africa: "South Africa, and not external institutions, should decide how ODA is to be used." (IDC, 2007, p 13).

3.4 The trend during the period under review towards stronger ownership and alignment was supported by the introduction of clear instruments at national, provincial and local government to set out strategic policy priorities and government programmes. For example at the national level the medium-term strategic framework and programme of action – key national overarching strategic policy documents – were introduced in 2004 and 2003 respectively. Requirements for strategic plans for national and provincial departments were sharpened in 2000 and subsequently. At local level Integrated Development Plans were introduced in 2001. In addition to these standard strategy and planning instruments, government also developed specific strategies to address key development issues, such as ASGISA and more recently, the response to the global crisis.

3.5 The introduction of these instruments supported the strong alignment of ODA programmes and projects: all of the programmes or projects reviewed for the this report could easily illustrate that their objectives, outputs and activities are in line with the high-level objectives of the PoA, the MTSF and/or sector strategies. For most projects and programmes reviewed – and as is evident in the Country Strategy Papers reviewed – development partners however usually sought a match between their own priorities and that of South Africa. Another key anchor is the Millennium Development Goals.

3.6 The degree of alignment at micro-level however varied: alignment at micro-level refers to whether the specific outputs and activities funded by ODA were integrated with the outputs and activities chosen by sector or sub-sector leadership to achieve sector objectives. At this level not all the programmes reviewed were able to demonstrate alignment. This highlights the dynamics of the relationship between ownership and alignment: whereas ownership by government leads to alignment at macro and micro-level, alignment without ownership by government at the macro-level is possible, but is weak at the micro-level of activities.

Mini case study

In the health sector all ODA programmes and projects can demonstrate alignment with government's macro health priorities. However at the micro-level, alignment with government's own strategic activities is weak. Much of health ODA for the period under review was delivered through NGOs as service providers, with government having little ownership and choice over the activities and service providers chosen. Much of the lack of ownership and alignment at micro-level can be attributed to development partner priorities for ODA differing from government's focus in health policy and service delivery during the review period. The ODA management structures chosen by donors also undermined ownership.¹¹

3.7 Over the period under review sector budget support type arrangements – where the development partner provides a sum of money through the RDP fund with little or no earmarking to support an institution's own strategies – were introduced and became increasingly popular. Ownership of programmes delivered using sector budget support type arrangements is usually strong. While some donors were retreating from this modality at the time of review¹², it is the modality of choice for the EC, which contributed 13%¹³ of all ODA to South Africa (or 32% of non-loan ODA¹⁴) over the period under review.

3.8 It is also worth noting that 11% of ODA – as defined by OECD-DAC – is delivered as concessional financing to actors outside of general government. While government's ownership of these funds at the central level is in place through the role of the IDC, in their negotiation, linkages to relevant sector departments at national level are often low¹⁵. However, ownership at country partner institution level is high since the arrangement usually is a purely financial one, with risk for repayment assumed by the country partner institutions.

⁹ IDC, 2003.

¹⁰ See for example Smith et al, 2006; Taft et al, 2007.

¹¹ Smith et al, 2006, 2008. Ecorys, 2008.

¹² Interviews with development counsellors, DCR III workshop with development partners.

¹³ OECD DAC data

¹⁴ Based on DCIS database

¹⁵ Smith et al, 2006, p 38.

3.9 In addition, strong leadership over ODA was exercised for the country as a whole by the IDC. As discussed by Smith et al (2006 and 2008) and Taft et al (2007) both donors and aid receiving departments acknowledge this role. The IDC has undertaken responsibility for managing the overall relationships with donors, developing policies and guidelines, consolidating and articulating the development priority framework for the programming of ODA and ensuring the overall alignment of ODA to South Africa's core development priorities. Over the period under review the IDC has also increasingly become involved in the development of development partner country strategy documents, including the UN, the EU and the Nordic Countries, creating a strong measure of ownership at the macro-level¹⁶. Furthermore, the 2003 IDC guidelines require donors to use it as an entry point, and for all proposals to donors to be processed by the IDC. Although compliance with the framework has not been perfect, it has set the context for the strong leadership role exercised by the IDC.

3.10 A common finding of earlier studies has however been that ownership and leadership by South African institutions of their ODA-supported programmes is not consistently as strong at departmental, provincial or local levels – and at the project level – as it is at the centre or the macro programming level. The consultation and review of ODA programmes and projects undertaken for this report, has confirmed this finding with regard to ODA in South Africa over the period.

3.11 Common factors supporting and detracting from ownership at lower levels can be identified.

Common factors influencing ownership and alignment

- **Senior country partner leadership of and institutional interest in ODA:** When senior leadership in departments sees ODA as important and develops a clear vision on how ODA should be used and becomes involved in programme design and oversight, the department owns and drives ODA programmes. In contrast, there is an understanding amongst development partners that given the small financial contribution made by ODA in many departments, it is not seen as important and therefore does not receive sufficient attention. In such cases ownership is inevitably weak notwithstanding funding channels or implementation arrangements¹⁷. This view is shared by some ODA coordinators.

Mini case studies

In the Gijima Local Economic Development Programme in KwaZulu Natal, the programme gained momentum when the head of department and the MEC became involved and defined the objectives for the programme within the context of the overall objectives of the department¹⁸. In contrast, the LED programme in Limpopo Province stalled because of lack of involvement of the provincial leadership¹⁹. In the case of SAPS, the ODA coordinators have regular meetings with the National Commissioner, who identifies areas for the use of ODA²⁰. In the case of the Department of Science and Technology, ODA is seen as a key enabling factor to achieve the Department's strategic plan.

- **Funding channel and ODA programme/project management structures:** Besides the crucial factor of how the department views ODA overall, for each programme/project a major factor in determining ownership is the choice of funding channel, combined with choices regarding how the programme/project will be managed. Programmes/projects that are funded through the RDP Funding channel are more likely to be owned by government if the composition, location, ownership and management of ODA programme/project management structures/arrangements are also conducive to ownership. Programmes/projects that are funded directly by the development partner or through third party arrangements are less likely to have ownership but can still be owned by government depending on the quality of programme/project management structures. We elaborate:
 - PMU/PIUs are used for all funding channels and can swing ownership, notwithstanding the funding channel. Both Smith et al (2008) and Taft et al (2007) reflected that in South Africa it is not as much whether PMU/PIUs were used, but rather how they were constructed and used that counts. Project implementation/management units undermined ownership when the country partner did not control its composition, when it reported directly to the development partner and operated outside of existing government structures. PMU/PIUs can be conducive to effective aid delivery without undermining ownership when the aid recipient defines the TORs, appoint the staff, integrate the PIU into its own structures and establishes the reporting lines. Where PIUs are 'bad' however, they highly affect ownership in a negative manner.
 - There are alternatives to PMU/PIUs which allow ODA to be managed in an integrated manner with a recipient's own programmes (ensuring alignment and ownership) but which still allow for specific,

¹⁶ Smith et al, 2008. p 26.

¹⁷ DCR III workshop with Development Partners, Smith et al, 2006, p 37,

¹⁸ Interview with KZN Department of Economic Development.

¹⁹ Magnet, D. 2008.

²⁰ Interview with SAPS, also, comment in DCR III workshop

supporting capacity to be in place. For example in the Fhatuwani education support programme in Limpopo (Irish Aid, disbursed through the RDP Fund) a programme manager was placed in the department to provide capacity for programme implementation, but was reporting to the department and, with a specific brief to ensure coordination and ownership.

- Project steering committees can facilitate ownership even when the funds are development partner controlled, depending on their composition, mandate and the frequency with which they meet. Project steering committees chaired by a sufficiently senior and involved manager from the country partner institution can be crucial to ownership if it is involved in the actual decision-making on and oversight over the use of funds and meets regularly. Project steering committees that are controlled by the donor, meet sporadically and experience inconsistent country partner representation and contribute little to either ownership or programme/project success.

Mini case study

The SA-Finnish Support to Environment and Sustainable Development in North West province (SESDNW) did not meet all of the elements for ownership and alignment. Even though it is aligned to the provincial priorities, the SESDNW programme provides 'off budget' support, is managed by a Finnish NGO, and uses Finnish reporting formats. It is nevertheless described as a success by the DEAT officials. They ascribe its success to the programme's strong ownership and political commitment. The programme is driven by a Steering Committee comprising of representatives of the Finish Embassy, South African partners (including municipalities, academic institutions, DEAT), is chaired by government and reports to the Supervisory Board. The Board meets once a year and is chaired by the Premier of the North West and the Ambassador of Finland and, the Heads of Departments also attend.

Some development partners argue that the causal relationship between PMU/PIUs is not that they cause poor ownership, but that they are used because of poor ownership. While there are such cases, they also point to how the use of PMU/PIUs in such situations contribute nothing to rectify the lack of ownership and do not necessarily result in an effective programme/project. The query should also be raised whether in the case of South Africa, ODA should be provided in such a situation.

- **Weak decentralised structures to manage ODA:** Development partners in South Africa identify the lack of high-level structures within sectors to drive the ODA process as a key factor where leadership is weak²¹. The ODA management architecture in South Africa is underpinned by its decentralised governance structures which provides for significant autonomy at departmental, provincial and local level in deciding how ODA is to be used. However, the structures set up at these levels are weak: the placement and staffing of ODA units within departments and the seniority and capacity of ODA coordinators to direct and manage aid mean that donors can direct processes all too easily, undermining ownership. A strong argument is made that where leadership at these levels is lacking and donors harmonise, the effect is no significant ownership, poor alignment and disproportionate donor influence.
- **Country partner capacity:** A key determinant of ownership is the capacity of the aid receiving department. The review of projects and programmes provided many examples where ownership was weak because the country partner did not have the capacity to manage the programme and/or engage with the technical assistance provided²². The 2007 report on ODA coordination practices reported that ODA coordinators, especially at a provincial and local level, do not understand the national development frameworks and find it difficult to articulate national, provincial and local priorities, thereby weakening processes to align ODA support. In contrast, the report noted that ODA programmes and projects have become more aligned with governments development priorities in those departments where ODA units are well established and ODA coordinators have the prerequisite competencies, capabilities and confidence to engage their development partner counterparts in terms of project cycle management.²³
- **Institutional stability:** Institutional instability and high staff turnover in the recipient organisation frequently undermined ownership. Even if the institution was involved significantly in the initial programming of the ODA, the departure of key personnel or a shift in institutional structures inevitably undermined continued ownership. Alignment at the micro-level was affected by recipient staff turnover, but also by development partner staff turnover.

²¹ DCR III Workshop with Development Partners; Smith et al, 2006.

²² For example the Sida-funded Financial Management Cooperation Project in the Eastern Cape.

²³ Taft et al, 2007, p43

Mini case study

Staff turnover at DfID and in the Khanyisa Education Support programme in Limpopo Province, coupled with staff turnover in the Limpopo Department of Education, meant the loss of an informed technical dialogue and institutional memory which created alignment challenges.²⁴

- **Inclusion in operational plans and budgets:** Including ODA-funded programmes in operational plans and budgets was judged by many viewers to be both symptomatic of high ownership, and contributing to its strengthening. Where country partners co-fund programmes, or provide inputs such as office space, staff and other resources, ownership is strengthened further²⁵.
- **Ownership of programme/project concept without ownership of implementation:** The use of non-integrated programme/project management structures can mean that while a country partner may have ownership of the programme concept, it has little ownership of the implementation.
- **Tension between national and sub-national ownership:** Another way in which this problem manifests is when the programme/project was agreed with the national counterpart department, but the aid is delivered at provincial or local level. The recipient institution can then be ill-prepared for the project and programme and/or lack the commitment and leadership interest. This is particularly true if in programming, alignment was sought at the national level, but provincial and local priorities are not sufficiently taken into account in the design of the programme on the ground.
- **Programming of ODA:** A key ownership factor is the method used to programme ODA up front and/or to decide on the specific activities to be funded by ODA when the project or programme is underway. Where the country partner institution is involved to a significant degree in the upfront programming or the in-project activity choices, ownership is built. In contrast, projects and programmes in which recipient institution ownership was clearly lacking often used external donor-appointed consultants to programme aid.

Mini case studies

The programming design for the Limpopo Agricultural Development Academy (LADA) support by Flanders was done jointly by Flanders, the Office of the Premier and the Limpopo Department of Agriculture. The planning process was used to best align the ODA funds with the objectives and systems of the Province.

The programming for the Urban Environmental Management Programme (Denmark) was done through a joint steering committee that included all the involved national departments, ensuring ownership of the programme and alignment of its activities.

Sida uses South African recipient institutions' business plans as working documents in programming its non-partnership ODA, thereby ensuring alignment, ownership and ODA integration on plan and budget.

- **Weak specification of roles and responsibilities:** Roles and responsibilities for the implementation of projects are not clearly specified in the design. This leads to a breakdown of leadership on the ground during implementation. This is particularly true if the programme/project is designed at national level, but implemented at a provincial or local level.
- **Development partner choice of country partners:** Over the review period development partner behaviour did not always support ownership. Besides electing types of ODA support that are less conducive to ownership – such as donor-controlled TA and in-kind support – donors have also been accused of bypassing central and lower level ODA coordination structures and selecting country partners that are less able to exercise leadership over ODA and to push their own agendas with recipients where capacity is weak²⁶. The use of NGOs to deliver aid that is officially government to government flows with limited government involvement in the choice of recipient and activities to support also undermines ownership: this holds more true for some sectors than others, and more true for some donors.

²⁴ DfID, 2009.

²⁵ See for example Sida, 2007. The Urban Development Programme where municipal projects that were integrated on budget and in the municipal IDPs were more likely to achieve success and be sustainable.

²⁶ DCR III Workshop with Development Partners; Smith et al, 2006.

3.12 Much is however being done to overcome the common obstacles to ownership and alignment – and by extension of programme effectiveness. A focal point for IDC and COGTA activities over the last few years has been the development of capacity for ODA management at national, provincial and local levels of government. The creation of a National Forum for ODA coordinators – and counterpart forums in some provinces – and regular training courses and Paris Declaration awareness raising efforts have contributed to increased capacity. While ODA management capacity at provincial and local level is still not even, the period under review has seen progress in establishing and deepening capacity. Similarly, at local level, where municipalities receive aid, capacity is being developed. Recent developments with regard to the inclusion of aid flows in the budget documentation will contribute to greater visibility of aid, creating higher incentives for departments to take ownership of programmes.

Integration of Aid in South Africa's Systems

Defining the scope of enquiry

3.13 The Inception report indicated that the team would look at issues around the use of country systems/bringing aid on budget. The team will use the SPA/CABRI framework for the use of country systems (see box below) to unpack this aspect of aid effectiveness. Specific highlighted questions against this framework are:

- Was aid reflected in budget documentation and annual reports?
- Was and how well was aid integrated into budget planning and reporting processes?
- If not, why not?

3.14 The study therefore not only looks into whether aid was reflected on budget, but also whether it was integrated into national, provincial and institutional planning, budgeting and reporting processes. In this section of the report we also look at the use of country systems aspect of alignment.

Box 3.2 'Aid on budget' defined

The Paris Declaration has put the use of government systems at the centre of the aid effectiveness agenda. Often this is equalled simply to using partner country financial management and procurement systems. The 2007 CABRI/SPA aid on budget study however unpacked the relationship between externally financed spending and the domestic budget in relation to the budget cycle, linked to key principles of sound management of public expenditure.

Underlying the aid on budget framework is the understanding that sound budgeting and financial management – notwithstanding the source of financing – is based on the following principles:

- Budgets need to be comprehensive – include all revenues and expenditures – to enable governments to follow good macroeconomic management and promote the effective allocation of all available resources to priorities (allocation efficiency).
- Fiscal transparency – decision makers have all relevant information – is a driving force for improving fiscal management.
- Transparency is also important to ensure accountability – decisions and their basis, results and costs are accessible, clear and communicated to the wider community – so that decision-makers are held responsible.

These good practice principles involve putting aid on budget. If aid is not on budget then the budget cannot be comprehensive, there cannot be full transparency of information and neither can decision-makers be held to account.

The study examined putting aid on budget in relation to seven dimensions of the public expenditure cycle as presented in the table below. Four variables are important in determining whether capturing aid at any of these points will have the desired effects:

- The quality of the information captured: its completeness, credibility (predictability), disaggregation and detail, etc.
- The ability to make use of the information, depending on its timeliness and accessibility – who has the information and at what stage in the relevant process.
- The quality of the information and processes relating to non-aid resources. (The benefits of capturing aid will be limited if the processes for managing domestic resources are dysfunctional.)

This means that merely reflecting aid on budget is often insufficient: for aid to be fully effective it needs to be integrated into budget processes.

Source: CABRI, 2008

Term	Definition
On plan	Programme and project aid spending integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including programme and project financing, and its intended use reported in the budget documentation.
On parliament (or "through budget")	External financing included in the revenue and appropriations approved by parliament.
On treasury	External financing disbursed into the main revenue funds of government and managed through government's systems.
On procurement	Goods and services financed externally are procured using country procurement systems.
On accounting	External financing recorded and accounted for in government's accounting system, in line with government's classification system.
On audit	External financing audited by government's auditing system.
On report	External financing included in ex post reports by government.

3.15 In South Africa ODA is treated as off-budget in terms of the legislative framework for public finance management, even when channelled through government systems. This means that no ODA in South Africa is 'on parliament'.

3.16 In South Africa aid is not a substantial share of public resources: how it is managed is therefore not as important a determinant of overall public finance management and spending effectiveness as in many other aid recipient countries. However, three factors make it important to capture aid on budget nonetheless:

- **Budget perspective:** Aid is more concentrated in some sectors and in some provinces. Even if overall aid is about 1% of public spending, in these sectors aid is more significant. Failure to capture aid in these sectors can have repercussions for the effectiveness of domestic resources (their allocation is less efficient if based only on a partial view) and can lead to unsustainable patterns of expenditure.
- Even if aid comprises a small percentage of the overall budget, it is a much larger proportion of resources not tied up in relative rigid expenditure categories over the short to medium-term, such as personnel expenditure and social grants.
- **ODA perspective:** Whether aid programming at macro and micro-level takes note of the use of domestic resources and is considered an integral part of spending in a sector, remains key to the effectiveness and sustainability of the use of the aid.

3.17 Taking these arguments as a base, the team therefore set out to check how well and whether aid is integrated into South African systems. The assumption was that while it was less important to reflect ODA at the overall level (i.e. as a factor in fiscal policy or budget envelope decisions at national, provincial and local level) there are strong arguments for its reflection and integration at sector or departmental level. Although the sections below therefore reflect briefly on the integration at aggregate level, it is more focused on reflection and integration at departmental level.

3.18 The programme/project review and evaluation documents studied do not reflect on whether aid is reflected on budget or integrated into budgets. Key documentation for assessment in this category include the High Level Forum Baseline Study on Harmonisation (Smith et al, 2006), the 2008 Preliminary Evaluation of the Paris Declaration (Smith et al, 2008), the SPA/CABRI SA Country Aid on Budget Case Study (Folscher, 2007), the Study on Developing a Guideline on Best Practices of ODA Management (Taft et al, 2006), the 2007 Ecorys study on Determining the Management of ODA in South African Budget Planning Processes (Ecorys, 2007). In addition material from surveys of and interviews with national and provincial ODA coordinators is relevant, as well as the discussions at the two DCR III workshops organised in February 2010. The report also draws on the minutes of and presentations at national and provincial coordinators meetings arranged by the IDC and a scan of planning, budgeting and reporting documentation of government institutions.

3.19 Finally, the team undertook comparative analyses of the ENE database of departmental submissions from 2001 to 2010, as well as of reporting on selected projects in departmental reporting mechanisms and of projects on the Creditor Reporting System database of the OECD DAC to update the assessment of how much of aid is reflected on budget.

Findings on the integration of aid into South African systems

3.20 The 2007 study on good practices in ODA management (Taft et al, 2007) found that there is inadequate integration, alignment and harmonisation of ODA with normal government functions. Further research undertaken for this report

confirmed this finding: ODA is managed largely as an 'add-on' function and features for the most part poorly in government accountability documentation and planning, budgeting and reporting processes. To a large degree, ODA is invisible, unless departmental leadership recognises it as a valuable contribution. While the IDC at a national level has been promoting the integration of ODA into South African systems, it is only at the end of the review period that there was a shift in the local budget process and a move to clearer reporting requirements to incentivise the inclusion of ODA on plan and on budget.

Is aid integrated on plan and on budget?

3.21 ODA programmes and projects are reflected in some strategic and operational plans of South African government institutions, but not consistently. The DWAF, DoE, DST, the DEAT (during the period under review) amongst other reflected aid in their strategic plans. Others, like the DoJCD, the DoL, the NT and most departments at provincial level – with the exception of KwaZulu Natal departments – do not.

3.22 ODA to South African national departments was reflected in national budget documentation during the period under review. At the macro-level aid was reflected for most of the period under review in the consolidated budget framework under the heading 'RDP Fund and International Technical Cooperation'. In 2009, however, this table was dropped and the RDP fund appeared only as a negative item in the estimate of the Public Sector Borrowing requirement²⁷. For both the spending outcome and the forward estimate, the number has been based on an estimate by the National Treasury²⁸. The 2006 Paris Declaration Monitoring survey found that 71% of aid disbursed was reflected on budget.

3.23 At departmental level departments have been providing information on ODA as part of the budget submission since 2000. This information however has not been published consistently. In 2000, 2001, 2002, 2007 and 2008 the documentation submitted to parliament did not contain any information at a vote level on ODA. For the other years however (2003, 2004, 2005 and 2006) the Estimates of National Expenditure for each department included a table that reported on the use of development assistance over the previous three years (against a development partner and project identifier) and provided information on the forward estimates of use. It is notable however that across departments the information on actual use is far better populated than the forward estimates information, including for the budget year, a reflection on the completeness and quality of information available to departments at the time of submitting final tables for publication, i.e. three to four months before the start of the spending year.

3.24 This, in turn, reflects on the degree to which aid is integrated into budget planning. Aid coordinators in departments interviewed indicated that whereas they are requested to complete the table in the submission at the time of preparing budgets, they are not aware of the information playing a significant role in departmental budget processes. ODA is also rarely on the agenda at budget meetings between the National Treasury and departments, and does not feature in any significant way in allocation processes at National Treasury or Cabinet level. There is however an increased interest in the coordination of ODA with domestic financing in the budget process, largely a result of the increased role of ODA in some sectors (for example health) and an increased awareness post the Paris Declaration and following on the various studies undertaken by the IDC.

3.25 It is therefore worth noting that the scope of information required in the 2009 submission and published in the 2009 Estimates of National Expenditure, is significantly more informative than in previous years. From 2009 departments have to indicate not only the development partner and the project, but also the budget programme that it supports, the main economic classification and the full amount committed.

3.26 At provincial level the reflection of ODA in the budget documentation is also uneven. Of the three provinces reviewed only KwaZulu Natal provided information on ODA in its documentation submitted to the provincial legislature and has been doing so consistently over the period under review. The main summary table of ODA receipts by department is provided as part of the main budget statement (Budget Statement 1). In addition, KwaZulu Natal also provides a detailed table in the Vote Statements, by development partner and project, with a reflection of amounts spent over the last four years, and a forward projection of expected financing. In addition to the table an explanatory discussion is provided and ODA projects are discussed within the discussion of the vote programmes where they are managed. It is difficult to judge how complete and accurate the financial information is, but all known programmes and projects are reflected in this manner.

Quantifying the reflection of aid on budget

3.27 Comprehensive, accurate and consistent information on ODA commitments, disbursements, distribution and use – from which an accurate assessment of the proportion of aid that is on budget can be prepared – is not available from any one source, or even consistently from a combination of sources (see table in Section 2). In order to overcome

²⁷ It is debatable whether the RDP fund can be considered to be a borrowing requirement reducing item. This would either assume that the fund is not committed or, if parts of it are earmarked, that all the projects for which money in the Fund is earmarked, is reflected on the expenditure side of the budget, which is not the case at all because the expenditure on RDP funded project do not feature on budget.

²⁸ National Budget Reviews 2000 to 2008. In 2009 the consolidated budget table was however not included and the RDP Fund appeared as a negative item in the estimate of the Public Sector Borrowing requirement.

this limitation the team analysed the ENE database, taking into account the limitations on the data (see Section 2 for a discussion of steps taken to clean the database and limitations on the data).

3.28 Using the resulting dataset, one measure of how comprehensively aid is reported on budget, is to list the programmes/projects reported by department and by donor, and compare it with the programmes/projects reported on the DCIS. While this does not provide information on how complete the financial and contextual information on a project is, it does provide an indicator of the extent of reporting.

3.29 The table below provides a summary of the information. There is better coverage in the adjusted ENE database of projects/programmes listed in the DCIS (with 60% of DCIS projects and programmes being reflected on budget), than what there is of ENE-listed projects/programmes on the DCIS (with 46% of ENE projects/programmes listed on the DCIS).

Table 3.1 Comparison of projects on ENE and DCIS

	Total projects/ programmes in base document	Total projects/ programmes reflected in other document	Percentage dual listing
Total projects on DCIS (duplicates removed, grants and government recipients only)	293	177	60%
Total projects on ENE	635	295	46%

3.30 Note that a dual listing does not necessarily mean a one-to-one match. Where DCIS listed a donor programme to a sector – such as the GTZ public sector reform programme – the many different individual projects reported on the ENE for that donor within the programme period was classified as listed on the DCIS, relating to the programme. In general, when there was doubt, the classification was in favour of a dual listing. In addition, support that was referenced as “providing air fare” or “accommodation for officer x for a conference” was not counted as a project.

3.31 A key conclusion from the analysis is that the coverage of ODA in terms of projects and programmes on the DCIS is incomplete. This supports findings in earlier reports. For the most part support that is on the ENE and not on the DCIS is project-based, has a specific, narrow focus and involves smaller amounts of money. There are however such projects listed on the DCIS, and there are also larger programmes that appear on the ENE, but cannot be found on the DCIS. The table below provides the analysis by aid-receiving departments. It is not possible to say what degree the poor coverage of the DCIS is a result of the IDC being bypassed by development partners, or poor recording of reported projects/programmes by the IDC. On balance the second factor is deemed to be more important, since recording was left to individual desk officers and not systematically supervised over the period under review²⁹.

3.32 A comparison by department of ENE and DCIS dual listing scores, provides some insight into where capacity might be weak at departmental or central level of government.

- **Type 1**³⁰: Type one departments have high dual listings using both sources as a base. While the possibility remains that many projects and programmes are being delivered without being reported on either source, high dual listings from both sides is indicative of most programmes/projects in the sector being captured in central and departmental level reporting systems. Examples are Water Affairs and Forestry, Provincial and Local Government, Health, Arts and Culture and Statistics South Africa.
- **Type 2**³¹: If a department has a high percentage of its ENE projects on the DCIS, while many of its projects on the DCIS are not covered in the ENE, it can signal that it has low ODA management and reporting capacity or that its development partners' practices impact negatively on reporting, for example the use of parallel decision-making and implementation structures. Examples are DPSA, Labour, PALAMA, Trade and Industry and Housing.
- **Type 3**: If a department has a high percentage of its DCIS registered projects reflecting on the ENE, but a low percentage of its ENE-listed project reflected on the DCIS, it signals either that capacity at the central level has been weak regarding ODA flowing to that department, or, depending on the size of the discrepancy, that the department has strong ODA management and reporting capacity and more transparent donors. Examples are Defence, Education, Social Development, SAPS, Public Service Commission and the National Treasury.
- **Type 4**³²: If a department has low dual listings compared to either base, it signals that it and development resources flowing to it, falls outside the ODA management net to a larger or a lesser degree.

²⁹ Interviews IDC

³⁰ Departments were classified as Type 1 when both their dual listing scores were in excess of 50%.

³¹ Departments were classified as Type 2 or 3 when either of the two scores were below 50% and/or the difference between the scores were close to 50 percentage points.

³² Departments were classified as Type 4 when both their dual listing scores were below 50%.

Table 3.2 Reporting ODA on budget

	No of Projects on ENE	DUAL LISTING on ENE BASE	No of Projects on DCIS	DUAL LISTING on DCIS BASE
TYPE 1				
Justice and Constitutional Development	39	51%	24	50%
Water Affairs and Forestry	29	76%	24	79%
Provincial and Local Government	28	68%	24	71%
Health	25	60%	24	58%
Environmental Affairs and Tourism	18	50%	17	65%
Statistics South Africa	10	80%	6	100%
Arts and Culture	5	60%	6	50%
TYPE 2				
Public Service and Administration	41	68%	7	29%
Labour	9	67%	9	22%
Palama	8	88%	5	40%
Trade and Industry	7	100%	17	53%
Housing	5	100%	9	44%
Agriculture	4	50%	8	38%
Public Works	1	100%	2	50%
TYPE 3				
Education	89	33%	39	77%
Public Service Commission	71	59%	1	100%
National Treasury	45	44%	36	56%
Defence	39	5%	2	50%
SAPS	36	36%	20	95%
Social Development	25	12%	5	100%
Public Enterprises	27	52%	1	100%
The Presidency	22	23%	7	71%
Minerals and Energy	18	44%	11	73%
TYPE 4				
Science and Technology	25	28%	13	38%
Foreign Affairs	6	0%	1	0%
Correctional Services	2	0%	No projects on DCIS	
Parliament	1	0%	1	0%
SARS	No projects on ENE		2	0%
Transport	No projects on ENE		1	0%

3.33 Another perspective is by donor. Here an instructive comparison is the number of projects that are on the DCIS, but is not reported by departments. It reflects – allowing for differences between department’s capacity to report – on how well departments are able to report on specific donors. The table below shows that of the 331 programmes/projects on the DCIS, 204 (or 62%), are also on the ENE. Again, when a programme appears on the DCIS matched to individual support entries on the ENE, the programme was classified as having a dual listing, using the DCIS as a base.

3.34 Common factors in the weak integration of aid on plan and budget across government are:

- **No legal framework requirement for departments to consider ODA in their strategic plans.** The Treasury Guidelines on Strategic Planning (as amended in 2007) makes no reference to the consideration of official development assistance. It is therefore largely up to departments to undertake inclusive planning. This in turn is dependent on the importance of ODA to the achievement of their objectives.
- **A focus by Chief Financial Officers in compiling budgets for departments at national and provincial level on resources that are appropriated by Parliament and provincial legislatures.** This contributes to the poor quality of financial information in the ENE.
- **Weak capacity of many ODA coordinators in medium-term planning, programming and budgeting and weak knowledge of institutions’ budget structure and processes.** This prevents the timely compilation of information and linkage to processes. It then becomes incumbent on individual programme managers to practice inclusive planning and budgeting, and does not provide a departmental view at a central departmental level.

- **Weak reporting on ODA internally to a department and/or province and between departments and national and provincial counterpart departments.** This can be the result of weak information flows between development partners and ODA recipients, but not necessarily.
- **Development partner driven programme/project initiation, appraisal and planning processes.** Also, the gestation cycle of donor-funded projects and programmes often do not coincide with the South African budget cycle, resulting in programmes and projects being introduced mid-year and remaining outside of planning and budgeting frameworks. Similarly, development partner disbursement schedules are not in line with the South African budget cycle, making it difficult to include ODA funds in planning and budget processes. In the absence of a clear requirement and incentive to include ODA funds, it is easier to treat the funds as a post-plan, post-budget add-on.

Mini case study

The integration of ODA in KwaZulu Natal provides several good practice examples. In addition to the reflection of ODA on budget – both in financial terms and with supporting information – departments report on ODA to the provincial treasury and the provincial legislature portfolio committees. This forces departments to keep up to date databases on ODA flows. In the Department of Economic Development, ODA programmes are integrated into the department and form part of the mandate and functionality of the department. Regular reporting on ODA occurs to the provincial treasury, the portfolio committee, the donors and stakeholders – at least on a quarterly basis – with the Head of Department signing off on reports, as well as the CFO, who is included as an additional check in the system. Records are maintained in hard and soft copies for seven years after project completion. In the provincial health department a ODA programme/project is only accepted after thorough internal consultation, including with the district where the programme will be implemented. A particular code was set up in the Basic Accounting System to keep track of donations, which is logged against the departmental database on donations. Service level agreements and/or business agreements are maintained in a registry, which facilitates reporting to the provincial treasury. Reporting is undertaken monthly and quarterly and moves from finance (budgets) to the head of department and the CFO, to the provincial treasury. The department stipulates what information is required from donors prior to signing agreements, as well as in periodic meetings.

3.35 While there is clearly some improvement over the period under review in the integration of aid on report and on budget, the default position is still that aid is not included in an effective manner in institutions' own planning and budgeting processes. Exceptions however do occur, usually as a function of a combination of government or development partner factors and the origin of the project.

- Aid projects and programmes that are the result of proposals prepared by government institutions or are delivered through arrangements that depend on government institutions for planning are by nature more likely to be integrated in the planning process. Examples are the bilateral and multilateral supported projects of the DST, the water sector SWAP, and the various sector budget support programmes, such as the Netherlands Sector Budget Support in Education.
- Aid projects and programmes in government institutions that have developed capacity to manage and coordinate ODA are more likely to be integrated in planning and budgeting processes: the departments that have incorporated ODA into their strategic plans all have developed ODA capacity. The building of ODA capacity on the other hand is correlated to the recognition by senior management /leadership in a department of the potential value of ODA in achieving departmental objectives.
- Aid projects and programmes that are the result of donors selecting sectors, (ODA-weak) departments and focus areas which are programmed outside of country partner planning processes are less likely to be integrated on plan and budget. In such cases donors experience difficulty in integrating ODA programmes and projects into the strategic priorities of Departments, ownership is weak and aid effectiveness and/or sustainability is affected.

The higher demand for information on ODA from departments within the national budget process is likely to have a positive impact on the visibility of aid in budget processes.

Is aid on treasury, on account and on procurement?

3.36 In the case of South Africa, ODA can only be 'on treasury' through the use of the RDP fund mechanism. That also means that aid is automatically 'on account', in other words recorded through the use of government's chart of accounts and accounting systems. If aid is disbursed in any other way, it is not on treasury and not on account.

3.37 Much has been written since 2006 on the use of country PFM systems in South Africa. The findings of the research undertaken for this report do not differ significantly from previous findings.

3.38 **Data inconclusive on use of country systems post 2006 survey:** The 2006 Paris Declaration Monitoring Survey found that 38% of ODA to South Africa uses country PFM systems and 44% uses country procurement systems. A full follow up survey has not yet been done. A proxy measure is to compare the balance between disbursements reflected on the OECD DAC database for a year, with the disbursements reflected in the RDP Fund. Unfortunately at the time of writing the report DAC data for 2008/9 was not yet available. The table below shows a slight shift towards the use of the RDP Fund if the later two years are compared with the first two, but it also shows fluctuation over years.

Table 3.4: Total ODA disbursements compared to RDP Fund disbursements

	2004/05	2005/06	2006/07	2007/08
On RDP Fund	936 000	849 000	1 260 000	1 223 000
In 2008 USD (constant)	165 213	146 717	198 255	179 631
OECD DAC Reported Disbursements (Total Grants)	733 580	779 870	709 050	780 260
Percentage	23%	19%	28%	23%

3.39 **Qualitative evidence of shift to country systems:** However, from the qualitative research done there is evidence that over the period an increasing proportion of ODA was disbursed using the RDP fund.

- The IDC reported that development partners are moving towards using country systems in line with it being the preferred mode of disbursement for South Africa.
- Some development partners, who have previously not used the RDP fund mechanism at all, were using it for some projects towards the end of the period.
- SIDA and Irish Aid shifted to using only the RDP fund mechanism for support to government.
- The EC has systematically shifted its support to sector budget support type arrangements (for science and technology, education, moving away from the use of PMU/PIUs and EC procurement procedures).

3.40 Besides the EC the Netherlands also shifted to more budget support (for Education, rural development, local government, public administration, the Youth Commission, justice and the water sector). Development partners and departments reported value in the use of this modality (see section on modalities below), but a condition for its success is that recipient institutions need to demonstrate leadership for the use of funds in ways that contribute value and provide the capacity to drive the implementation. At the time of the review the Netherlands highlighted that it is now moving back to project-support arrangements because of perceived higher value and control.

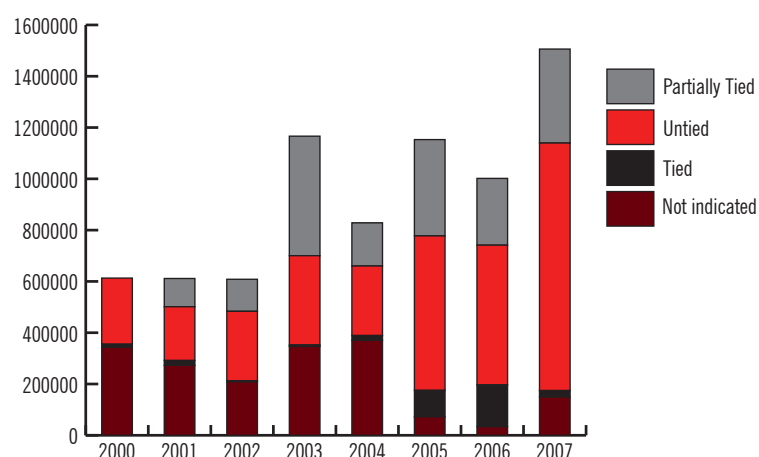
3.41 Some development partners – for example DFID – has maintained that cash contributions to South Africa are not appropriate given high domestic resource availability. It therefore continues to provide support as technical assistance programmes delivered through in-kind modalities. And some donors cannot use country systems in view of their own internal rules (for example USAID and Japan).

3.42 In addition, the primary research undertaken for this report confirmed the findings in previous reports³³ that departments often prefer that development partners do not use country systems: the perception is that donor planning and implementation systems will deliver inputs faster and is therefore more likely to be effective. Development partners too have reported that the South African system of planning, fund allocation and fund use is also too onerous, thereby not allowing donors to be dynamic³⁴.

3.43 **More aid reported as officially untied, but in practice SA choices limited:** Another measure of the degree to which aid is aligned to South African needs and use country systems is the degree to which aid is tied. Between 2000 and 2009 the ODA that was committed to South Africa as untied aid steadily increased in absolute terms (see figure 3.1). The data, taken from the OECD Creditor Reporting System, provides a more complete indication of whether aid commitments were tied, untied or partially tied in 2005, 6 and 7 than in previous years. Altogether 64% of ODA value was specified untied in 2007, compared to 42% in 2000. As more aid was classified against these categories in the later years, tied and partially tied aid however, also grew as a percentage, from 2% in 2000 to 26% in 2007. The spike in tied aid in 2005 and 2006 was on account of big tied commitments by Germany and the USA in these years.

³³ Donor councillor and coordinator workshops, February 2010; Smith et al, 2006; Taft et al 2007, Ecorys, 2007.

³⁴ Smith et al, 2006

Figure 3.1 Tied aid to South Africa 2000-2007 (USD '000s current prices)

Source: OECD, CRS, 2009

experience of the partnering institutions to the South African circumstances. While there is value in the partnership-approach particularly for capacity building, experience so far reveals conditions not only for its success, but also conditions under which it can be argued to be a true partnership arrangement and not tied aid in disguise, namely political commitment from both sides, a critical mass of participating structures and individuals (with the right background) on both sides, similarity and common denominators between partnering institutions and continuity of staffing³⁵.

3.47 Whether development partners use South African procurement systems is determined on a case-by-case basis through the financing agreement. This means that funds that are disbursed through the RDP fund doesn't automatically use South African procurement systems. In general, reservations about the use of South African procurement systems persist. While the EU has given the green light to South African procurement systems, many

3.44 The table below analyses the aid commitments by the main development partners that were specified tied or untied between 2000 and 2003 and between 2004 and 2007. It shows that for most donors a far smaller proportion of aid was specified as tied. Exceptions to this are Germany, the Netherlands, Switzerland and the US.

Table 3.5 Analysis of tied aid by donor (2000 to 2003 and 2004 to 2007)

Donor	Percentage of specified aid that was specified tied	
	2000-2003	2004-2007
Australia	31%	8%
Belgium	0%	0%
Canada	52%	8%
Denmark	7%	0%
EC	0%	0%
Finland	10%	4%
France	3%	2%
Germany	0%	18%
Ireland	0%	0%
Italy	100%	50%
Japan	0%	0%
Netherlands	0%	3%
Norway	4%	2%
Sweden	0%	0%
Switzerland	1%	4%
United Kingdom	0%	0%
United States	0%	29%

Source: CRS, 2009

3.45 The Paris Declaration Evaluation Study, "Untying Aid: Is it Working" (Clay et al, 2009), which included a South African case study found that between 2005 and 2007 64.8% of total bilateral ODA was untied, 20.7% was partially tied and 10.7% was tied to donor-determined constraints on sourcing service providers (the official definition of tied aid). In practice however, South Africa like other recipient countries, experience aid still to be tied in ways which may qualify for it to be classified in terms of DAC definitions as untied, but which undermine ownership and alignment, and at times aid effectiveness. The use by the EC – in programmes and projects over the period under review which were not delivered using sector budget support type modalities – of service providers that were pre-selected in its framework contract processes for example, was felt to result in technical assistance providers who often had no South African expertise and sometimes poor language compatibility with South African counterparts, resulting in low quality support. Similarly, other donors implemented programmes where the selection of service providers was managed by the donor, even if not tied to donor-country service providers. In such cases too there was an increased risk of underperforming technical support.

3.46 Another factor affecting whether aid is untied and can be disbursed through country systems is the shift to partnerships, increasingly used by the Nordic partners. Although projects/programmes of this nature – for example the Swedish Health Forum – is classified as untied aid on the CRS, it can be argued that it is tied aid because the funding is tied to partnerships with Swedish institutions and peer exchange with Swedish expertise. Other examples occur in the urban development sector, where ODA is used to fund twinning arrangements between local governments, and the housing sector. In the reviews of these projects, occurring themes are ownership (being ownership of the funds and chooses the joint activities), uneven capacity to participate in the partnership arrangements, the structuring of arrangements to suit the needs of the development partner partnering institution, as well as the relevance of institutional

³⁵ Sida, 2007; EU, 2003

development partners use their own, South African government procurement systems or project-specific procurement systems where third parties are contracted to implement programmes. In the case of procurement SIDA uses both Swedish and South African government procurement systems, and this is generally specified in programme agreements. Donors in general are prepared to use government systems but do so on the understanding that this may slow down implementation.

Is aid on report?

3.48 Aid on report would mean that ODA-financed activities are included in ex post reports by the South African government. This has a macro-level aspect (is the overall level of ODA flows reported?) and a micro-level aspect (are individual projects and programmes reported?)

3.49 At the macro-level ODA was reported annually in the ENE insofar as the consolidated budget framework table – which included the RDP fund as an item – and provided actual spending for the four years preceding the budget year. An annual RDP Fund Report is also issued, which reports on ODA disbursed by development partners to the fund, ODA disbursed from the fund to departments, provinces and directly to municipalities and the balance of the fund. It does not report on the use of ODA at project/programme level.

3.50 At the micro-level there are two mechanisms for ex post reporting by South Africa on ODA: the annual reports of aid recipient institutions and the ENE (or provincial budget statements at provincial level and municipal budgets at municipal level). In order to determine the degree to which ODA is on report at this level, the team drew a random sample of 36 projects from the DCIS and undertook a systematic check. Originally the intention was to draw 30 projects, but for six projects institutional annual reports could not be sourced so the sample was extended until 30 annual reports were sourced.

3.51 The table below provides the result of this audit. It shows that out of the 30 projects for which annual reports could be sourced, the ODA project/programme appeared in the financial statement in only 16 cases and on the ENE in 22 cases (with two additional cases where the project was in the ENE but no annual report was available).

- About a quarter of the sample was not reported on at all, neither in the ENE nor in Annual Reports. Altogether seven of the projects/programmes on the DCIS for which relevant Annual Reports could be found, could not be found either in the ENE or the Annual Reports.
- The ENE seems to provide a more accurate picture of departments' use of ODA at the national level, with only 8 of the 30 projects for which relevant Annual Reports were found, not appearing in the ENE, compared to 14 not appearing on the Annual Reports. Also, only one of the eight cases that were on DCIS, but not in the ENE could be traced in an Annual Report.
- However, the financial data appears to be of poor quality. Of the 14 cases where the project was both on the annual report financial statements and the ENE, the amount corresponds in only four cases.
- In 14 cases where the project/programme was reported on in the Annual Report financials, it also appeared on the ENE. However, in eight of the 22 cases when the project did appear on the ENE, it was not included in the Annual Report. It is likely that if a project is reported on in the Annual Reports, it is an RDP project and therefore also easier to report on for the ENE. However, accurate information for the financial statements of the Annual Reports is difficult to come by for non-RDP projects, which might explain why so many projects of the sample are in the ENE, but not in the Annual Reports.
- In two cases where it was in the financial statements, it was not discussed in- depth in the narrative part of the report. In a separate two cases the project was reported on in the narrative, but did not reflect in the financial statements.

It is notable that the departments that scored well in the check were classified in the discussion above on aid on budget as either category 1 or 3, in other words departments where one can assume stronger ODA reporting capacity. Similarly, departments that did not score well in the test fall in category 2, where the assumption was one of weaker ODA capacity.

Table 3.6 Reporting on selected ODA projects

Department	No of checks	AR Available	AR Narrative	AR Financials	ENE	Percentage on AR financials
Total	36	30	15	16	24	53%
Justice and Constitutional Development	3	3	3	3	3	100%
Water Affairs and Forestry	2	2	1	2	2	100%
Arts and Culture	1	1	1	1	1	100%
SAPS	1	1	1	1	1	100%
Defence	1	1	1	1	1	100%
Trade and Industry	1	1	1	1	1	100%
Provincial and Local government	2	1	0	1	2	100%
The Presidency	2	1	0	1	1	100%
Education	6	6	4	3	3	50%
Minerals and Energy Affairs	2	2	1	1	1	50%
Labour	2	2	1	1	1	50%
National Treasury	2	2	1	0	1	0%
Housing	2	2	0	0	2	0%
Health	3	3	0	0	2	0%
Agriculture	1	1	0	0	1	0%
Environmental Affairs and Tourism	1	1	0	0	0	0%
Provinces	3	0	0	0	1	No AR
Social Development	1	0	0	0	0	No AR

Source: DCIS, ENE, Annual Reports of relevant departments

3.52 The data indicates that the reporting of ODA in South African systems is under-developed. While the data is of a limited sample only, it already indicates gaps not only in terms of whether projects are reported on consistently in the two main mechanisms, but whether the information provided is correct. It would appear likely that RDP fund projects and programmes are reported on better than non-RDP fund projects and programmes, but it is difficult to ascertain that since, it is not clear from the different databases which projects and programmes are RDP fund disbursements and which are not.

3.53 Under-developed institutions for reporting on ODA internally imply that there may be too little demand for accountability within and from departments with regard to the use of ODA in the South African system.

3.54 Where aid is on report, it does not relieve the reporting burden on aid recipient institutions which still need to report separately to development partners on the use funds. Donors – even when using the RDP fund – may still require separate reports in line with their internal reporting requirements. This reporting however is not necessarily done through the ODA coordinating units within departments,³⁶ but by programme managers themselves directly to the donors. ODA coordinating units however complete the ENE forms and the information for the Annual Reports. The result is a disconnect, on account of weak systems to ensure proper information flow within departments, which is reflected in the quality of reporting in SA systems.

Conclusions: Reflection and integration of aid in South African systems

3.55 There is inadequate reflection and integration of aid within normal government functions.

- ODA is only reflected in some departmental level strategic plans. It is not required in the planning guidelines, but in general, departments who have built stronger ODA management capacity like DST and DEAT, included ODA in substantial ways in their planning processes.
- ODA has been included in departments' national budget submissions since 2000.
 - It was not published for parliamentary scrutiny in all years.
 - Mostly the financial information covers past years; very little forward information was provided (therefore it is only rarely technically 'on budget')

³⁶ Interviews for this paper.

- Project and programme listings on the ENE and the DCIS do not match. Of the 293 grant-funded projects and programmes to government departments listed on the DCIS, only 177 are reported on in the ENE. Of the 635 projects/programmes and their components listed in the ENE, only 295 relate to a project/programme listed on DCIS. This reflects weak recording of ODA overall.
- An analysis of dual listings by department enabled the identification of stronger and weaker departments, often in line with the degree of importance placed on ODA within departments.
- The only province that systematically reflects ODA on budget is KwaZulu Natal, at aggregate and departmental level.
- The available data does not allow a reliable quantitative assessment of shifts in the use of the RDP fund and South African procurement and audit systems. Qualitative research however points to a possible shift with the increased use of sector budget support like arrangements and some donors moving to only using the RDP Fund. However some factors – such as SA departments preferring donor systems and policy decisions by some development partners – mitigates against such a shift. The available data however does point to less aid being tied at the end of the period than at the beginning.
- ODA is incompletely reflected in South African financial reporting mechanisms. Up to a quarter of projects and programmes sampled were not reported on at all, while more than 50% did not appear in department's annual reports.

3.56 Even taking into account standard problems with regard to the integration of project cycles (running on development partner time tables) and the SA budget cycle, poor reporting of aid throughout the budget cycle reflects weak integration in the underlying processes. Aid was managed as an add-on during the period under review and was largely invisible in departmental decision-making processes, with some exceptions, and national decision-making. In recent years a shift is reported, with more attention paid to ODA as an often significant factor in public service provision.

Harmonisation and coordination

Defining the scope of the enquiry

3.57 Harmonisation means that donors' actions are more harmonised, transparent and collectively effective. It refers to the degree to which donors implement common arrangements and simplify procedures, the effective division of labour amongst donors and the incentives that are put in place for collaborative behaviour (Paris Declaration, 2006). Harmonisation however is not the responsibility of donors only, but also of partner countries.

3.58 ODA coordination refers to the degree to which South African institutions manage ODA and development partners to ensure that available ODA is mapped well against areas of high need with likely returns given the nature of donor funding. Donor coordination not only requires the direction of development partners by aid recipient institutions to priorities (alignment, discussed above) but also the direction in order to avoid duplicating or incompatible ODA activities and high transaction costs due to multiple donors' aid management requirements.

3.59 There are strong links between donor harmonisation and ODA coordination: where there is strong leadership and coordination by aid recipients, donors are more likely to harmonise. Where there is low leadership and little coordination, donor efforts to harmonise can be unsuccessful or counterproductive. Realising the benefits of donor harmonisation for South Africa is therefore dependent on the degree to which South African institutions are able to coordinate ODA flows.

Preliminary findings

3.60 Over the period under review efforts increased to harmonise donor activity and coordinate ODA. Key examples are efforts towards joint programming of country strategies (UN, EC and member states), an increase in joint programmes (the Netherlands, Denmark, Finland, Sweden, Canada, the UK, the UN and Norway all undertook one or more joint programmes with other donors), joint consultations at the national level (the Nordic countries) and one full-blown sector-wide approach (SWAP) with joint programming, joined up sector financing and joint reporting, consultation, review and evaluations processes. From the coordination side, ODA coordination functions were set up in departments and at provincial level, at the national level the IDC expanded and deepened its role in directing aid (see discussion on ownership and leadership above).

3.61 Despite this shift, harmonisation/coordination in South Africa still faced several obstacles during the period under

³⁷ Smith et al, 2007; DP discussion group February 2010; ODA coordinators discussion group February 2010; interview French Embassy, February 2010.

review.

3.62 A key factor is that not all players were completely convinced of the need to harmonise³⁷. While some donors single out the lack of donor coordination forums to drive harmonisation at aggregate and sector levels as a key factor hampering progress (and symptomatic of a lack of leadership (see section above)), others argue that given the relatively low donor presence in South Africa, the cost of harmonising is likely to outweigh the cost of not harmonising. South African counterparts are also not convinced of the value of setting up elaborate donor structures: informal processes often are effective. In addition there is a fear that, particularly where country leadership is not sufficiently strong, it will allow development partners to punch above their financial weight in policy processes.

3.63 However, it can be argued that in the case of South Africa there is no single correct approach. While ODA to some sectors/departments should be harmonised, undertaking similar processes in other sectors/departments would not have positive net returns, depending on the number of active donors in the sector/department.

3.64 In 2007 donors expressed a clear desire to harmonise, but required that focal groups are established to lead the process. However, donors then took the lead in harmonisation – through the formation of sectoral groups by the EC member states – in the absence of an immediate response by government. Donors report that these groups are however not functioning optimally, because of lack of participation by government and CSOs.

3.65 At the programme level however, several lessons can be learnt from efforts to harmonise over the period under review. There are many examples of successful harmonisation at the sector, departmental and programme level. In each case a recipient institution plays a key role.

3.66 There are however also examples where harmonisation could have been useful, but was absent, often because of lack of coordination from the aid recipient side.

Mini case studies: Harmonisation and Coordination

Masibambane SWAP (Water Affairs): The Water Sector Programme “Masibambane” is a comprehensive Sector Wide Approach (SWAP) programme of the South African water services sector and was coordinated and managed by Department of Water Affairs and Forestry (now the Department of Environmental and Water Affairs) on behalf of the sector. Within this SWAP a number of development partners, including EC, Irish Aid, the Nordic Group, the Netherlands and Switzerland all work together to support the water sector programme through basket funding and have developed common ways of working, including a joint performance assessment framework, joint reporting, reviews and evaluations and joint programming. There is also division of labour based on comparative advantage. At the same time the activities of a number of government institutions across levels of government are coordinated through the programme.

Urban Environment Management Programme (Denmark, Environmental Affairs): Another example of good practice is the Urban Environment Management Programme (UEMP) where both development partners and relevant South African departments and units are well coordinated. Resources are put into a basket and stakeholders come together for regular quarterly meetings to report on progress against mutually agreed targets. The programme is implemented under the leadership of the Department of Environmental Affairs and undertakes activities with recipient institutions at national and provincial level. A success factor in the UEMP is that programming was a joint effort by the affected institutions, ensuring ownership from the start.

Limpopo Department of Education: The Limpopo Department of Education was supported by several donors during the period, including the UK and Ireland. Although the sector did not have a SWAP it ensured that donor activities were harmonised through the use of joint steering committees at provincial and district level. It also used a third party mechanism (effectively a basket fund) – a trust fund – to channel ODA to the department.

Municipal Transformation Programme (UK, DLPG): In the consolidated Municipal Transformation Programme (in which the UK worked with the US to support the DPLG and for which activities were coordinated with the German Local Government Strengthening Programme) the leadership of the then DPLG was important.

The eJustice programme: This programme in the DoJCD was supported by the EC together with other major donors in the sector, for example the Netherlands and Ireland. The coordination with other government institutions for multi-stakeholder interventions however were not successful.

Source: Macelli et al, 2007, Everatt et al, 2007, Mphuthi et al, 2004, Folscher et al, 2006

More mini studies: Harmonisation and Coordination

Financial Management Improvement Programme II (EC, National Treasury): In this programme no links were in place with other donors despite Germany, the US and the UK having had concurrent projects which also aimed to enhance public sector financial management. The first phase of the programme was marked by the absence of a functioning project steering committee and did not have any dedicated staff.

Limpopo Local Economic Development Programme (EC): The evaluation notes that as a result of the lack of coordination and poor management, the activities of the programme were not harmonised with other initiatives in the province.

The Crimes Against Women and Children (EC, Eastern Cape Province): This programme found it difficult to harmonise its activities with other sector players in the province. The reports highlight this as the result of poor management of the programme.

Donor Coordination Forum for HIV/Aids sub-sector: In health the donor coordination forum was set up in 2001 to coordinate and harmonise the activities of donors in the HIV/Aids sub-sector. The review of the donor coordination forum Health forum in 2007 found that it was only partially successful, with key objectives not fulfilled. High transaction costs were not reduced, harmonisation was still poor (as was alignment), joint missions were not undertaken and aid predictability was still not in place. Several reasons were provided. By the time of the review neither the donors nor the national health department participated fully, there was a lack of follow-up on decisions by the forum, agenda and meetings, management was poor, other key departments did not participate. Donors felt that the department was ambivalent about the forum and was ill-prepared for its meetings. The forum however did succeed in getting donors to share information, encouraged the formation of partnerships and channeled funds to areas of need.

Du Plessis et al, 2008, Moran et al, 2006, Dastgeer, 2008, Magnet 2008, Hornshaw et al, 2006, Smith, 2007.

3.67 From the mini-case studies it is clear that a key factor for effective harmonisation is the ability of SA institutions to lead and coordinate donors. If this is not present, harmonisation is difficult to achieve. The role of using the right programming modalities and joint management and assessment frameworks is also important.

3.68 Even if it is argued that harmonisation is not essential in all cases, it is difficult to deny the importance of coordination, even when few donors are active in a sector. It is essential to achieve alignment in leveraging ODA to improve service delivery. The coordination of ODA is not only an intra-departmental issue, but also an intra-sectoral, intra-sphere and inter-sphere issue. Over the period under review, the IDC played a significant role in directing aid from the centre through its engagement with development partners. Responsibilities to coordinate ODA were also assigned in national departments, some provincial departments and ODA-receiving municipalities, but in most cases the responsibility to coordinate ODA is only one of many tasks of the individuals in question. However, regarding coordination within departments and spheres, some structures and processes were put in place. A key gap is coordination within sectors across departments and spheres. South Africa has intra-sectoral structures that can be used to coordinate ODA, for example the cluster system at national level and MINMECs in the inter-sphere arena. However, in the period under review ODA was not on the agenda in these forums.

3.69 Another key gap is the coordination of ODA that funds CSOs which provide services in third party arrangements. In most cases development partners engage directly with the CSOs and little liaison occurs between the relevant government department and the CSOs: the relationship functions directly between the development partner and the CSO. The choice to use CSOs is the development partner's. There are exceptions: in the Masibambane water sector programme the involvement of CSOs is linked in at the local and provincial level. In Limpopo Province for example, the CSOs that are funded participate actively in the provincial forum that coordinates service delivery³⁸. In other sectors however, for example health, the relevant government departments have no links with CSOs funded by donors and insufficient knowledge of what services they provide and where.

3.70 It is noteworthy however, that in at least three of the cases discussed donor-funded multi-institutional programmes have succeeded in coordinating activities across departments, provinces and municipalities as well as between levels of government through structures set up in terms of the programmes. The difficulty of achieving inter-sphere coordination has long been singled out as a key obstacle in government generally to achieve service delivery. The ability of the programmes in question to achieve this (the water sector programme, urban environmental management programme and the municipal transformation programme) is a clear case of significant value-add by ODA. There would be high value for government generally to understand the conditions and mechanisms for this.

Managing for results and mutual accountability**Defining managing for results and mutual accountability**

3.71 Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making. Aspects of managing for results include strong links at country

³⁸ Fölscher et al, 2006.

level between country strategies and the budget and availability of monitoring and evaluation frameworks; alignment between donor assessment frameworks and country frameworks; harmonised donor assessment frameworks. Mutual accountability refers to the degree to which ODA flows and their use is transparent and mechanisms exist for joint assessments by donors and partner countries.

3.72 The Inception report highlighted key questions against this area, namely:

- Was ODA managed for results? Under which circumstances?
- What evidence is there of mechanisms and successful implementation of mechanisms for mutual accountability?

Findings on managing for results and mutual accountability

Managing for results

3.73 **Catering for M&E strengthens over period:** In most projects and programmes reviewed institutional arrangements to manage for results – such as assessment frameworks and M&E processes – were weak. Early in the period under review, the programme design paid insufficient attention to the development of appropriate assessment frameworks. This improves over the period; over time an increasing proportion of projects and programmes provided resources for the development and implementation of assessment frameworks, for the ODA intervention specifically, or for the recipient institution overall.

3.74 **Programmed M&E activities not implemented:** However, in many cases mid-term reviews pointed out that funds which were provided for the development of assessment / M&E frameworks were still not spent at the time of the review. In line with donor programme requirements, programme designs would pay lip service to M&E, which is then neglected during programme implementation.

Mini case studies on managing for results

Swedish South African Cultural Partnership Programme (DoAC): Lack of ongoing monitoring and evaluation was a key weakness of the programme. The programme itself represents an innovation; yet in implementation not sufficient attention to trial and error and adjustment of approaches. Annual reporting seen as inadequate by all. That not all the objectives were being met was seen as the result of not clearly articulating indicators at the design stage.

Netherlands Education Sector Budget Support Programme: While business plans were developed with clear objectives and specific outputs, monitoring and reporting systems were not well developed. The Development Support Directorate did develop quarterly reporting formats, but these were not always followed by project managers. Project plans refer to weekly, monthly and quarterly monitoring, but do not develop frameworks for these. Where objectives are clear, evaluators thought such statements might be adequate, but when objectives are not clear it would be difficult for programme managers to undertake. Evaluators thought more explicit efforts should be made to build systems. Some projects – e.g. the teacher upgrading project – were in the process of hiring external agencies to monitor programme effectiveness at the time of writing the evaluation. The need to build M&E into project plans and institutional capacity to undertake M&E activities was highlighted. In a significant number of projects there was also a failure to build the measurement of impact into M&E plans. Innovative projects particularly need evaluations built in.

Support programme for social housing (EC): The implementing agent (the Social Housing Foundation/HIDF) was tasked to set up a programme management unit to manage the grants including the M&E function. The evaluation finds that the Financing Agreement was flexible enough to allow for adjustments to be made to programme design, but in practice these adjustments were not made – the programme continued to be implemented along the financing proposal lines, which were flawed. In other words: the M&E feedback was not effective.

Khanyisa Education Programme (Limpopo Province): The evaluation reports of the Khanyisa Programme note that the LDoE, like so many other provincial departments “struggled in collecting, processing, analysing and utilising education management information”. The key reason for this was that the Department had struggled to attract and retain staff with the skills to implement the EMIS. Thus “despite being adequately equipped with hardware, chronic staff shortage and staff change resulted in prioritisation of national ministry information demands. Efforts to provide data that could support further efficiency and effectiveness drives within the province are severely constrained by human capacity issues”.

Support to policing of crimes against women and children (EC): The programme was not seen to have been managed efficiently; in particular there was little evidence that the programme had been managed against the specified results (and indicators) in the initial Financing Agreement. Many of the planned targets were not reached. No relationship was established between existing SAPS systems and the programme M&E.

Institutional Strengthening of Public Works (EC): Although a key feature of the system was the development of a successful M&E/MIS system. The programme itself did not have a measurable log frame at the outset and thus measuring against the indicators was not possible.

STG SA, 2004; Sagakwem and associates, 2007; Powell et al, 2005; EU, 2003; Moran et al, 2006; Du Plessis et al, 2009; DFID, 2007, 2009.

3.75 **Programme design often at fault:** Unrealistic expectations at the time of designing a programme often led to the selection of indicators which could not be measured meaningfully over the period of programme and implementation and, targets which could not be achieved, with the result that efforts to manage programmes for results for example through mid-term reviews against the initial frameworks, were meaningless. In addition, programme documents do not establish baselines against which future progress can be measured and corrective action taken.

3.76 **Ineffective assessment frameworks:** Where assessment frameworks are present, they are:

- frequently not aligned with the recipient institution's own monitoring instruments or processes.
- not necessarily implemented, in other words evidence of reporting against the frameworks and processes to ensure an effective feedback loop to decision-making was not in place.
- limited to monitoring project implementation – whether the required activities took place and outputs were delivered – not project results.

3.77 **Issue is not necessarily how ODA is managed, but a deficiency in the SA public sector environment:**

Managing ODA for results is difficult to achieve in an environment where an overall monitoring and evaluation culture is absent or weak and/or where capacity for M&E is inadequate. During the period under review a culture of evaluation was not an integral part of most government institutions. This had two implications: for programmes that did not use the RDP fund mechanism and which were implemented by the donors or third parties separate from the programmes and activities of the SA institutions, evaluations of ODA interventions were rarely driven by the recipient institutions (with some exceptions), but were mostly driven by the donor. Secondly, for programmes that were implemented through the RDP Fund and by departments, and programmes for which the financing agreement stipulated that monitoring and reporting were to be harmonised with the department, these functions remained weak.

3.78 **Evaluation function not fully effective:** Often evaluations are a requirement under the financing agreement.

However, not all programmes are evaluated; it depends on the donor and the size of the programme. It was also notable in the research for this project that not all programme evaluations were of consistent quality. Common defects in documents are that few establish the theory of change underlying the programme being evaluated, but instead proceed in an ad hoc fashion to look at a collection of factors, of which the relative contribution to programme/project success is not made clear. There is a high focus on the implementation of programmed activities and very little focus on programme results. Although this is often the result of over ambitious programme targets and lacking or unrealistic assessment frameworks, the evaluations make no effort to negotiate an alternate way of defining and measuring programme effectiveness with stakeholders. Generally there is a lack of quantitative information and proof that the qualitative information provided is representative.

Mutual accountability

3.79 Mutual accountability has two aspects: (i) that donors and recipient institutions are accountable to one another for results and (ii) that they are accountable to their citizens.

3.80 **Aggregate level efforts were weakened by inconsistent performance at institutional level:** A key finding in this regard is that efforts to establish mutual accountability in both aspects at aggregate level were weakened by inconsistent mutual accountability at the programme and institutional level. Key factors here were poor information flows and a seeming lack of incentives to demand better information flows to achieve both aspects. The discussion below on these dynamics should not detract from the fact that there were strong examples of mutual accountability at programme and institutional level in place.

3.81 **Strong examples at institutional level were in place – it requires joint structures and successful management for results:** These cases were predicated on joint structures being set up successfully together with good management for results institutions. Where institutions, development partners and projects/programmes failed to do this, mutual accountability was low. Mutual accountability is also dependent on being able to manage for results and there is a correlation between mutual accountability and programme success.

Mini case study: Financial Management Improvement Programme (II) and the Municipal Transformation Programme

In the FMIP II it was observed by the evaluators of the programme that the efficiency of implementation can be divided into two distinct periods. The first period is from the start of the project (June 2006 until the first half of 2008). This period is marked by the absence of any functioning Project Steering Committee (PSC); no Project Coordination Unit (PCU); no staff fully dedicated to the project; long periods where no implementation of the project was occurring. Along with this, the Office of the Accountant General was understaffed and overloaded and FMIP II was just one of the many activities within the portfolio of the persons in charge of implementing it. This two-year period was largely unproductive, and stakeholders lost interest in the project because of the lack of progress.

The second period started with the establishment of a new PCU and the appointment of a new Programme Director in May 2008. This was followed in August by the appointment of a Capacity Building Officer, Project Officer and Technical Officer. A Project Manager from the Office of the Accountant General was also seconded to work part time with the PCU. The results were dramatic; efficiency of the project increased manifold with the establishment of a competent team which was able to develop good links with key stakeholders both with the Accountant General's Office and beyond it including those responsible for the Municipal Financial Management Act (MFMA) implementation. This rekindled the interest of the stakeholders in the project. Stakeholders are now able to direct their queries and concerns to a single PCU rather than having to interact with several decision makers. A Project Steering Committee (PSC) was established and is meeting regularly. The development of mutually agreed framework on modalities for reporting on results, wherein such a framework would specify the means, identify roles and responsibilities, and reporting schedule, is evidence of increased mutual accountability in the project .

This 'effect' of having mutual accountability is echoed in the reverse in the CMTF project, where less frequent interaction between partners subsequent to the completion of the PIP and a lack of regular programme management meetings reversed earlier gains in building synergies.

3.82 Strong mutual accountability institutions were in place at aggregate level: At aggregate level the annual consultations organised by the IDC with development partners and SA stakeholders track mutual progress in implementing partnership commitments as per the country cooperation agreements. These were however not consistently supported by strong attendance and participation by country institutions during the period under review.

3.83 Local accountability weak: A key factor in weak mutual accountability at the institutional level, is low local accountability. In this the discussion above on the integration of aid in South African systems refers. It is a significant finding of this review that during the period under review local accountability for aid has been inadequate.

- ODA is largely invisible in local accountability systems. Too few departments have functional systems which ensure oversight of ODA by top management and the executive authority. There are however exceptions, for example science and technology, SAPS and the management of ODA in KwaZulu Natal.
- Although ODA projects and programmes are formally tabled in parliament, the invisibility of ODA in local accountability systems means that this channel of accountability is not functional (again with the exception of KwaZulu Natal where sector committees are briefed on the use of ODA).

3.84 Donor practices do not support strong local accountability: As was observed in the 2008 Evaluation of the Paris Declaration, current practices by development partners with regard to aid flows render it impossible for either departments or the National Treasury to meaningfully account for resources to the country. Moreover, there still remained significant amounts of funding provided by development partners that was channelled through off-budget support modalities, and for which little information is provided to departments. Both the amounts involved and the impact of such support in contributing to government set priorities remain vague. Aid flow to South Africa's CSOs to implement ODA programmes (by definition ODA does not include aid flows to civil society organisations that are not in terms of an agreement with government) are not well accounted for.

3.85 Departments do not consistently demand information: The problem of poor donor information flows to country recipients is not unique to South Africa. It has occurred in all aid receiving countries. However, some countries have become much more pro-active at the national and institutional level to demand frequent, comprehensive and accurate information flows. This has not been the case in South Africa, where – with the important exception of some institutions – ODA was not necessarily given high priority at the institutional level during the period under review.

3.86 Poor information flow on ODA symptomatic of low accountability between donors and departments: It is obvious that in some programmes and institutions poor flow of information from development partners to recipients is

symptomatic of a lack of mutual accountability, while at the same time making it less possible. This dynamic of poor information flow reducing mutual accountability which leads to even poorer demand for information is illustrated in the case of the donor coordination forum in health.

3.87 Poor incentives for local accountability at heart of problem: Underlying the negative reinforcement between poor information flows, poor local accountability, poor mutual accountability and hampered aggregate institutions for mutual accountability are weak incentives at the institutional level (on programme managers and on departments as a whole) to account for aid comprehensively. Unless institutions individually recognise the value of ODA, they do not perceive that the effort to manage for results and hold development partners to account for their interventions in their sectors is worthwhile. In the absence of strong demands for accountability at the national level (from institutions with oversight functions such as The Presidency, the National Treasury and the DPSA, as well as provincial legislatures and Parliament) such institutions have no reason to behave differently.

ODA to provinces

3.88 During the period under review significant ODA flowed to the provincial level of government, particularly to three provinces, KwaZulu Natal, Limpopo and the Eastern Cape. This section provides a brief overview of the level and distribution of ODA at provincial level, management arrangements for it and a discussion of the key challenges that emerge at this level.

Distribution of ODA to provinces

3.89 The TORs required the team to look into how aid is distributed between provinces. Donors reported that they choose provinces based on direction by the IDC, the poverty profile of the province and track-record/confidence that the province will be able to implement projects/programmes.

3.90 **Poverty and track-record/ability to implement programme key factors:** An examination of the data shows that the fourth factor – track record or confidence that the province will be able to implement programmes – may have significant weight in the decision. The first graph below shows the distribution by province of all ODA, including loans. While KwaZulu Natal and the Eastern Cape (with high incidences of poverty) receive the most and second most ODA, the Western Cape (with the lowest incidence of poverty) receives the third most ODA (including loans).

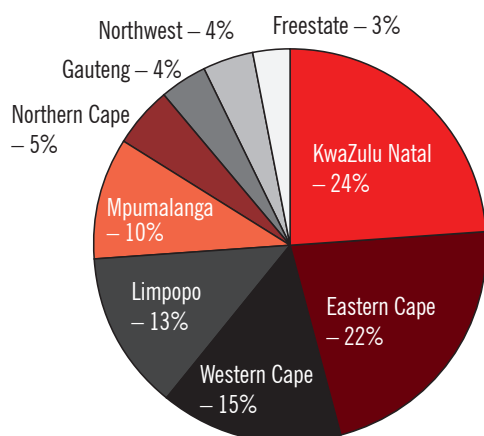
3.91 It should be noted that the findings is based on the cleaned DCIS dataset (see section two for a discussion on the dataset). In light of the quality of the DCIS data, these findings have to be qualified and should be interpreted not as a definitive description of the distribution, but as an indication of broad trends only. It should also be noted that the data includes programmes/projects on the database for which the recipient is the national department, but where funds are indicated as designated for the provincial level.

3.92 **Alignment between poverty incidence and share in ODA commitments is not perfect:** When loans are excluded, the picture changes, affecting the ranking of Gauteng and the Western Cape. The table below provides a summary of ODA by province against other key indicators³⁹. It shows that – on the basis of the available data – although Limpopo had the highest proportion of its population living in poverty, it received the third most resources, resulting in it having the fourth lowest ranking in terms of ODA committed per person living in poverty. The Western Cape, in contrast, had the lowest poverty ranking, but received the fourth most resources, making it the second highest recipient of ODA in per person living in poverty terms, with Mpumalanga following close behind. The case of Gauteng is interesting: although it has a low proportion of people living in poverty, its share of people living in poverty is high on account of its high population. Combined with a low share in committed ODA it is the province that had the lowest ODA per person living in poverty score.

3.93 The final graph provides an indication of the use of ODA by sector in the nine provinces, based on the same dataset.

³⁹ The mid-2006 population estimates were used and poverty estimates based on the 2001 census.

Figure 3.2: ODA (grants, TA and loan commitments) distribution by province



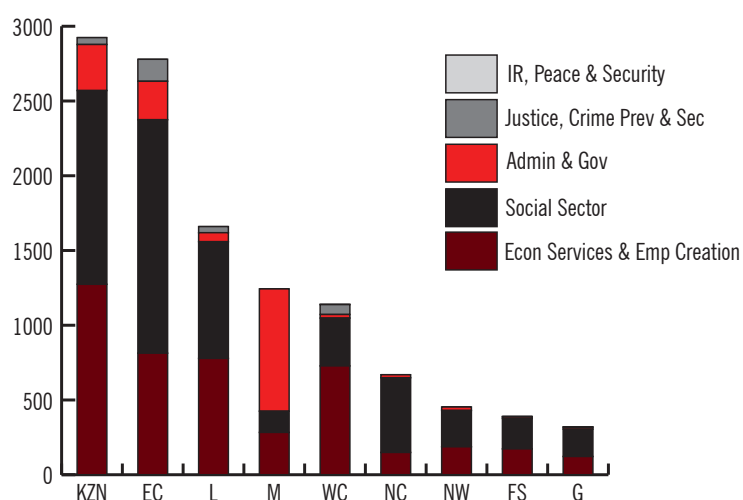
Source: DCIS, supplemented by additional flows sourced from donors

Table 3.7 ODA (grant and TA commitments only) distribution by province, against key poverty indicators

	ODA (R million)	Poverty ranking (by % population living in poverty)	ODA per capita	ODA per person living in poverty
KwaZulu Natal	2 940	4	297	516
Eastern Cape	2 797	2	405	608
Limpopo	1 690	1	302	412
Mpumalanga	1 242	6	355	690
Western Cape	1 141	8	243	815
Northern Cape	674	4	674	1 349
Northwest	452	4	133	238
Free State	390	3	134	217
Gauteng	321	8	34	87

Source: DCIS (supplemented by additional flows sourced from donors), StatsSA, HSRC

Figure 3.3: Distribution of committed ODA by province and sector



Source: DCIS (supplemented by additional flows sourced from donors)

Management of ODA in provinces

3.94 Over the period under review there was a drive from the centre for coordination capacity to be established in provinces. In line with the 2003 ODA Guidelines the offices of provincial premiers were designated as entry points for development partners and to coordinate and direct ODA in line with provincial priorities.

3.95 **Development of capacity uneven.** A scan of ODA capacity at the end of the period however, showed that it developed unevenly. Not surprisingly Limpopo, the Eastern Cape and KwaZulu Natal have made the most progress in setting up capacity, although in KwaZulu Natal the capacity was much more concentrated at departmental level rather than in the Office of the Premier towards the end of the period. In addition, in this province, some coordination is done by the Provincial Treasury, if only to create consistent information flows on ODA from departments to the provincial legislature.

3.96 On the other hand, Mpumalanga and the Western Cape, to which the third and fourth most ODA grants and TA were committed, reported that their ODA capacity was emerging, but still weak.

3.97 Table 3.8 provides a summary of ODA management capacity in the provinces.

Table 3.8 Summary of ODA Management Capacity in Provinces

Province	Features of ODA Coordination
Free State	Weak coordination with no dedicated staff in the Office of the Premier. There is a weak understanding of ODA in the province, particularly among political stakeholders. Some departments are more successful in managing ODA, for example health.
Limpopo	Strong coordination capacity in the Office of the Premier – it has positioned itself as the first point of entry for development partners into the province. It has issued province-specific ODA guidelines that clearly direct ODA management in the province. It aims to ensure the alignment of support with provincial priorities and has been successful. The Office also demands that aid should demonstrate that it is able to promote partnerships, supports innovation and good practices and is sustainable. However ODA does face some challenges in the province, such as capacity building, successful coordination mechanisms and the flow of information and documentation.
KwaZulu Natal	With the loss of key personnel, KwaZulu Natal concluded the review period with relatively weak coordination of ODA in the Office of the Premier (where it is part and parcel of coordination overall with no dedicated personnel). Individual departments also reported that there was no contact with ODA coordinators from the Premier's Office, although some reviews/evaluations were channelled through that office. The province however now has strong coordination from the Provincial Treasury in practice, which requires significant information flows on ODA within departments, between departments and the Treasury and to the Provincial Legislature. Because this coordination is from an expenditure perspective, other areas such as harmonisation of donors are still imperfect. However, departments reported strong alignment at macro-level and some also at the micro-level, but not all. Departments in KwaZulu Natal prefer ODA to be coordinated at departmental level too, where the flow of funds occur, but agree that there should be a strong central coordinating function to provide strategic direction and oversight. The provincial departments interviewed have made progress with setting up and maintaining ODA databases.
Mpumalanga	Over the period under review coordinating in Mpumalanga was inconsistent. Despite earlier efforts to issue province specific guidelines, in later years coordination weakened. Information on the use of ODA in the provinces – both aggregate and distributional information – is incomplete and inaccurate. Currently efforts are underway to address these weaknesses with a draft ODA Policy being developed and steps to address the institutional gaps.
Eastern Cape	Eastern Cape has a long history of ODA. It has built good capacity in the Premier's Office to coordinate ODA, mirrored by capacity in some departments, particularly those that are high aid recipients. It has put in place provincial ODA guidelines and a comprehensive ODA management tool, managed by the Premier's Office. Sector ODA Forums are in place and the provincial Department of Local Government and Traditional Affairs is tasked with ensuring alignment of ODA at municipal level. Despite these efforts to build capacity in the province ODA coordinators note that donors by-pass these systems and engage directly with programme managers in departments. Donors are also still dominant in the ODA relationship, resulting in weaker alignment and poor coordination of aid with departments' own activities.
Western Cape	The Western Cape does not have a dedicated ODA office or capacity in the Premier's Office. Aid flows to the province is not transparent to the provincial government, as donors engage directly with departments or contract NGOs to deliver services. The province does not have a functioning system to ensure reporting on ODA.
Northwest	The Office of the Premier does not have dedicated ODA capacity but does play a role in the coordination of ODA. A donor database was developed towards the end of the period and the development of dedicated capacity is on the agenda.
Northern Cape	ODA coordination is tasked to the International and Inter-governmental Relations Chief Directorate, but it has no dedicated capacity. Towards the end of the period the directorate clarified its mandate in terms of ODA coordination. It however faced several challenges to be effective in this area, including the development of a strategic perspective in the use of ODA in the province.
Gauteng	Dedicated ODA management capacity is not in place, although it is part of the functions of the Office of the Premier.

3.98 **Alignment in three study provinces in place at macro-level.** It is a common point in the evaluation/review reports studied and previous studies of ODA management that in general the capacity to manage ODA in the provinces are not as strong as at the centre. In addition, the documentation points to problematic coordination of aid across the spheres. Two points are often made:

- Development partners align their funding with national priorities, but not necessarily with provincial priorities. In the three provinces studied for this report however, there was good alignment between provincial priorities and the allocation of funding, at least at the macro-level. Alignment at the micro-level was not consistently as strong, but did occur. This is no different from the national level.
- Programming occurs at the national level without sufficient engagement of provinces, where the programmes are implemented. This often leads to weak ownership, coordination difficulties and poor programme/project implementation.

3.99 **Weak capacity and information flows critical challenges.** Overall, several challenges have been identified that affect ODA at provincial level (some shared with national level counterparts):

- Lack of dedicated and trained capacity to manage ODA combined with high personnel turnover rates.
- Poor political understanding of ODA and weak understanding of national ODA guidelines, for example of the preference for ODA to flow through the RDP account and the mechanisms applying to that channel.
- Poor information flow and record keeping.
- Poor intra province coordination, as well as weak intra-sector and inter-sphere coordination
- Lack of experience to manage and use TA to build capacity.
- High potential for corruption and political interference.

Aid by sector cluster

3.100 The TORs required the team to look at the effectiveness of aid in the five clusters, namely (i) the Social, (ii) Economic services and Employment Creation, (iii) Governance and Administration, (iv) Justice, crime prevention and security and (v) International Relations, Peace and Security Clusters. A discussion of the distribution of ODA commitments (from the DCIS+ database), ODA disbursements (from the OECD DAC database) and use of ODA (from the adjusted ENE database) by sector is provided in Section 2. This section provides aggregate findings across the sectors. It is supplemented by a Sector Annex which provides a review of ODA distribution (commitments) by sector and a discussion of case studies from each sector.

3.101 The inception report indicated that three questions would be pursued:

- Did aid contribute to the achievement of sector priorities?
- Did ODA programmes achieve their objectives?
- What lessons can be learnt about under which circumstances aid is effective?

3.102 **Aid aligned with sector-wide priorities.** The team found that for the most part alignment between ODA programmes and sector-wide priorities was good over the period under review. However, there were some exceptions. Key points by sector are:

- **Social sector:**
 - In education, aid supported a collection of sector priorities, including the expansion and improvement of infrastructure, inclusive education, education management and information systems development, literacy training, early childhood development, higher education etc. Aid significantly supported sector development work which otherwise might have been difficult to undertake given the pressure on education budgets: an example here is the support for inclusive education.
 - In health, the bulk of support has been directed at HIV/Aids prevention, treatment, care and support, often in conjunction with support related to other sexually transmitted infections and tuberculosis or primary health care in general. It can be argued that for most of the period under review the donor community placed a higher emphasis on support to the HIV/Aids sub-sector than the South African government, leading to a high use of CSOs and some tensions in the sector. Other support in health has been for health management reforms.
 - In housing, support was provided for social housing/cooperative housing. Key findings in the reports pertaining to these programmes were that the commitment of the South African government to the concept of social housing was not clear as government pursued other models of housing provision. Support was also provided for specific developments, through support for municipalities. Finally support was provided for institutional development.

- The low level of support to social services is surprising: it is perhaps in view of the significant proportion of local funding for social grants during the period under review. Support to social services typically was for policy development as well as in services to vulnerable groups.
- Very little support went to programmes related to arts and culture and mostly in the form of grant making programmes.
- **Economic affairs and employment creation (including economic infrastructure)**
 - Priorities for funding in the cluster were the water sector (Water and Sanitation Services, Water Resource Management, Water Supply and Sanitation Capacity-Building); employment creation through skills development and SMME promotion; Local Economic Development; Agriculture, Forestry and Fishing Capacity-Building; Biodiversity and Protection; Industry, Mining and Construction Capacity-Building; and Land Reform.
 - Most of the loans received were utilised in the sector, but in all cases through entities belonging to the wider public sector (such as the National Roads Agency) or through private sector entities on-lending in the sector. The only other loans were for the financing of housing development.
 - The bulk of resources were utilised in the water services and support for local government infrastructure development sub-sectors: this is aligned with the South African government's emphasis on the expansion of access to basic services.
 - This was followed by an emphasis on employment creation and local economic development.
- **Governance and Administration**
 - Significant support in this cluster comprised public service reform and public sector capacity building programmes and public financial management development programmes. Support was distributed between national, provincial and local government. Even where the recipient department was national, the capacity development was often targeted at provincial and local government (e.g. DPLG and National Treasury programmes).
- **Justice, crime prevention and security**
 - Support in this cluster was targeted primarily at the DoJCD and SAPS, with DoJCD absorbing most of the resources. Support to the DoJCD was aimed at building capacity (e.g. the eJustice programme and training for professional groups) or at strengthening services to vulnerable groups. Support to SAPS was tied to building the capacity of the police force, often relating to specific units and/or to providing services to vulnerable groups.
- **International relations, peace and security**
 - The majority of resources for this sector were directed at trilateral initiatives in the DRC, although projects were also reported in the Southern African region, in Burundi, Southern Sudan and Rwanda.

3.103 **No sectors in which aid was ineffective overall:** While there was no single sector for which it could be said that aid was not effective at all, the team also found that it was not possible for the most part to judge at a sector wide-level, whether ODA programmes achieved their objectives. Whether or not this occurred was a function at the project and programme level of the donor involved and its approach and systems, the department involved and its capacity and ownership and the specifics of the project/programme including the quality of its programming, the institutional arrangements as specified in the financing agreement, the contracted service providers etc. However, some observations could be made at the sector level pertaining to ODA management and effectiveness in some sectors:

- The social sector cluster carried a high burden of inter-sphere coordination issues; for most its component departments their provincial counterparts were responsible for implementation even if design occurred at the national level. Clusters that comprise exclusive national functions did not have to contend with these problems to the same degree, however some programmes – such as environmental affairs and water affairs programmes still had to coordinate with targeted municipal governments.
- Because the economic services cluster was dominated by support for the water services programme, ODA was managed in line with good practices and delivered relatively successfully in the sector on average.
- The International relations, peace and security cluster was under-reported both with regard to the DCIS and the ENE. From about half-way through the period development partners increasingly expressed their intent to shift their ODA support to South Africa to trilateral aid. Mechanisms for coordinating the provision of trilateral ODA to the region and partner countries outside of the South Africa however were still under-developed. At the time of writing the report there was also some uncertainty about how this will be managed in future.

3.104 Across sectors however, there were circumstances under which aid was more likely to be effective and circumstances under which it was less likely to be effective. These are discussed in more detail in the remainder of this report.

Use of aid for innovation, risk taking and capacity building

3.105 Before looking at conclusions with regard to aid effectiveness, a last aspect of the TORs and inception report that needs to be addressed is the degree to which aid programmes and projects were focused on value-add given the South African context: was aid used for innovation, risk taking and capacity building?

3.106 It is critical that aid is targeted appropriately. In South Africa it is all too easy for ODA to be irrelevant against the size of domestic spending and there is a continued risk of too little resources spread over too many targets. In many sectors aid spending is a very small proportion of overall spending: unless ODA is carefully targeted at key service delivery bottlenecks, it is not clear how it can be complementary and add value.

3.107 There are many examples of where aid supported innovation, piloting, risk taking and capacity building. The table below provides a series of good practice examples where ODA added value. Further specific examples are provided in the text below.

Labour Market Skills Development Programme: The concept of learnerships has been successfully established. The notion of labour market information has been established (albeit that there is a disconnect between national and provincial statistics, and various SETAs have opted out preferring to collect their own data). A strong focus on in-service training has been promoted across many industries.
The Micro Projects Programme in the Eastern Cape: Mvula trust have expanded their knowledge base, built meaningful relationships with external role players and have demonstrated ability to adapt and overcome complex problems.
Institutional Strengthening of Public Works: The development of key management information tools which lead, amongst others, to improved reporting on the labour intensive public works programmes and enabled corrective action to be taken.
Consolidated Municipal Transformation Programme (CMTP): CMTP has been innovative in its approach to achieving accountable and ethical local governance were piloted in three districts. Piloting customer satisfaction survey tools in two municipalities.
Water and Forestry Support Programme (UK): Pioneering uses of technical forestry concepts and skills.
Water Services Programme: Supported the piloting and then roll out of pioneering sanitation technologies suitable to South African circumstances. Built capacity for joint working between institutions in the water sector. Built capacity for monitoring and evaluation.
Gijima KZN LED Support Programme: Strong ownership facilitated by provincial ownership of PMU. International TAs eventually replaced with all local TAs. Promotion within PMU equaled strong capacity building opportunities. Capacity building within participating agencies was disappointing.
Rapid Response Fund for HIV/Aids: Funds seen as needed and valuable: plugged funding gap in critical area to support HIV/Aids services to vulnerable communities. Described as innovative project. Capacity building of partners through annual workshops. Themes included gender issues and result-based management, peer learning from other projects, and a broader workshop that shared information on a variety of issues, including aid effectiveness. Some individual projects funded represent piloting and capacity building.
Swedish South African Cultural Partnership Programme: Review found the project to have had impact in terms of skills transfer from high levels of professionalism in Sweden to SA and that relationships and networking opportunities were created that will last beyond the programme. A big concern of respondents to the review was that the objective of an institutional development framework was not reached.
Support to Policing of Crimes Against Women and Children in the Eastern Cape: Best practices were identified (e.g. a one-stop model for victims of sexual offences and violent crimes) which will be rolled out at national level). 25 Victim Support Centers were provided. Mobile police stations were made operational. Mobile training units were developed and training was conducted.
Financial Management Improvement Programme II: Capacity building has been significant at all levels within different levels of government. Successful pilots at provincial level and local government level with respect to compliance and financial controls (i.e. using a Financial Management Capability Model to make these assessments). However, the Evaluation team felt that there is need for greater mentorship/on-the-job training particularly at local government level. The increase in capacity of staff at the National Treasury and at the provincial and municipal levels, and the diffusion and transfer of this increased capacity throughout the ranks will have long-term effects.
Darling Wind Farm Project: Through donor support the Department of Science and Technology was able to support the development of a pilot renewable energy project with potential for replication.
National and Provincial Urban Environmental Management: The programme addresses capacity building. The strengthening of capacity will focus especially on systems and tools development. Undertaking joint venture pilot projects between partners engaged in the UEM components.
Thematic Programme on Democracy and Good Governance: Specific focus on capacity building as an express outcome of the interventions. The interventions were focused on piloting, exhibiting a certain degree of innovation and acceptable risk. First DANIDA sponsored a SA Programme that required constructive cooperation and interaction between Government and civil society organisations.
Schools as Centres of Care and Support: Series of projects that built capacity at institutional level to deal with the effects of HIV/Aids. The initial projects represented risks taken by the provincial DoEs. In the middle phase of funding a pilot of one Centre was done before it was rolled out to clusters. Not clear that the sector would have been able to undertake the pilot without external funding.

Piloting and taking risks

3.108 Many programmes use ODA for value-add activities: Many programmes/ projects focused on activities that sector/ departments identified as critical but outside normal expenditure. This often involved piloting, in other words funding to test new ideas. In many cases the correct pilot was identified and there was take-up of piloted ideas, ensuring sustainability.

3.109 There is less evidence of other types of risk-taking, either in terms of what ODA finances and how or in terms of using ODA funds to take policy risks. Key exceptions are the programmes that ventured into the provision of development financing, an important need in the South African context. Examples are the Private Sector Support Programme: Capital Risk Facility which provided funding for business development through the Industrial Development Corporation and the French Development Agency programme which channels funding to commercial banks for on-lending in the low-income housing market.

Mini-case study: Private Sector Support Programme – Risk Capital Facility

The programme consisted of three components, namely

- i) investments funds (either through the Industrial Development Corporation or niche investment funds);
- ii) Technical Assistance/business support to end beneficiaries;
- iii) Technical Assistance to the Department of Trade and Industry (DTI).

The programme provided direct support for risk taking and helped the IDC in developing higher risk investment strategies, new solutions to client problems and strengthened the management of a portfolio that is outside of the norm for the IDC.

3.110 There is still too much evidence of ODA funding activities on the margin of government-funded activities. In other words, ODA is used to supplement government funds in order to achieve roll-out of a programme quicker. While the funds may be utilised for government priorities, it does not necessarily involve innovation or risk taking. On the other hand, there is not evidence in South Africa of ODA being used to fund activities that would have been done in any case, thereby freeing up money for use elsewhere in an institution's budget.

3.111 In an environment of high domestic fund availability there is a risk that budget support type arrangements may not succeed in adding value. Although evaluation documentation of all budget support programmes could not be obtained, for the programmes reviewed the evidence points to this situation being avoided. This is largely because in most cases the support is earmarked for specific activities (and is therefore not pure budget support), which represent value-add and capacity building (see case study on the Netherlands Education Budget Support Programme).

Mini-case study: Value add through innovation, risk taking and capacity building in the Netherlands Sector Budget Support for Education

The flexibility of the funding modality assisted the department to implement activities that were already 'on the shelf' but lacked sufficient funding. However, care was taken to implement activities that were once-off and aimed at relieving blockages to service delivery or building capacity. The first and second category of projects (distribution and printing of materials and events, such as conferences and workshops) were seen to add value to existing work. In category three (research, innovation and development) the value was seen to be about providing seed money for much larger initiatives (e.g. for the Thutong Portal, demonstration of learnerships in the FET sector).

These activities would not have taken place. The last category (capacity development) activities were directly about building capacity (e.g. turnaround strategy in the Eastern Cape and upgrading of under and unqualified teachers.) A by-product may be the additional value from adapting tracking systems developed for the programme for general use in the provincial DoEs (for delivery of materials to institutions). With regard to the intervention in the Eastern Cape, it is easy to identify impact, including the introduction of formalised systems for record keeping in the provincial department and the introduction of performance management systems. Also, the programme enabled DoE national staff and provincial staff to work together, increasing understanding and enabling support to other provincial departments, based on the Eastern Cape experience. Finally, the programme enabled capacity to be built within DoE (e.g. attendance of programme managers of UNISA's project management course).

3.112 Aid was also used for activities which are important for the long-term development of the country – such as the programmes of science and technology – but which have been squeezed out of the main budget due to the need to fund the expansion of public services and social support to low and very low income households. In such cases ODA can still be viewed as adding value, particularly if it brings on board access to technology and know-how.

Capacity Building

3.113 Capacity building important ODA value-add: Since 2000 capacity development has become and increasingly significant feature of donor strategies in South Africa. At a time of insufficient government capacity for implementation, donor capacity building interventions have also provided access to specialised skills and knowledge. In the interviews conducted, all respondents cited capacity-building as a key value-add of ODA. However, weak coordination among donors and aid recipients was compounded by a lack of criteria and standards by which donors could support and assess capacity building programmes and incomplete documentation of lessons learnt.

Box 3.4 Capacity Building in the Paris Declaration

According to the Paris Declaration on Aid Effectiveness⁴⁰, the capacity to plan, manage, implement, and account for results of policies and programmes is critical to achieving development objectives. In the declaration, partner countries commit to integrating capacity strengthening objectives into national development strategies and to pursuing their implementation through country-led capacity development strategies where needed, while donors commit to aligning their analytic and financial support with partners' capacity development objectives and strategies, to making effective use of existing capacities, and to harmonising support for capacity development accordingly. In other words, partner countries need to take the lead in determining priority programmes of capacity development.

3.114 **SA has matured in overall approach to capacity building:** During the period under review, South Africa has matured significantly in its overall approach to capacity building: particularly the study identified an improvement in the way capacity development was handled after 2005 after the review of skills development. The emphasis in capacity development has shifted noticeably from institutional and individual capacity building to capacity development of the community, and where linkages are made to service delivery.

3.115 **There is also evidence of a maturity emerging in the capacity development component of ODA:** there is a definite shift away from targeted instructor led training (traditional classroom based training) to a higher order of facilitated learning, where mentoring and coaching are being introduced with good effect. A review of capacity building through projects and programmes highlighted the issues that follow regarding capacity building through and for ODA.

3.116 **Important examples of building capacity for coordination across government:** As argued above, ODA programmes have shed light on how to coordinate activities across government and provide rich experience on structures that work in this context. It would be important to understand better the factors in these programmes that have contributed to success in order to replicate it in government-funded programmes with similar needs for coordination.

3.117 **Key criterion for capacity building programmes must be sustainability:** An evaluation of capacity development in ODA⁴¹ reported that sustainability of capacity is one of the main concerns of successful ODA programmes. Comprehensive planning of ODA capacity development programmes must involve baseline assessments of existing and desired capacity, as well as the design of exit strategies for the TA components, building in an element of risk taking and experimentation along with a review of successes and failures, and flexibility to act on lessons learned. Unfortunately, in the projects reviewed, there was not evidence of this finding having been acted on consistently in the period under review, although in the more recent case studies some examples of good practice can be found.

⁴⁰ Paris Declaration on Aid Effectiveness. Ownership, Harmonisation, Alignment, Results and Mutual Accountability. March 2005

⁴¹ Kersher 2006

Mini-case study: Flemish support for food security in KwaZulu Natal

Skills development is one of the main pillars of the food security programme. The EFSP focuses on capacitating beneficiaries, practitioners in various fields that involve Food Security. This training is therefore divided into Generic Training, Institutional and Technical training.

A comprehensive business plan which will 'systematically deal with the targeting of vulnerable communities first and encouraging those who are less vulnerable to get moving themselves' was finalised in August 2009. A programme of action was approved by Cabinet. The programme launched the One Home One Garden Campaign in Inkandla on 18 July 2009. Since then the programme has seen 1,6 million beneficiaries or 233 316 households benefit from the Seed Scoop (Starter Pack 1) intervention. This will ensure an estimated 2,5 tons of produce per household. The programme furthermore benefited 97 407 people with the Starter Pack 2 (Household Food Production Pack) intervention. The aim of the programme was to increase homestead/household production of food. This was largely achieved in the areas which were targeted. The direct alignment between the development of focused material in the EFSP 'try-out laboratory' within the eight local municipalities and the strong, practical application and feeding of such results into the comprehensive capacity building approach will maximise impact within deprived wards. This concept enhances the inter-programme feedback necessary to improve food security throughout the province.

3.118 Capacity building works where SA managers take responsibility: The evaluation report on capacity development in ODA reported as a key finding that ODA support for capacity development overall works well where line managers take full responsibility for overseeing relevant programmes, and the ODA CD interventions are not add-ons outside of normal management practice.

3.119 Staff turnover, institutional stability and over-use of international consultants a concern: Common factors leading to poor performance in the capacity building components of programmes include inadequate design, high staff turnover and personnel shortages, institutional instability, poor oversight and weak monitoring and evaluation of capacity building initiatives.

3.120 Need to focus on institutional capacity building: There is a need to focus on institutional rather than individual capacity building. The Kersher report concluded that capacity development as an ODA intervention is only sustainable if it invests in teams, units, departments and systems, and thereby ensures that capacities are **embedded** in systems and spread throughout them. There is some evidence of long-term advisors being more effective, particularly in building institutional capacity.

3.121 Development of documentation requires strategies for its use: ODA to develop documentation such as training materials and guidelines are valued, but a common theme is that these need to be developed in the context of a strategy for their implementation and long-term use. The development of documentation in the absence of such a strategy is a typical feature of ODA programmes in which there is low ownership and poor linkages with departments' strategies, structures and activities.

3.122 There is a clear need for better documentation of ODA capacity development programmes: The lack of a common approach (flexible, but standardised formats) to planning, recording, monitoring and evaluation is a major handicap in identifying good practices in capacity development. This would allow for a better sharing of lessons learnt. Sharing knowledge on capacity development initiatives is essential and particularly important where the public sector is characterised by high staff turnover and low institutional memory.

Mini case studies: Issues in ODA capacity building programmes

The Swedish urban development programme: The programme has not been fully successful in building sustainable skills and capacity in the three affected municipalities in an evaluation carried out. This, it was found, is partly due to frequent staff changes within the municipalities. The Urban programme would have benefited if it had focused more on institutional rather than individual capacity building. The programme also found that long-term advisors are more effective. First there should be solid links between the donor and the implementing municipality: municipal officials reported that long-term advisors and consultants result in projects are more rooted in municipal development work, better coordinated, reach out more to actors and are more likely to be sustained. Full time, resident Urban Advisors were key success factors in the programme. They became familiar with local processes and complexity. They acted as advisors, innovators, initiators and facilitators.

Support to economic reform programme (SERP, UK): The absence of an institutional appraisal and of annual appraisals of expatriate employees in the programme means that there has been no baseline or monitoring system to assess the extent to which SERP has contributed towards building capacity. There is the need to make this clear at the design stage and ensure that a monitoring process is in place prior to the start of the project.

Support for the restructuring of state-owned enterprises: Capacity building has been uneven. The technical advice extended might have exceeded the stakeholders' capacity to absorb information in the timeframe available. Although a number of requests for assistance were turned down by the project management team on the grounds of poor project fit, the absence of any formal vetting mechanism in the selection of interventions has raised questions about the essentiality as opposed to the desirability of some interventions. The lack of involvement of local consultants (and local capacity building) was a concern of many stakeholders.

Support for SAPS (France): With respect to capacity building the impact was weakened by 'the strong turnover within the ranks of the beneficiary units'. Specific gains however included helping to modernise the National Fingerprinting Laboratory, training on crime scene management, training the Bomb disposal unit, updating the equipment used by the Computer Crime Investigation Unit.

Limpopo Local Economic Development Programme (EU): Little evidence of any capacities being developed/ skills being transferred. No Limpopo based short-term TAs being used (despite this being an important component of the Financing Agreement). The majority of the training that occurred was aimed at individual projects and little training was done at institutional level. (This is more sustainable as trainers are trained). At the time of this report it did not seem that a secure source of funding was available for the future, nor were there sufficiently skilled locals to implement Local Economic Development (LED) in the province.

Financial Management Cooperation Project in the Eastern Cape (EC): Some transactional capacity support in the development of technically competent documents and a comprehensive Accounting Handbook, Provincial Budget Guidelines and a Budget Training Manual, but uncertainty as to their future use and impact in. A follow-up interview with the provincial Treasury revealed that the training manuals were developed and produced in the absence of a training strategy, and there are currently no plans for their use in the Eastern Cape provincial government.

Technical assistance

3.123 A common way in which development partners supported capacity building was through technical assistance (TA). While technical advisors can play an important role in developing capacity at the individual, institutional and policy levels, they do not replace the critical line function of staff development and departmental leadership.

3.124 TA is valued, but under enabling conditions only: Both national and provincial levels value TA for its ability to address procurement and capacity constraints and to build sustainability⁴². Some key enabling factors for TA were identified in the 2006 Study on Best Practices of ODA. Support to Capacity Development in South Africa. Factors identified as critical in ensuring the best results included both role players being open to learning, integrating the technical assistance into the management structures of the supported department and the development partner understanding the context of the programme/project.

3.125 The evaluation of the Swedish Urban Development Programme⁴³ similarly highlighted important conditions for the successful transfer of skills from international to local professionals:

- political and strategic leadership to drive and guide change management etc. sufficient expertise to implement legislation and policies;
- that high-level management and technical posts are staffed;
- sufficient technical ability to develop systems, internal processes and new functions;

⁴² Interviews: DEAT and KZN Office of the Premier

⁴³ Sida, 2006

- reasonably low staff turnover;
- structure and system that enable programme and project activities;
- a reasonable degree of internal confidence and interest to improve.

3.126 TA is often delivered through PIU/PMUs or as aid in-kind funded directly by development partners. The concern exists that many existing PIUs are not building capacity in the relevant departments. The experience of PIUs at implementation level is slightly different – it is believed that PIUs can be useful in accelerating implementation and at the same time provide transfer of skills, depending on how they are set up⁴⁴. The key is strong ownership and integration into the recipient institution's management structures.

Lessons learnt: Technical Assistance: Health

A key lesson learnt by development partners (UK and Belgium) when working with the Department of Health is that technical assistance cannot be forced onto a department where no perceived need exists. A needs analysis is therefore critical to ensure that the needs of the department are met.

3.127 In conclusion – and echoing the discussion in the EU Joint Country Strategy Paper – ODA programmes were successful when they focused on three elements: the way services are delivered, the capacity to deliver them and the quality of operations. It is not as much about providing the financing – although there is a gap in the provision of development financing for private sector growth and the development of social and economic infrastructure – but about providing the space for innovation, development of good practice models, piloting, risk taking, systems development, capacity, skills and knowledge development and strengthening coordination and dialogue within South Africa between government institutions and government and other sectors.

⁴⁴ Interview with KZN Office of Premier and DEAT

Section 4: When was ODA effective?

4.1 An assessment task for this study was to investigate under which circumstances aid was effective, given the experience of ODA in South Africa 2000 to 2008. Much of the discussion in Section 3 above was underpinned by this question, making it the key query in terms of which the findings above can be analysed and concluded.

4.2 As is stated above: asking whether aid was effective overall for any category of aid, albeit by sector, by province or overall, can only be answered with reference to specific interventions. Whether aid was effective or not was programme/project specific and driven by a variety of factors that had to do with the institutional arrangements specific to each project/programme. The important question then becomes what lessons can be learnt from this experience and what does it imply for the management of aid going forward. This section provides this discussion, highlighting key factors and implications for the future.

What is meant by effective aid?

4.3 What is meant by ODA effectiveness? Thus far in this report the term has been used to mean one or any combination of three things

- Effective aid: i.e. ODA interventions that achieve what they set out to achieve and the effects of which are sustained, albeit through government take-up of activities or proper maintenance of ODA-funded infrastructure.
- Efficient aid: i.e. ODA interventions that achieve what they set out to achieve on time and at the least cost.
- Aid that adds value: i.e. ODA interventions to the general government sector of which the returns are worth the transaction costs and which leverage South African domestic resources to address government priorities. In other words, aid that addresses the way in which services are delivered, the capacity to deliver services and the quality of services. Commonly this is understood to mean that aid should be about innovation, piloting, risk taking and capacity building and should be sustainable.

In this section it will be supposed that truly effective ODA – in an ideal intervention – would achieve all three elements and would be of economic benefit, i.e. providing a positive return on resources taking into account all costs, including opportunity cost. At the very least an effective intervention would strike a balance between the three elements that is appropriate. For example, an ODA programme that will eventually deliver results against its own objectives but takes so long to get off the ground that the money is returned, would not be effective. On the other hand, an aid programme that is delivered on time, for the least cost and which even represents innovation, but which is not taken up by government so that its impact is sustained, is not effective either.

4.4 The discussion in section 3 highlighted a number of factors that are necessary to achieve effective ODA in this sense, for example in some sectors ODA requires harmonisation to be efficient; ODA results need to be monitored to ensure effectiveness etc. It also highlighted key causal and reinforcing relationships between factors. Drawing on the findings, we would like to emphasise the following:

- The key role of ownership and leadership in achieving the desired ODA management outcomes which are necessary for achieving ODA effectiveness, efficiency and value-add. Ownership emerged as necessary (although not sufficient on its own) for alignment, harmonisation, mutual accountability, local accountability, demand for information flows on aid, management for results, the integration of aid in the budget cycle and sustainability.
- Ownership stands in a mutually reinforcing (or detracting) relationship to these outcomes.
- In this list of desired aid management outcomes there are inter-dependencies, e.g. mutual accountability is dependent on information flows, which requires management for results which in turn requires demand for information.
- Ownership and leadership operates at different levels: it operates at the national, provincial and municipal level for ODA management; at the level of recipient institutions through the role played by political leaders, accounting officers and ODA coordinators; at the project and programme level through the role played by project and programme managers.
- At all these levels in one or another way ownership and leadership is dependent on both the institutions of the project management cycle (how are ODA interventions initiated, programmed, project managed and

implemented, reported on, reviewed, evaluation, adjusted) and the institutions for ODA management in the programme budget cycle (which determines incentives for South African actors to take ownership and leadership of ODA).

- These are however not the only factors affecting ownership and leadership: the by-chance capacity and motivation of individuals play a role and of course, the capacity for ODA management of individuals and institutions is critical. In cases where leadership is “personality driven” as one development partner put it, then non-integration in the budget cycle may be less necessary – although in most such cases it is integrated precisely because of the leadership.
- In order for ODA to be truly effective in the South African context, it has to add value. There are aid programmes which are effective in the sense of achieving their objectives, but which may not add value. Whether programmes add value or not is a function of what they set out to do, and their institutional arrangements. What ODA sets out to do should also be appropriately concentrated in fewer rather than more interventions and appropriately targeted.

4.5 In view of these conclusions, the following result chain model for effective ODA in South Africa can be posed. It presents – like all models – an abstraction and simplification of how different factors contribute to the achievement of an effective ODA programme. However, it does express a series of important relationships.

- Although there will be examples of aid programmes for which the model does not hold entirely, on average the model describes the necessary conditions for aid effectiveness and their inter-relationships.
- Arrows in the model highlight important causal relationships. Ownership and leadership is dependent on factors in the aid management cycle and budget cycle, as well as factors intrinsic to the individuals and institutions that receive the aid. Ownership and leadership are required for a series of other ODA management outcomes, which in turn contribute to ensuring that aid is effective.
- There are further links which are not indicated, in the interest of simplicity, for example the direct relationships between the arrangements for ODA in the budget process and the project cycle and alignment (or accountability, management for results, value-add) are not indicated. The model however makes the point that without leadership and ownership, these direct links can only weakly effect the desired ODA management outcomes and ultimately, effective ODA.

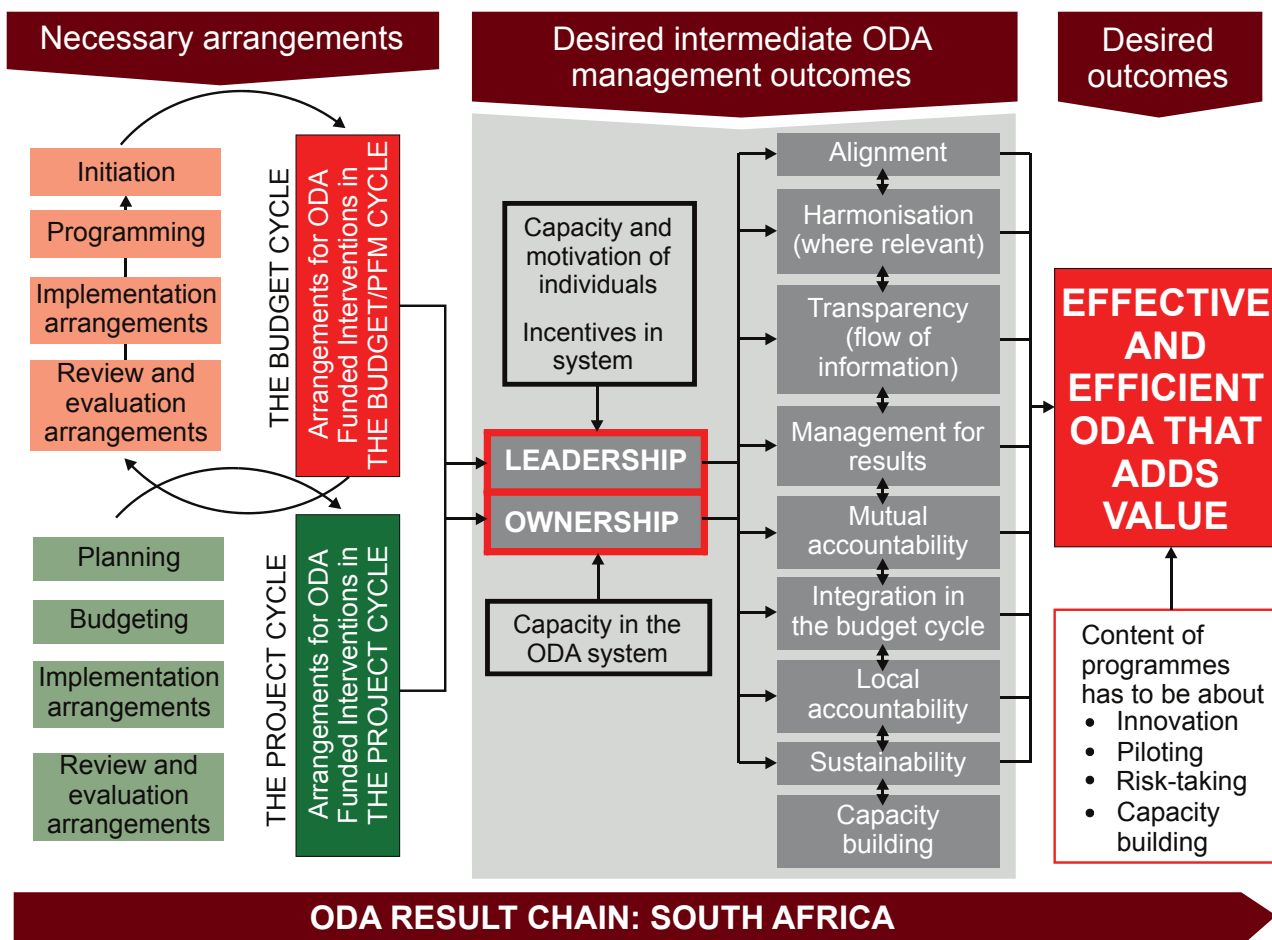


Figure 4.1 Result chain model for effective ODA in South Africa

4.6 This model assists the analysis by allowing the identification of factors particularly at the base level which causes the result chain to be broken and aid interventions to fail, or which facilitates the achievement of the desired outcomes. These factors are set out systematically below.

Key factors for aid effectiveness in the project cycle

Initiation and programming

4.7 **The origin of aid programmes matter significantly.** Projects and programmes that are initiated by the ODA recipient and for which funding is sought strategically, have ownership, is more likely to be integrated at macro and micro-level with the institutions programmes, activities and budgets, and is more likely to be sustained. Projects and programmes that are initiated by donors are more likely to be driven by donor priorities (even if aligned with South African priorities) and more likely to remain owned by the donor notwithstanding the funding channel.

4.8 **How programmes are programmed matters.** Programmes that are developed by the donor – using contracted consultants – to donor formats and for donor programming cycles are less likely to have ownership, less likely to be integrated with budgets, less likely to be integrated at macro and micro-level and more likely to experience the kind of delays that make them inefficient and eventually ineffective. Some of the strongest examples of effective ODA over the period under review however, were programmed in an inclusive manner with the recipients driving the process and/or taking key decisions in it.

- A key problem with imported programming teams is that local complexity and institutions – both for managing programmes and regarding the specific intervention area – are understood imperfectly, leading to delays and problems at the time of implementation.
- Programmes that are developed without establishing a baseline, which are over-ambitious in the results that are expected within the timeframe (particularly at the outcome and impact level) and which do not develop good monitoring and evaluation frameworks from the start cannot be managed for results. This means that neither mutual nor local accountability is possible, except for undertaking activities as programmed.
- A common theme has been the under-programming of the start-up phase of programme implementation. For many projects and programmes this phase took years, rather than the two to three months allowed in the initial programming document. This means that by the time the programme is finally up and running, extensions need to be granted or the funding returned. In the programmes reviewed, delays were as common with regard to interventions initiated in the second half of the period as interventions initiated in the first half, suggesting that programme planners/donors did not learn from the experience of earlier projects and programmes. This is symptomatic of programming being driven by development partner programme cycles, rather than local circumstances.
- ODA and development partners should ensure that all stakeholders of the intended programme are active in the programming process, across departments and across spheres. The experience of the period shows that programmes that are developed with the active involvement of implementers are likely to succeed and add value and that the longer time required for programming is a price worth paying.

4.9 **Programming ODA – from the level of country strategies through to operational plans – should be driven by country priorities for ODA.** Note that there is a difference between country priorities and country priorities for ODA (defined at the national level to be the use of ODA for innovation, piloting, risk taking and capacity building). A key proposal of this report is that South African institutions should take an even stronger lead in determining what their institutional level priorities for ODA are, rather than just being satisfied with a donor-determined match at some level between donor intentions and overall South Africa priorities.

4.10 **The implementation arrangements matter hugely.** The discussion in Section 3 has touched on the key aspects. Looking at these aspects a picture emerges that there is not one set of arrangements that work in all circumstances: the same arrangement can lead to programme failure in one context, but support programme success in another. It depends on the conditions within which the arrangement is implemented and how:

- The funding channel matters, but in conjunction with other factors. Where funds are disbursed through the RDP fund to recipients that have ownership of a programme and have the necessary project/programme management capacity, the ODA intervention is likely to run on time (more or less) and deliver results (how

effectively and with how much value-add depends on the programming). Where ownership and capacity are lacking, disbursement through the RDP channel can mean years of delay (and eventual irrelevance of the original programme) and non-implementation of activities.

- Management arrangements matters. Section three above discusses the often negative and potentially positive role of PIU/PMUs. Where the units are parallel, are controlled by the development partner, staffed by experts only in key positions and answer to the development partner, they undermine ownership and can be a key factor in programme failure. Where they are integrated with, controlled by and answers to the recipients they can enhance programme performance and deal with capacity and system bottlenecks that otherwise would cripple programmes. Steering committees emerged as an equally important factor: where they are representative, take decisions, are lead by the recipient and meet regularly, they support ownership and programme efficiency. Many of the less successful programmes/projects reviewed had weak steering committees. The steering committee/ownership relationship – like so many other causal links in the chain – is mutually reinforcing.
- Procurement arrangements matters. A common feature of ineffective or failed programmes is problems with using the funds on account of procurement requirements, albeit the donor's or the recipient's. The EC procurement requirements were given the blame for many programme inefficiencies. At the same time there is reluctance from both development partners and recipient institutions to use South African procurement arrangements because they are seen as cumbersome and associated with programme failure. Tied procurement is often problematic: goods and services are delivered that are not tailored to South African needs and, in the case of goods, cannot be maintained without additional expense over locally procured goods.
- Arrangements for reporting, monitoring and evaluation matter: Are these donor driven, or demanded and driven by the recipient? Many ODA programmes have onerous reporting requirements to the development partner, but are weak in reporting to recipient institution management and other South African structures. A return information flow – for example on aid in-kind – is not maintained and rarely demanded. This undermines mutual accountability, local accountability, management for results and ultimately, the delivery of programmes that are effective⁴⁵. Of course, these arrangements also matter for transaction costs (and aid efficiency): do they use country systems, are reports and missions harmonised?

4.11 Overall, it is critical that project programming and implementation arrangements should take account of the institutional context and be developed to support ownership, leadership and mutual accountability, tempered with an interest in delivering the programme efficiently and on time. For example, in cases where capacity is weak, a PIU/PMU should be considered (and not be dismissed because the Paris Declaration monitoring framework makes them undesirable), but constituted in a way that will support leadership, drawing on the lessons learnt over the period.

4.12 Given the size of ODA in South Africa the use of country systems is not as much about building capacity within these systems (since the impact will be marginal unless the objective of the programme is capacity building for public sector management systems), but about ensuring ownership, which is crucial in the context to making the programme work effectively, efficiently and sustainably. If country systems are not used, or only partially used, the alternative systems of choice should be set up in a way that compensates for the potential loss of ownership.

4.13 If ownership is not present because the programme is donor-driven and the recipient institution is not interested or involved in a significant way, the programme should not be pursued and the ODA not be accepted. It will not be an effective use of ODA funds in the sense described above.

Key factors for aid effectiveness in the programme budget cycle

4.14 Aid may be a small proportion of expenditure on public services overall, but (i) in some sectors it is significant and (ii) in all sectors it offers opportunities for improving services if used well that are particular to ODA, for example access to technology through partnering and so forth. However, because it has been perceived as marginal to the domestic budget, it has been managed on the side and as a result, has become invisible in mainstream processes.

4.15 It is clear from the discussion above that the 'invisibility' of aid in South African processes over the period under review was problematic. The main drawback of this is that it dis-incentivises ownership and leadership. Because accountability is not demanded systematically, it is not present as a matter of course, even if present in

⁴⁵It is interesting that arrangements for audit do not appear to impact significantly on aid effectiveness. Besides noting that the responsibility for auditing is assigned in the financing agreement and the different kinds of arrangements that exist, earlier overview reports on ODA did not emphasise auditing as a factor. Nor does it feature in the project documentation reviewed and interviews undertaken.

some institutions. The result is that ODA programmes are implemented as an add-on to programme managers' duties, the part of their responsibilities that they will turn to only after disposing of the duties for which they are accountable in a way that will affect their careers and bonuses. The reason why sector budget support and other arrangements for which there are institutional ownership (such as the support to Masibambane even if not sector support but very specific contributions in-kind) work better, is because they result in some degree of local accountability at the programme level.

4.16 The aim should be to reform ODA management institutions so that the ownership/accountability spiral is positive, notwithstanding the ODA modality used. The impact of reforms to the project management cycle to achieve this will be limited. There will always be development partners who choose not to use sector budget support arrangements and some interventions might not be suited for these. And even if all ODA is switched to sector budget support/RDP fund arrangements, the accountability and ownership will still be limited unless it is demanded through mainstream processes.

4.17 Key common shortcomings are:

- **Institutions should be strategic in planning for aid.** Aid is not on plan consistently and robustly. This results in ODA-funded interventions not being integrated sufficiently well with local interventions. However, in the South African context putting aid on plan would not only mean reflecting and integrating existing ODA, but also that institutions should be strategic about what is supported by ODA. The ODA relationship should be much more about South African institutions taking the lead, identifying where ODA fits into their needs and managing relationships with development partners – through the IDC as needs be.
- **Institutions should be in place to ensure integration on budget and on report:** The integration of information flows on ODA with the South African budget process is dysfunctional, caused by both supply and demand side problems.
 - **Demand side:** although in recent years the extent of information demanded within the process has become more comprehensive, it is clear from the completeness and quality of the information that nothing gets done with it yet, at any level. The problem starts at institutional level and carries through to the central level. It is not clear that the information is systematically collected, collated and used even in the project management cycle, definitely not in the budget management cycle. Because there is no effective demand for good information on expected and actual use of ODA (for cash to some extent but in-kind to a significant extent), there is little pressure on programme managers to account systematically. As a result there is insufficient pressure on donors to supply information, on actual use and/or on expected use. This needs to be solved within the budget cycle/budget programme management processes. ODA should feature systematically on institutional level and central level budget processes, not necessarily uniformly for all sectors, but definitely for the sectors in which ODA is more significant.
 - **Supply side:** Poor information flows from development partners and issues of timing the respective budget cycles of the two parties in the aid relationship are not unique to South Africa. But solving them is unique to every aid programme and project. It requires assessing the challenges and disconnects systematically and the formulation of rules for each intervention at the programming stage to ensure that information flows are in place to enable mutual and local accountability. A body of knowledge can be built up across institutions for each development partner which will ease this process over time.
- **ODA should be an agenda item in new M&E systems:** weak management of ODA for results up to now has been a factor of weak attention to M&E across government. The lack of information on programme effectiveness beyond the implementation of activities could be blamed partly on ODA programming, but also on weak M&E information systems overall. This environment is shifting rapidly with increased demand for M&E from the Presidency at political and managerial level. This is an opportunity for ODA management: in addition to the opportunities for joint assessment frameworks and lower M&E transaction costs it is important that ODA is systematically included in the processes and mechanisms that currently being developed.
- **Accounting for aid in the budget cycle should ensure political accountability:** The RDP fund arrangement works well. It offers a tightly managed, traceable flow of funds from the development partner to the project/programme which can be accounted for uniformly across institutions in the chart of accounts. Putting ODA on parliament (as opposed to merely on budget) would mean that ODA is appropriated by parliament in the same way as the domestic budget. In many countries this is the case where legislatures approve development budgets. In principle it has the potential benefit of bringing ODA into the local accountability cycle. However, in practice it is an empty process,

since the financing agreements have already been signed between executives and development partners and it is this agreement that in practice provides the legal backing for implementing programmes, not the parliamentary appropriation process. It is also unfair to the executive to bring ODA on parliament: it only has control over the use of cash, not over the revenue flow or the use of in-kind ODA. Unless development partners are also accountable to parliament – which is unfeasible from a legal governance and practical point of view – the legal accountability of South African institutions gained from putting aid on parliament is nearly as empty as the authority of the appropriation. However, ODA needs to feature in parliament's oversight of institutions. Executive authorities and accounting officers need to be accountable for the use of cash that did arrive, for putting pressure on donors to be predictable, for having information on the effectiveness of ODA that is delivered in terms of agreements signed with the executive (on behalf of citizens) whether it is in-kind or in cash and for the use of non-cash resources such as programme managers' time in the implementation of ODA programmes. This type of accountability can be enabled through reporting aid transparently⁴⁶ on budget and on report.

Other key factors for aid effectiveness

4.18 The ODA result chain model illustrates that ODA effectiveness is the result of institutions in the project cycle, institutions in the programme budget cycle and of institutional capacity and institutions to manage ODA. This sub-section looks briefly at key factors in the last set of institutions.

4.19 Key factors:

- **ODA programmes must deal with challenges in the institutional context:** Weak institutional leadership and frequent high staff turnover is cited frequently in the documentation reviewed as a key factor in ODA interventions that turn out to be less effective than expected. High staff turnover is a significant risk factor particularly in partnership type arrangements and capacity building initiatives. This however is a characteristic of the overall South African public sector environment and not peculiar to ODA programmes. ODA interventions should take account of these factors at the programming stage as a key problem within the intervention and structure activities to mitigate it. In other words, capacity building programmes for example should – as is set out above – approach the challenge as one of institutional capacity rather individual capacity and put in place arrangements for capturing institutional memory within a context of high staff turnover.
- **The weak capacity in implementing institutions to manage ODA and use it effectively must continue to be addressed.** However, there is a need not to treat all environments as if they are the same in terms of ODA. The size of ODA in South Africa does not merit maintaining capacity across all of national, provincial and local government. Capacity for ODA management should be allowed to develop differently and to a different extent in different institutional contexts in South Africa. For example, it is not necessary to have dedicated ODA capacity and develop extensive ODA tracking systems in a department such as Home Affairs. However, it is crucial to have the capacity and systems in health and education.
- **Lack of robust information on ODA allocation and use:** Section 3 (The integration of ODA in South African systems) makes clear the key weakness in information management around ODA. Earlier reports (2006 and 2008) mentioned the impending improvement of these systems. However, at the time of writing this report the time frames provided in the earlier reports had not been realised. The IDC is currently undertaking an extensive programme to address this gap. From the perspective of this report however it is important that the system put in place should:
 - Includes all forms of ODA, appropriately classified and disaggregated against mutually exclusive categories.
 - Provides a common capacity for institutions to capture aid information systematically, supporting their budget submissions and internal reporting requirements. The IDC should provide clearer guidance on institutions and formats for internal reporting, linked to the ODA management information system.
 - Use unique project/programme numbers to avoid duplication. The numbers and associated project titles must be transferred to budget reporting and allow for extensions to programmes to be logged on the original project number.
 - Be used to generate or check submissions and reports (e.g. for the ENE) to ensure that it is in institutions' interest to maintain their information
 - Be used to guide annual consultation with development partners on progress of programmes.
 - Responsibility for managing/maintaining the system should be assigned exclusively at central and institutional level.

⁴⁶ Transparently would mean comprehensive, accessible, regular and accurate financial and non-financial information on the expected and actual use of ODA.

- **Weak central institutions to enable political accountability:** We discussed above the lack of departmental mechanisms to ensure political accountability. Currently the main central mechanism is the annual report on the RDP Fund, which only covers RDP fund ODA programmes and concerns the management of the fund (deposits, disbursements and balance) but not the onward management of resources. There is therefore no mechanism that provides Cabinet, parliament and the public with an overview of ODA of all kinds into South Africa on an annual basis. The lack of such a mechanism over the fifteen years of ODA has contributed to poor incentives for ODA information management. There is a need to address this gap. One option would be to publish an annual report on ODA to South Africa, or to augment the RDP Fund report with an annex that provides comprehensive, accessible, appropriate disaggregated and accurate information on ODA commitments, disbursements and use.

ODA modalities and aid effectiveness

4.20 The TORs required the Review to look at lessons from the use of different aid modalities. In order to look at these issues the team had to grapple with the meaning of the term aid modality, which is used by different stakeholders to mean different things.

Box 4.1: What is an aid modality?

The term aid modality is used to refer to different ways of delivering development assistance. However, it can refer to the way in which an ODA intervention is programmed, financed, disbursed, the type of input delivered, the type of financing provided or any combination of these.

Type of support programmed

ODA can finance stand-alone projects or programme-based approaches. The OECD DAC defines a programme-based approach as

A way of engaging in development cooperation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme-based approaches share the following features:

- *Leadership by the host country or organisation.*
- *A single comprehensive programme and budget framework.*
- *A formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement.*
- *Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.*

(OECD DAC Glossary online)

ODA financing modalities and funding channels

Donors can support and implement programme-based approaches in different ways and across a range of financing modalities including general budget support, sector budget support, pooled arrangements, trust funds or donor-specific project funding. Different types of support, financing modalities and funding channels commonly align. For example, budget support inevitably finances a PBA and is disbursed through channel 1. Projects financed through donor-specific project funding are likely to use channel 3. PBAs are often financed through pooled arrangements and would use channel 3. However, there are no fast rules: project support can also be financed through a pooled arrangement and disbursed through government systems.

ODA inputs delivered

ODA can be delivered as cash (using the RDP fund in South Africa), as in-kind assistance (using Channel 3) or as technical assistance (using Channel 3 or the RDP fund in South Africa).

Type of financing provided

ODA can be grant financing (albeit it as cash, in-kind or TA) or concessional loans (which again can be provided as cash, in-kind or TA). Project and PBA-approaches can be financed through either grants or loans, and general budget support, sector budget support, pooled arrangements, trust funds or donor-specific project-based financing can be done either through a grant or a loan arrangement. Concessional loan arrangements for ODA to the general government sector are not common in South Africa.

4.21 There are many dimensions to ODA flows, any of which can be used to categorise it, namely the type of support delivered, the financing instrument and disbursement channel, the type of input delivered and the type of financing (see Figure 4.2 for a discussion). For the purposes of the review the team took modality to refer specifically to whether aid was delivered as sector programme support⁴⁷ or project-based support and whether it was delivered using the RDP channel (channel 1), or channel 3. If these two dimensions are put together four ‘modalities’ emerge:

Figure 4.2: Defining aid modalities in South Africa

	PBA	PROJECT
USING RDP	Programme- based support disbursed through the RDP fund (e.g. Irish Aid Support to water sector programme)	Project-based support disbursed through the RDP Channel (e.g. Darling Wind Farm Demonstration Project, Denmark)
In-KIND (donor managed /3 rd party)	Programme-based support provided in-kind through channel 3 (e.g. DFID support to the education sector in Limpopo and Eastern Cape)	Project-based support provided in-kind through Channel 3 (e.g. Rural Electrification Project, Germany)

4.22 It was also noted that while Channel 3 projects and programmes that are implemented through a third party effectively require a PIU/PMU, funds that are disbursed through Channel 2 may or may not utilise a PIU/PMU. What is commonly referred to as sector budget support in the South African context, is a programme-based approach utilising the RDP fund that is implemented by the recipient institution. In all sector budget support programmes in South Africa the funds are earmarked for a specific institution, and often beyond that for use in specific programmes of a recipient. In a true sector budget support programme approach there would be no earmarking, but funds would be transferred to the central budget together with a policy dialogue focused on specific sector issues (OECD DAC Definitions).

4.23 **All modalities are relevant to South Africa:** It is not clear from the literature reviewed that there is any one modality that represents a more effective way of delivering development assistance in the South African context for all circumstances. For example in some cases sector programme support delivered through the RDP channel appeared to have resulted in high ownership, high potential for sustainability and apparent effective use of aid. In other cases this modality meant that the ODA flow was dwarfed by government’s own spending and the value-added is unclear, or that long delays were experienced in ODA programme implementation undermining its effectiveness. There are also examples of project support delivered through Channel 3 that works, but then there is high ownership and robust institutions that support ownership, such as an integrated PMU or a government controlled steering committee.

4.24 Factors that seem to influence when which modality is more likely to be successful are the ownership and leadership exercised by the recipient institution in directing and managing the ODA; the capacity of the institution to (project) manage aid; the type of activity that is funded and the size of the funds provided.

4.25 **Modality-based ODA management guidance a gap in available instruments:** From the discussion above on the integration of aid into the budget process and the constitution of programme/project arrangements to support ownership/ leadership, it is clear that recipient institutions have to be capacitated to choose and negotiate appropriate modalities for each intervention, to negotiate rules within the modality that will deliver the best outcome and to manage the modality’s interface with South Africa’s domestic budget and accountability processes. There is an opportunity to use the experience of the period under review to develop an assessment tool and guidelines that will provide systematic assistance to institutions.

⁴⁷ It is worthwhile noting that whereas many of the documents scanned would refer to the programme being reviewed as sector budget support. However, if the narrow OECD DAC definition of the term sector budget support is applied, no such support is provided to South Africa. Rather the support provided is earmarked sector programme support. Many stakeholders also confuse sector programme support with sector-wide approaches.

Section 5: Conclusion and recommendations

5.1 The aid context in South Africa is marked by its status as a middle-income country. This means that ODA occurs alongside significant own resources, in the case of South Africa amounting to about 1% of budget. South Africa is well advanced in terms of economic development: it has significant economic and social infrastructure, a well established private sector and a diversified economy. However it also has high levels of poverty and one of the highest inequality rates in the world.

5.2 Development partners entered South Africa after democratisation with a strong commitment to provide ODA support to the consolidation of poverty and addressing of the country's development challenges. However, by the end of the period under review many donors were signalling their intention to wind down their ODA programmes and withdraw and/or shift their programmes to supporting South Africa as a development partner on the continent or to partnership arrangements. All in all, in line with current commitments ODA in its current form is likely to reduce significantly after 2013.

5.3 Aid has not been given high importance overall in the development of South African public sector management institutions. During the period under review it was kept apart from and treated as a marginal addition to own resources. To some degree this has been at the root of the problems associated with ODA management (weak ownership, poor capacity, long delays, ineffective transparency and accountability) set out above, although it should be noted that many of these problems are not unique to South Africa. However, towards the end of the period there was increasing recognition of ODA's potential value across government as funding to demonstrate the benefit of doing things differently; to fund development activities that are important but which compete against essential recurrent spending on public services and support for low-income households; and to bring technology and know-how to build capacity and improve the quality of public services.

5.4 There is therefore a strong drive to bring aid into public processes and to ensure that capacity is built to manage it better. Fortunately, there are also many good experiences with ODA, where it succeeded in adding this value. In these cases the relevant sector would have been much worse off without the ODA. It has strongly demonstrated its value in facilitating successful coordination/cooperation between government institutions (and government and civil society in a few cases) to achieve common goals; in piloting new approaches to service delivery or social problems which can be replicated based on the lessons learnt; in building capacity if the approaches are correct, take place in the right environment and are appropriately managed. Loan-financed ODA has also increasingly provided the necessary development financing to address key social problems in an innovative way, besides the long-standing financing support for infrastructure development. However, the experience also shows strongly that for aid to deliver these benefits, the quality of programming is highly important and South African institutions need to be driving the process, taking ownership and providing leadership. Unfortunately, this ownership was not present in many cases. Overall, the way in which ODA has been perceived and managed has not put in place the necessary incentives for that.

5.5 The current juncture is strategic for ODA management. With an agency mooted which will manage outgoing ODA, there is an opportunity to think strategically about all of ODA. In addition, there is a significant shift within government recognising the value of coordination, planning and monitoring and evaluation to improve the quality of services and their effectiveness. Assuming that ODA in its current form will dwindle over the next few years, it is important to (i) ensure that the remaining funds are used optimally and (ii) think strategically about a subsequent period and how the relationship with development partners should be approached.

5.6 In view of the findings and conclusions in this report, the box below provides an overview of recommendations implied and provided previously in the text.

Box 5.1: Detailed recommendations**Initiating and programming ODA interventions:**

- South African institutions should play a greater role in the initiation of ODA interventions. Donor driven ODA interventions are more risky in terms of ownership, alignment (at the micro-level) and aid effectiveness and should be undertaken in ways that minimise this risk.
- At the very least, the recipients should be significantly involved if not leading programming processes.
- Baselines and monitoring and evaluation frameworks must form part of programming documentation.
- Implementation roles and responsibilities must be negotiated during the programming phase and set out clearly in the programming documents.
- Care must be taken to spend enough time programming interventions, and to allocate enough time for the start-up phase.
- ODA should be programmed to align not only with SA national priorities, but national and institutional priorities for ODA. At national level these have been clarified to be innovation, piloting, risk taking and capacity building. Institutions should develop a clear understanding of what their priorities for ODA are.
- Endemic challenges in the SA institutional context should be dealt with at the programming stage.

Implementation arrangements

- The RDP channel should be used in conjunction with recipient implementation arrangements when the recipients have ownership of the programme and the capacity to implement it. When this is not present, PIUs/PMUs that are constructed to support ownership and which report to the recipient, can be useful.
- Where the RDP channel is not used, other implementation arrangements should compensate to ensure ownership if the risk of ineffective ODA is to be managed.
- Care should be taken to establish functional project or programme steering committees, in other words their composition, mandate and meeting schedule should be conducive to ownership and aid effectiveness.
- Procurement arrangements should be chosen taking into account recipient capacity and the nature of the programme.
- Arrangements for reporting, monitoring and evaluation should take into account recipient internal accountability and mutual accountability requirements. Arrangements that only take into account donor requirements add to transaction costs without contributing to local accountability, and ultimately to ownership and aid effectiveness.

Arrangements in the SA programming, budgeting, reporting cycle

- Institutions should be strategic on the use of ODA within their overall strategic plan.
- Aid should be integrated in planning, budgeting and reporting processes at the centre and institutional levels, and reflected on plan, on budget and on report. This is particularly necessary for departments and sectors in which aid is significant, but may be less necessary and have lower

returns for sectors where aid is less significant. It will be necessary for the central budget authorities to develop functional rules in this regard to ensure that aid is reflected appropriately.

- Aid should be visible in parliamentary accountability processes, to incentivise internal accountability, as well as political accountability. This does not mean necessarily that parliament should approve aid in the appropriation process, but it does mean that reporting on aid to parliament should become institutionalised.
- In this regard it is necessary to develop a central instrument to report on the allocation and use of all aid annually, loan and grant financed and flowing through the RDP fund or through other disbursement mechanisms.
- Particularly in aid-significant departments and sectors, an effort needs to be made to solve issues around the integration of aid information and disconnected donor/recipient institution budgeting cycles on a donor by donor basis.
- ODA should feature in the developing government wide monitoring and evaluation system.
- Overall the IDC should provide clear frameworks and guiding formats for reporting on ODA internally.

ODA management recommendations

- Current efforts to build capacity to coordinate aid should continue (see discussion below on the future of ODA support to South Africa).
- Coordination gaps – particularly inter-sphere, across cluster and with ODA flowing to civil society as service providers for ODA to general government – should be addressed.
- The IDC should continue its efforts to address weaknesses in the management of ODA information. The new system put in place should include all forms of ODA, appropriately classified and disaggregated against mutually exclusive categories; should provide a common capacity for institutions to capture aid information; use unique project numbers; be used to generate and check budget submission and reports and be used to guide the annual consultation with development partners.
- The IDC should provide clear guidelines on key aid management arrangements such as project implementation/management units and steering committees to ensure that they support ownership and aid effectiveness.
- There is no one modality that should be used in all circumstances in South Africa. The IDC should look at developing guidelines to recipient institutions which modality to use under which circumstances and provide support for managing ODA and integrating it into the budget process depending on the modality used.

Other recommendations

- Lessons learnt around the use of ODA for capacity building should be documented. The valuable lessons around building capacity for coordinating service delivery across government institutions learnt in several significant ODA programmes that did this well, should also be understood better, documented and disseminated.

5.7 Overall the team believes the following high-level recommendations to be key to the effective forward management of ODA:

- Government should decisively shift its ambivalence about ODA. If it is willing to accept ODA, robust institutions should be put in place to make sure that it is directed to where it adds value, is managed appropriately and that programme managers and institutions are accountable for the ODA for which they sign financing agreements. If government is not willing to give ODA due consideration, ODA programmes should be allowed to wind down.
- This means in the first place that government should take a stronger stance in setting the rules of the game. If government has to benefit from ODA its integration at a strategic and operational level is required and for this, government institutions need to drive programming, make the critical choices and have good information on ODA flows and their use. Government should set rules/guidelines for mechanisms such as PIU/PMUs, Steering Committees etc. to ensure that they work in ways that support ownership and effective, integrated ODA.
- It means that ODA should be integrated in South African systems to maximise its value, to think about it strategically at the overall and institutional level and strengthen incentives for transparency, accountability and leadership.
- It also means that government should be more strategic on what aid is used for and in which sectors. It should be recognised where and how ODA has made significant contributions and incoming ODA should be directed for those purposes insofar as it is available. In the changing ODA environment government would also need to assess the relationship with development partners that would be of benefit in future (access to technology and know-how, development financing, partnerships, trilateral initiatives etc.) and assess what is required for effective cooperation and work towards putting the capacity in place. If it is clear that ODA in its current form will all but disappear over the next three years it would be of higher value to address only the most critical shortcomings in the system to manage current forms of ODA and work towards the future relationship instead.
- Emerging programmes that involve taking risks in the provision of development financing rather than traditional ODA offer valuable lessons for effective ODA and should receive more attention as a future path for ODA.
- Ownership has been identified as the key variable in successful programmes and projects. If ownership is not clear, donors should choose not to proceed with a programme and South Africa should not accept the ODA. It is unlikely to be fully effective.
- Modalities should be chosen to suit programme and institutional circumstances. Even if sector budget support type and RDP fund arrangements are favoured (and it has been demonstrated that they have a higher chance of success), there are circumstances under which they are not sensible and should be abandoned, or should only be proceeded with if supporting arrangements are in place. The IDC would do well to develop an assessment tool which can guide development partners and institutions in the choice of modalities and guidelines for institutions to manage different modalities and integrate them into the budget process.