

Development Cooperation Review III

Final Report

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Acronyms and abbreviations

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ASGISA	Accelerated Shared Growth Initiative for South Africa
CABRI	Collaborative Africa Budget Reform Initiative
CD	Capacity Development
CRS	Creditor Reporting System
CSO	Civil Society Organisation
DAC	Development Assistance Committee (of OECD)
DCR	Development Cooperation Review
DCIS	Development Cooperation Information System
DEAT	Department of Environment and Tourism
DFID	Department for International Development
DP	Development Partner
EC	European Commission
ENE	Estimates of National Expenditure
EIB	European Investment Bank
EU	European Union
GEAR	Growth Equity and Redistribution
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDC	National Treasury – International Development Cooperation Directorate
IDP	Integrated Development Plan
M&E	Monitoring and Evaluation
MINMEC	Minister and Members of Executive Councils (provinces) committee
MTBPS	Medium-term Budget Policy Statement
MTEF	Medium-term Expenditure Framework
MTSF	Medium-term Strategic Framework
NGO	Non Governmental Organization
NT	National Treasury
ODA	Official Development Assistance
ODA-P	Official Development Assistance Programme
OECD	Organisation for Economic Cooperation and Development
PBA	Programme based approach
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PGDS	Provincial Growth and Development Strategies
PIU	Programme/Project Implementation Unit
PMU	Programme/Project Management Unit
POA	Programme of Action
PPA	Presidential Programme of Action
RDP	Reconstruction and Development Programme
SA	South Africa
SIDA	Swedish International Development Agency
SPA	Strategic Partnership for Africa
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
UK	United Kingdom
UN	United Nations
USA	United States of America
USAID	United States Agency for International Development

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Executive Summary

Executive Summary

The aid context in South Africa is marked by its status as a middle-income country: ODA is a relatively small proportion of resources available to the public sector, 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.

Development partners entered South Africa after democratisation with a strong commitment to provide ODA support to the consolidation of poverty and to address 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. That said, and in line with current commitments, ODA in its current form is likely to reduce significantly after 2013.

A total of approximately \$8 billion of all ODA¹ (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. Of this, 69% was disbursed to the OECD DAC social sector infrastructure and services category, which includes functions such as education, health, water and sanitation and governance and civil society.

The next largest portion (just under 16%) was disbursed to the economic infrastructure and services and production sectors. The remainder was used in multi-sector or cross cutting initiatives, for initiatives that were not classified on the OECD DAC databases or for direct support to civil society (OECD DAC and CRS databases).

The Development Cooperation Review III was commissioned by the National Treasury, International Development Cooperation Chief Directorate with the aim to conduct an assessment of the effectiveness of official development assistance to South Africa during the period 2000 – 2008 in relation to South Africa's own development objectives.

The Terms of Reference for the Review emphasised an analysis of the reporting and integration of aid in the South African budget process; the examination of the effectiveness of different aid modalities in the South African context and assessing the progress made by the country in the implementation of the Paris Declaration.

The Review took place between December 2009 and May 2010 and a draft final report was submitted in May 2010. The research team analysed the findings of existing reviews and evaluations of ODA programmes and projects in South Africa, donor country reviews and strategies and the findings of other reviews of ODA management. The team supplemented these secondary sources with primary research, including selected interviews with ODA coordinators and donors, three consultative workshops and a review of departmental documentation and the available sources of ODA data. The team structured its report in terms of findings against the specific queries raised in the Terms of Reference and a set of conclusions on aid effectiveness.

Findings on ownership and alignment

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 for what aid was used. This was supported by the introduction of clear strategic policy instruments at national, provincial and local level, leadership by the IDC over ODA, as well as a shift by donors to more programmatic and budget support-type arrangements to deliver ODA.

All programmes and projects reviewed could easily demonstrate alignment at the macro-level. The degree of alignment at micro-level however varied, often when ownership by recipient government structures was less robust. Also, ownership and leadership by South African institutions of ODA-supported initiatives were not as consistently strong at provincial, departmental and local levels as at the centre.

Several factors affected ownership and alignment. When senior leadership in departments saw ODA as important, they developed a clear vision on how ODA should be used and became involved in programme design and oversight, the department owned and steered its ODA programmes. Where this leadership was lacking – because ODA was seen as not

¹ All ODA refers to assistance flowing through all channels, which includes the Public Sector, NGOs & Civil Society, Public Private Partnerships and Multilateral Organisations.

important – ownership was weak, as well as alignment at the micro-level, notwithstanding the chosen funding channel or implementation arrangements.

The choice of funding channel combined with choices regarding how the project was to be managed, was however important. Programmes/projects that are funded directly by the development partner or through third party arrangements are less likely to have ownership than projects funded through the RDP channel, but can still be owned by government depending on the quality of programme/project management structures. In this regard, project implementation units (PIUs) or project management units (PMUs), which were used for all channels, could swing ownership depending on how they were constructed. PMU/PIUs can be conducive to effective aid delivery without undermining ownership when the aid recipient defines the TORs, appoints the staff, integrates the PIU into its own structures and establishes the reporting lines. Project steering committees also facilitated ownership even when funds were development partner controlled, depending on their composition, mandate and the frequency with which they meet.

The capacity of country partners to manage aid also matters. The structures set up at decentralised 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. 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 provided. Furthermore, institutional instability and high staff turnover in the recipient organisation undermined ownership in many cases. Alignment at the micro-level was affected by recipient staff turnover, but also by development partner staff turnover.

Weak ownership and alignment at micro-level was also associated in the literature with weak ownership of implementation, even if ownership of a programme or project concept had been established. This problem manifested specifically when the programme/project was agreed with the national counterpart, but the aid was delivered at provincial or local level.

On the other hand, ownership at all levels was strengthened when ODA-funded programmes were included in the operational plans and budgets of recipient institutions.

A key ownership factor is the method used to programme ODA up front and/or to decide activities to be funded by the ODA when the project or programme is underway. The quality of programming was also important: leadership on the ground broke down during implementation if roles and responsibilities for project implementation were not clearly specified.

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 weak. The use of NGOs to deliver aid that is officially government to government flows (i.e. ODA) with limited government involvement in the choice of recipient and activities to support also undermines ownership: this is more true for some sectors (e.g. health) than others, and more true for some donors.

Much is however being done to overcome the common obstacles to ownership and alignment – and by extension programme effectiveness. A focal point for IDC and COGTA activity over the last few years has been the development of capacity for ODA management at national, provincial and local levels of government.

Findings on the integration of ODA in South Africa's systems

The study looked at whether aid was reflected on budget and on report and whether it was integrated into national, provincial and institutional planning, budgeting and reporting processes.

In South Africa aid is not a substantial share of public resources: how it is managed is therefore less important a determinant of public finance management outcomes than in many other aid receiving countries. However, aid is more concentrated in some sectors and provinces, making its integration in these cases important. Even if aid comprises only a small percentage of the overall budget, it is a much larger proportion of resources that are not tied up in relatively rigid

expenditure categories. Furthermore, from an ODA effectiveness perspective, it is crucial that ODA is incorporated in local processes in order to ensure accountability for its allocation and use.

For the most part, the study found that ODA is managed largely as an 'add-on' function and features relatively poorly in government accountability documentation and planning, budgeting and reporting processes. 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.

Aid on plan and budget: ODA programmes and projects are reflected in some strategic and operational plans of South African governmental institutions, but not consistently. ODA to South African national departments was however reflected in national budget documentation during the period under review, more consistently at the aggregate level. 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. This also means that technically speaking, although aid projects are reflected in budget documentation, aid is not 'on budget' as little forward information is available.

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 was also rarely on the agenda of central budget meetings at official and cabinet level.

At provincial level the reflection of ODA in the budget documentation was also uneven. Of the three provinces reviewed only KwaZulu Natal provided information on ODA in documentation submitted to the provincial legislature and had been doing so consistently over the period under review.

The team used departmental Estimates of National Expenditure submissions at the national level to develop a quantitative assessment of the degree to which aid is reflected on budget. A key finding of this process was that the resulting financial data series were of such dubious quality that little credible financial analysis could be undertaken. Another measure of how comprehensively aid is reported on budget, however is to list the programmes/projects reported by department and by donor, and compare it with the programmes/projects reported on the Development Cooperation Information System (DCIS) database. 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.

This analysis showed that 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). 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.

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.

² Departments were classified as Type 1 when both their dual listing scores were in excess of 50%.

Type 1²: 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 2³: 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 4⁴: 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. Examples are Foreign Affairs and Parliament.

The study found the following significant factors in the weak integration of aid on plan and budget across government:

- There is no legal framework requirement for departments to consider ODA in their strategic plans
- The focus of the Chief Financial Officers is on resources that are appropriated by Parliament and provincial legislatures, and ODA falls outside of this lens.
- The capacity of many ODA coordinators in medium-term planning, programming and budgeting is weak and they often have weak knowledge of institutions' budget structure and processes.
- Reporting requirements on ODA internally in departments and/or province and between departments and national and provincial counterpart departments are weak.
- Development partners drive programme/project initiation, appraisal and planning processes, meaning that the misalignment of donor cycles with the South African budget cycle result in insufficient information being available on time.

While there is some improvement over the period under review in the integration of aid on report, the default position is still that aid is not included effectively in local processes. Exceptions do however occur, usually as a function of a combination of government and development partner factors and the origin of the project. Aid projects and programmes that were the result of proposals prepared by government institutions or were delivered through arrangements that depend on government institutions for planning were more integrated in the planning process, than donor initiated and programmed projects and programmes. Aid projects and programmes in government institutions that had developed capacity to manage and coordinate ODA were more likely to be integrated in planning and budgeting processes, while projects that were the result of donors selecting sectors, departments and focus areas and programmed outside of local planning processes were more likely not to be integrated.

Aid on treasury, on account and on procurement:

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. The 2006 Paris Declaration Monitoring Survey found that 38% of ODA to South Africa uses country PFM and 44% country procurement systems. The data sourced by the study to provide an update on the survey did not point conclusively to either a higher or lower use of country systems since 2006. There is however qualitative evidence of a shift to country systems, for example reports by the IDC that more development partners are using country systems and some are now doing so exclusively. On the other hand, during the period under review ODA recipient institutions often preferred 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.

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. There was a positive trend over the period under review with less aid being tied in terms of the DAC definition of tied aid. South African respondents however were of the view that from an ownership and aid effectiveness

³ 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.

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

perspective, ODA procurement that is managed by the donor under donor rules, still ran an increased risk of unsuitable service providers being selected and undermined ownership and alignment even if the aid is officially untied.

The period under review also saw a rise in the use of ODA to fund partnerships between donor country and South African institutions. These approaches are classified as untied ODA, but in practice are tied to partnerships with specific institutions and peer exchange with specified experts. 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 staffing.

Aid on report:

At the macro-level ODA was reported annually in the ENE in the consolidated budget framework table. 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.

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. Out of the 30 projects (of the 36) for which annual reports could be sourced with relative ease, the ODA project/programme appeared in the financial statement only in 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 at all. While the ENE seems to have provided a more accurate representation of departments' use of ODA at the national level, the financial data seems to be of poor quality. Of the 14 cases where the project was both in the annual report financial statements and the ENE, the amount corresponds in only four cases.

It was notable that departments that scored well in this check were classified as either category 1 or 3 departments in the aid on budget analysis. For these departments the evidence pointed to stronger ODA reporting capacity.

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.

Findings on harmonisation and coordination

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 in a constructive way. 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.

Over the period under review efforts increased to harmonise donor activity and coordinate ODA. Despite this shift, harmonisation/coordination in South Africa still faced several obstacles. A key factor is that not all players were completely convinced of the need to harmonise. 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), 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 enough. 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.

However, it can be argued that in the case of South Africa there is no specific 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.

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 and 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. Besides issues around capacity, key gaps in the South African aid coordination structure are (i) coordination within sectors across departments and spheres and (ii) coordination of ODA funded activities with non-governmental service providers.

Findings on managing for results and mutual accountability

The period under review saw an increased focus on monitoring and evaluation activities. However, programmed activities were not always implemented. Poor attention to monitoring and evaluation often had its roots in weak programme designs. Unrealistic expectations resulted in monitoring and evaluation frameworks which were irrelevant. In addition, programme documents mostly did not establish baselines against which future progress can be measured or corrective action taken. Where assessment frameworks were present, they often could not be aligned with the recipient institution's own monitoring instruments and processes, adding to transaction costs; they were often not implemented and were usually limited to monitoring and evaluating project implementation, not project results.

Weak monitoring and evaluation practices regarding ODA in South Africa is not necessarily a function of how ODA is managed, but rather a deficiency in the SA public sector environment overall. However, towards the end of the period under review strong action was being taken at the central level to remedy this.

Regarding mutual accountability, the period saw the institutionalisation of mechanisms at the central level for joint review of programmes and projects between donors and the South African government. These aggregate level efforts however were weakened in their effect by inconsistent replication at institutional level. Poor information flows, the lack of incentives for better information flows and poor local demand for accountability contributed to this. However, strong examples of mutual accountability at institutional level could be found. The study also found that donor ODA management practices did not support strong local accountability or mutual accountability.

Findings on ODA to provinces and key sectors

Poverty, provincial track record and development partners' familiarity with provinces were the key factors in determining which provinces benefited from ODA. An analysis of provincial ODA initiatives on the DCIS+ dataset (a dataset constructed for the study comprising the DCIS original and revised databases and additional information sourced from donors) showed that the alignment between poverty incidence and shares in ODA commitments were not perfect.

Over the period under review there was a drive from the centre to build coordination capacity in the provinces. Capacity has developed unevenly. However, in the provinces that receive higher proportions of ODA, functional capacity was built over the period particularly in either the Premiers' Office and/or as in KwaZulu Natal in the provincial treasury.

In KwaZulu Natal, Limpopo and the Eastern Cape – the three provinces with which the review engaged in more depth – alignment between ODA initiatives and provincial priorities was clear at the macro-level. Common problems however were that development partners did not always align well at the micro-level to provincial priorities and when programmes were designed at the national level, engagement with provincial counterparts who were to implement the programmes was insufficient.

The provinces however still face critical challenges, of which weak understanding of ODA; weak capacity to manage ODA; a lack of experience in using technical assistance; poor information flows and weak record keeping are crucial areas to address.

At the level of sector clusters across spheres of government the study found that (i) alignment was in place at the macro-level and (ii) that there were no sector clusters in which aid was ineffective overall. Whether aid was effective or not was more dependent on programme and project specific factors than overall sector issues. However, there was a correlation between for example whether the cluster required inter-sphere coordination of ODA and overall sector ODA effectiveness,

or where a sector was dominated by one successful or unsuccessful programme (for example the water services SWAp in the economic services cluster) it contributed to overall sector performance.

The team did find that the international relations, peace and security cluster was under-reported, despite some development partners shifting ODA to support trilateral initiatives. Mechanisms to manage such initiatives are under-developed.

Findings on the use of aid for innovation and risk-taking

There are many examples of where aid supported innovation, piloting, risk taking and capacity building. Many programmes/projects focused on activities that sector/departments identified as critical but outside normal expenditure. This often involved piloting new ideas. In many cases the correct pilot was identified and that there was a take-up of piloted ideas, ensuring sustainability. 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.

However, there was still significant evidence of ODA funding activities on the margin of government-activities. In other words, ODA is used to supplement government funds in order to achieve the quicker roll-out of a programme. While the funds may be utilised for government priorities, it does not necessarily involve innovation or risk taking.

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.

Aid was also used for activities which are important for the long-term development of the country but which had been squeezed out of the main budget. In such cases ODA can still be viewed as adding value, particularly if it brings on board access to technology and know-how.

Findings on the use of ODA for capacity building

Since 2000 capacity development has become an increasingly significant feature of donor strategies in South Africa. In the interviews conducted, all respondents cited capacity-building as a key value-add of ODA. There are important examples of ODA initiatives building capacity for coordination across government institutions to deliver services. Capacity building was found to work where South African managers take responsibility.

However, there were also concerns with ODA-funded capacity building initiatives. The endemic high turnover of staff in South African public sector institutions was not adequately addressed in capacity building programme designs; the development of documentation (e.g. guidelines of various kinds) were not always done in the context of a strategy for their use; 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.

Technical assistance was valued, but under enabling conditions only. These included political and strategic leadership of recipient institutions; sufficient technical ability to develop systems, internal processes and new functions; reasonable staff turnover; sufficient local expertise and understanding; and a reasonable degree of internal confidence and interest to improve in the recipient institution.

Conclusions: Under which conditions is ODA effective in South Africa?

- ODA effectiveness was assumed in the study to mean one or any combination of three things:
- Effective aid: 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: ODA interventions that achieve what they set out to achieve on time and at the least cost.

- Aid that adds value: ODA interventions of which the returns are worth the transaction costs and which leverage South African domestic resources to address government priorities. Commonly this has been understood to mean that aid should be about innovation, piloting, risk taking and capacity building and should be sustainable.

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, in other words deliver sustainable results within the timeframes at a reasonable cost.

A key conclusion of the study is the important role of ownership and leadership in achieving the desired ODA management outcomes which in turn, are necessary to achieve ODA effectiveness, efficiency and value-add. Ownership – at all levels of ODA management from the centre through to departmental leadership to the project and programme manager level – 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.

At all levels, in one way or another, 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” then non-integration in the budget cycle may be less necessary – although in most such cases it is integrated precisely because of the leadership.

And finally, 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.

The review proposes a result chain model for effective ODA in South Africa (see figure in paragraph 4.5 of the main text). While it presents an abstraction and simplification of how different factors contribute to the achievement of an effective ODA programme, it still expresses a series of important relationships that can be used going forward to assess existing and proposed programmes. 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.

Key conclusions regarding the project management cycle:

Project initiation and programming: The origin of aid programmes and how they are programmed matter. Programmes that are initiated by recipient institutions have a much higher likelihood of success. Programmes that are programmed using internal and local expertise and involving all stakeholders are more likely to succeed, because local complexity and institutions are understood. Baselines should be established as well as realistic programme objectives and evaluation targets. A common theme has been the under-programming of the start-up phase of programme implementation. ODA programmes must also deal with challenges in the South African institutional context, such as staff turnover.

Programming of ODA should be driven not only by country priorities, but by country priorities for ODA. This means that alignment with national priorities should not be seen as sufficient: alignment with national and institutional stated priorities for ODA support should be required.

Project implementation:

While there is not one set of arrangements that work in all circumstances, it is clear that implementation arrangements matter hugely. The funding channel in conjunction with management and procurement arrangements represent critical choices. The specific capacities available for a programme together with programme characteristics such as size

should be taken into account when deciding on these arrangements. 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.

Monitoring and evaluation arrangements are also important and should be set up to support local and mutual accountability which in turn, supports ownership.

Key conclusions on ODA in the programme/budget cycle

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 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. The reason why sector budget support and other arrangements for which there are institutional ownership work better, is because they result in some degree of local accountability at the programme level.

Institutions should be strategic in planning for aid: ODA must be seen as a precious resource which should be used with care to address interventions which will add value and leverage own resources.

The integration of information flows on ODA with the South African budget is dysfunctional, caused by both supply and demand side problems. The lack of demand for ODA information in the budget process at all levels results in poor record keeping and low incentives for aid management and accountability. 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.

Poor supply of information 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. Solving them is unique to every aid programme and project. It requires a systematic assessment of the challenges 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.

While it is not seen as necessary that ODA initiatives should be formally approved by parliament in the appropriation process, it is necessary that ODA should become much more visible in horizontal and vertical accountability processes in the South African government. For this, 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 transparently on budget and on report.

Conclusions on ODA management

Overall the review found that insufficient capacity in implementing institutions to manage and use ODA effectively must continue to be addressed. At the centre, weaknesses in information management regarding ODA must be addressed, however it is important that the system put in place should:

- Include all forms of ODA, appropriately classified and disaggregated against mutually exclusive categories.
- Provide a common capacity for institutions to capture aid information systematically, supporting their budget submissions and internal reporting requirements.
- 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 on the system; and

- 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.

Another key factor is the weak central institutions to enable political accountability for ODA overall. 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.

Conclusions on ODA modalities and aid effectiveness

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. For the purposes of the review the team took modality to refer specifically to whether aid was delivered as sector programme support 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: (i) programme-based support provided in cash through the RDP fund (ii) programme-based support provided in-kind through third party arrangements or managed by the donor itself (iii) project based support provided in cash through the RDP fund and (iv) project-based support provided in-kind through third party arrangements or the donor itself.

The review found all four modalities to be relevant to South Africa. 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.

In order for recipient institutions to engage development partners meaningfully on the choice of modalities, it is necessary to capacitate them to choose and negotiate appropriate modalities for each intervention, to negotiate rules within the modality, to manage the modalities interface with the South African domestic budget and accountability processes.

Conclusions on the way forward

Overall, given the aid context in South Africa, 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 also 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.

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.

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 as 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.

