



# Evaluation of Budget Support in South Africa

Final Report  
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*Independent evaluation jointly managed  
by the European Commission and  
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*The opinions expressed in this document represent the authors' points of view  
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# Evaluation of Budget Support in South Africa

## Final Report

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### List of acronyms and abbreviations

ACIP	Advisory Committee on Immunization Practices
ACP	Africa, Caribbean and Pacific countries
ADRM	Alternative Disputes Resolution Mechanism
AG	Auditor General
ANC	African National Congress
ASGISA	Accelerated Shared Growth Initiative of South Africa
BAS	Basic Accounting System
BBBEE	Broad Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa.
BS	Budget Support
CEF	Comprehensive evaluation framework
CF	Contributing Factors
CMIP	Consolidated Municipal Infrastructure Programme
CoGTA	Department of Cooperative Governance and Traditional Affairs
COM	Communication (EU)
COSATU	Congress of South African Trade Unions
CSIR	Council for Scientific and Industrial Research
CSO	Civil Society Organisations
CSP	Country Strategy Paper
CWP	Community Works Programme
DAC	Development Assistance Committee (OECD)
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DCoG	Department of Cooperative Governance
DCR	Development Cooperation Report
DEAT	Department of Environmental Affairs and Tourism
DEVCO	(EU) Directorate General for Development Cooperation - EuropeAid
DfID	(the United Kingdom) Department for International Development
DfID	Department for International Development
DG	Directorate General
DHET	Department of Higher Education and Training
DHS	District Health System
DHSC	District Health System Committee
DiD	difference-in-differences
DIRCO	Department of International Relations and Cooperation
DM	District Municipality
DOA	Department of Agriculture
DoH	Department of Health
DoJ	Department of Justice
DoJCD	Department of Justice and Constitutional Development
DoL	Department of Labour
DPE	Department of Performance and Evaluation
DPLG	Department Provincial and Local Government
DPME	Department of Performance Monitoring and Evaluation
DST	Department of Science and Technology
DTI	Department of Trade and Industry
DWA	Department of Water Affairs
DWAF	Department of Water Affairs and Forestry
EC	European Commission
ECF	Employment Creation Fund
EEAS	European External Action Service
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EMA	Ethikwini Municipality

EPWP	Expanded Public Works Programme
EQ	Evaluation Question
EU	European Union
EUD	Delegation of the European Union
EXCO	Executive Committee
FA	Financing Agreements
FBW	Free Basic Water
FHR	Foundation for Human Rights
FMIP	Financial Management Improvement Programme
FMPA	Financial Management of Parliament Act
FTE	Full-time equivalent
FY	Financial Year
GBS	General Budget Support
GDP	Gross domestic product
GEAR	Growth, Employment and Redistribution Strategy
GEM	Global Entrepreneurship Monitor
GFCF	Gross fixed capital formation
GHS	General Household Survey
GNP	Gross national product
GoSA	Government of South Africa
GWMEF	Government Wide Monitoring and Evaluation Framework
H&A	Harmonisation and Alignment
HDI	Human Development Index
HDP	Highly disadvantaged persons
HIV	Human immunodeficiency virus
HQ	Headquarters
HR	Human Resource
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Planning
IL	Intervention Logic
IMD	Institute for Management Development
IPA	Innovation for Poverty Alleviation
IPAP	Industrial Policy Action Plan
IWRM	Integrated water resource management
JAP	Joint Action Plan
JC	Judgement Criterion
JCC	Joint Cooperation Committee
JIPSA	Joint Initiative for Priority Skills Acquisition
KPI	Key Performance Indicators
KRA	Key Result Area
LF	Limiting Factors
LFS	Labour Force Survey
LG	Local Government
LHS	Left Hand Side
LS	Legislative Sector
LSPSP	Legislative Sector Policy Support Programme
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
MFMA	Municipal Finance Management Act
MG	Management Group
MIC	Middle Income Country
MIDP	Motor Industry Development Plan
MIG	Municipal Infrastructure Grant
MIP	Multi-annual Indicative Programme
MR	Monitoring Report

MS	EU Member States
MSB	Masibambane
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTR	Mid-Term Review
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NGO	Non-Governmental Organisation
NGP	New Growth Path
NHI	National Health Insurance
NMB	Nelson Mandela Bay
NPC	National Planning Commission
NSA	Non State Actors
NT	National Treasury
NWRS	National Water Resource Strategy
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAF	Performance Assessment Framework
PD	Policy Dialogue
PEFA	Public Expenditure and Financial Accountability
PfHII	Partnership for Health II
PFM	Public Finance Management
PFMA	Public Finance Management Act
PHC	Primary Health Care
PIU	Project/Programme Implementation Unit
PMU	Project/Programme Management Unit
PrimCare	Primary Health Care Sector Policy Support Programme
PrimEd	Primary Education Sector Policy Support Programme
PSD	Private Sector Development
PSPPPD	Programme to Support Pro-Poor-Policy Development
QLFS	Quarterly Labour Force Survey
RBIG	Regional Bulk Infrastructure Programme
RCF	Risk Capital Facility
RDP	Reconstruction Development Programme
RG	Reference Group
RHS	Right Hand Side
ROM	Result-Oriented Monitoring
RPMS	Regulatory Performance Management System
SA	South Africa
SADC	Southern African Development Community
SAICE	South African Institution of Civil Engineering
SALGA	South African Local Government Association
SALS	South African Legislative Sector
SARRA	South African Regularity Rally Association
SARRAH	Support For HIV And Health In South Africa
SARS	South African Revenue Service
SBP	Small Business Project
SBS	Sector Budget Support
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SFWS	Strategic Framework for Water Services
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium Enterprises
SMME	Small, Micro and Medium-sized Enterprises
SP	Strategic Partnership
SPSP	Sector Policy Support Programme

SWAp	Sector Wide Approach
SWEEEP	Sector Wide Enterprise, Employment and Equity Programme
TA	Technical Assistance
TA/CD	Technical Assistance/ Capacity Development
TAIEX	Technical Assistance and Information Exchange instrument
TDCA	Trade and Development Cooperation Agreement
TOC	Technical and Operations Coordinator
ToR	Terms of Reference
URP	Urban Renewal Programme
US	United States
USD	United States Dollar
WEF	World Economic Forum
WfG&D	Water for Growth and Development
WRM	water resource management
WS-SSP	Water services sector support programme
WSA	Water Services Authority
WSS	Water Supply and Sanitation
WSSLG	Water Services Sector Leadership Group
WUA	Water User Associations

## Executive Summary

### Objective, scope and method of the evaluation

The main evaluation objective is to assess to what extent EU Budget Support (BS) operations in South Africa (SA) contributed to achieving sustainable results in the relevant sectors over the period 2000-2011. The evaluation covers 16 Sector Budget Support (SBS) operations, for an amount of € 984 million, of which 32% were allocated to Employment and Private Sector Development, 25% to Water and Sanitation, 7% to Governance (Legislative and Justice), 17% to Health, 12% to Education and 7% to Urban Renewal. The OECD-DAC 3 Step approach was followed.

### Overall assessment

#### Summary assessment

EU BS to SA in the period 2000-2011 represents a positive experience that should be continued and further integrated into the SA-EU Strategic Partnership. BS has been adapted to the context, while ensuring both Government of SA (GoSA) ownership and strategic relevance of the EU support.

It has supported policy innovation by enhancing specific innovative GoSA programmes, often with the participation of civil society organisations (CSOs), within wider priority sectors, with a focus on fighting poverty and inequality and supporting democracy.

The supported programmes have produced tangible development results in water, justice and legislative sectors, some segments of employment and rural poverty, and other areas. Their success has, however, been limited when addressing some key structural bottlenecks that characterise the SA context and affect policy making processes.

BS, through its various financial and non-financial inputs, has provided significant contributions in terms of enabling successful policy innovations although, especially in the first half of the period, it was only partially able to benefit from the opportunities provided by the comprehensive EU-SA partnership to expand policy dialogue and knowledge sharing between the partners on the relevant matters. This could have enabled GoSA and EU to more effectively support broader and better-informed policy thinking in the areas addressed.

#### Context

SA is a middle income country with a well-diversified economy. During most of the evaluation period, the country has experienced significant economic growth. However, very high levels of poverty and unemployment, the low level of human development, as well as strong income inequalities - SA's Gini Coefficient is one of the highest in the world - have still represented major challenges.

In SA, official development assistance (ODA) constitutes just 1.3% of the government's budget and 0.3% of GNP. The GoSA considers ODA should be used to support new and more effective ways of implementing government policies and priorities for poverty reduction and add value by furthering innovation, piloting and testing new approaches, catalytic initiatives to unlock domestic resources or capacity building for sustained, long term implementation.<sup>1</sup>

The Trade and Development Co-operation Agreement (TDCA) drafted in 1999, partly implemented thereafter but ratified only in 2004, was an important achievement of the EU-SA partnership. The Agreement provides the legal framework for relations between the parties, and was designed to strengthen co-operation and pursue several key common objectives, including: strengthening dialogue; supporting SA in its economic and social transition process; supporting the country's economic integration in Southern Africa and in the world economy; and expanding and liberalising trade in goods, services and capital between the parties, toward a Free Trade Area. The TDCA and, in particular, its Title V, formed the framework for development co-operation between the EU and SA that has been further spelled out in two joint Country Strategy Papers (CSPs).

In 2006, the partnership framework was also expanded through the establishment of a Strategic Partnership (SP), and a year later, through the related Joint Action Plan (JAP).

The EU-SA co-operation has therefore evolved from the experiences of the nineties, when the priority was to support the post-apartheid efforts in key areas and help obtain tangible results. The wish of

<sup>1</sup> see also 'Core principles for ODA management in SA' section 1.4 of Annex 3 in Volume III.

GoSA to strengthen SA's ownership and to increase alignment in policy support, has brought most donors to review the level and modalities of their interventions, taking into account SA's specific upper-middle income country features. Some donors have emphasised working with CSOs, others the regional dimension. The EU has decided to shift to BS without neglecting other modalities as needed, in the early 2000s. By the mid-2000s, it has also developed an ambitious framework for strategic dialogue including on development co-operation under the TDCA and the SP.

Shifting to BS has been a coherent decision, probably the only option compatible with keeping ODA focused on the key strategic challenges addressed by the GoSA while responding to its request for stronger ownership and alignment. This choice has been criticised by various sides, using the argument of the relatively low 'quantitative relevance' or low proportion of BS in the overall public expenditures in a MIC. Indeed, this evaluation and others show that the BS modality may be very relevant in a MIC context, when its policy relevance is high; this despite its low quantitative weight. In SA, the policy relevance of the programmes supported through this modality has been generally high: in most cases, it has allowed an accelerated and exhaustive experimentation of important policies and approaches that otherwise would have suffered delays, fragmentation and even resistances.

Introducing the strategic dialogue framework on development co-operation under the TDCA and the SP/JAP was also an adequate decision vis-à-vis the established partnership.

Budget support operations in SA present a number of specificities. For instance, BS:

- is paid into the Reconstruction and Development Programme (RDP) Fund and then channelled to the executing government departments and agencies; as such, it is '*on-Treasury*' but not '*on parliament*'; i.e. it is shown in the annex of the budget, audited by the Auditor General but is not voted on by Parliament.
- represents a particularly low share of overall sector budgets;
- supports policy partnerships within the EU-SA strategic framework, including piloting innovative approaches, knowledge-sharing, and capacity development;
- is embedded in a long history and an evolving EU-SA partnership covering a wider range of policy areas.

### **SBS contribution**

EU Sector Budget Support (SBS) operations have supported policy experimentation and innovation through different contributions:

- In most cases, they have created a financial opportunity for the key policy actors (GoSA departments, decentralised and/or specialised public institutions) to develop their own policy processes, through risk-taking initiatives and innovation, including – in several cases – the significant involvement of CSOs in the delivery of key services.
- In various cases (e.g. Justice, Legislative, Water, Health, Science & Technology), the dialogue, building on previous joint experiences and exchanges of know-how, has helped shape and/or integrate innovative aspects within policy design and approaches.
- Only in conjunction with more recent SBS operations (*PrimCare* in the Health sector and, partly, *IPA* in Science & Technology and *LSPSP* in the Legislative sector, but not *ECF* in the Employment sector or *PrimEd* in the Education sector), the dialogue has gone beyond the single policies and programmes supported and has paved the way for a wider exchange of policy experience profiting from - and feeding into - the existing partnership framework (TDCA and SP).

In terms of policy processes, SBS has contributed to:

- The creation of opportunities to enhance a South African owned process of policy innovation in the targeted sectors is the most original and successful contribution of SBS.
- The occasional and/or limited links established between such policy experimentation and the wider SA-EU strategic partnership framework, in view of building joint learning processes to feed the development action of both partners at different levels (in SA and EU, at regional level and worldwide), is still a weak point of the SBS implementation, although improvements are visible in the recent years.)

### **Results**

In most instances, the policies supported through SBS have determined - either directly or indirectly - significant development outcomes:

- The approach launched and tested through *MSB* in the water sector has been a determining factor of the success in increasing access to clean water and sanitation facilities in the poorest areas between 2000 and 2007.

- The GoSA programme Access to Justice and Constitutional Rights has produced important results by mobilising local networks of intermediation in the most marginalised areas, which have started responding to the democratic needs of the poor.
- Strengthened Legislative Assemblies, relying on stronger civic participation, access of the poor to advanced technologies, and improved access to primary health facilities, are all consolidated outcomes of the policies and programmes supported through SBS.

In other cases, however, results have been more limited. This is primarily due to key structural bottlenecks of the post-apartheid transition, which the supported policies and programmes have only been marginally able to address. These include the failure in infrastructure operation and maintenance and CSOs mobilisation in the water sector; the insufficient employment growth and strengthening of the SMMEs participation to economic activity; and the inadequate skills development resulting in low level of employability of the labour force.

Apart from the structural difficulties of the SA transition, the more disappointing results highlighted in some areas can be linked to a complex political context and to conflicting social and economic interests, which influenced and hampered the policy-making process.

## Conclusions

### *Cluster 1 - Development co-operation: priorities and modalities*

**Conclusion 1: EU-SA development co-operation has deep historical roots and reflects the government priorities and the key objectives of the EU-SA partnership.**

Development co-operation between the EU and SA is built on a deep and solid history of relationships, since the days of apartheid, which ensures reciprocal trust and commitment. During the apartheid, the ANC, the democratic movements and CSOs found the EU to be an important partner in their political and civil battles. Since the official abolition of apartheid, the co-operation has fully reflected the GoSA priorities. Over time, the co-operation has continued to develop, by strengthening government ownership through the introduction of BS and by expanding the scope of co-operation through the establishment of the TDCA and Strategic Partnership.

**Conclusion 2: Budget Support has become the key modality of this co-operation and has significantly evolved over time.**

BS was introduced in the early 2000s, to respond to a strong demand from both EU and SA partners. It rapidly became the most important modality of the EU-SA development co-operation, covering 72% of the total EU portfolio over the period 2000-11 with peaks of more than 90% in recent years. GoSA saw in BS a way to increase its ownership of ODA. The EU, as stressed in the CSP (2003), saw in BS also a way to “*strengthen policy dialogue*” and the EU value added in development co-operation.

**Conclusion 3: Budget Support has been designed and implemented with significant flexibility.**

Flexibility in the approach adopted by the parties in the design of SBS operations reflects the efforts made in ensuring relevance and alignment to GoSA needs and priorities. This is evident when looking at the different mix of inputs of SBS operations which were generally determined by sector specific considerations, and at the number of riders (amendments were made in relation to 13 of the 16 SBS operations). While some of these riders were linked to over-ambitious targets and/or delays in implementation, in eight cases adjustments were made to the performance assessment matrix, with a view to enhancing alignment to changing national institutional and policy frameworks.

**Conclusion 4: Budget Support in South Africa has developed as a specific typology.**

The specific focus of BS on themes and policy challenges which are well identified (specific experimental policy programmes), instead of broad sector and macro policies, allows BS to enhance its value added, despite its relatively small financial weight compared to the overall SA discretionary spending. Indeed, the financial resources mobilised are able to create real opportunities for the relevant government departments and their CSOs partners. In addition, the focus of BS enhances the development of a strategic dialogue and knowledge sharing initiatives as the dialogue and exchange would otherwise become very general or overambitious and would thus lose their relevance.

In most cases, the sustainability of the supported actions has been ensured both through a significant participation of the GoSA in the financing, and through the mainstreaming into the budget of successful pilots (e.g. IPA, Access to Justice, MSB, RCF, LSPSP, etc.). Mainstreaming has taken place thanks to specific mechanisms and procedures embedded within the GoSA budget preparation process.

**Conclusion 5: SBS has shown strong comparative advantages *vis-à-vis* other modalities and significant capacities of complementarity.**

SBS has shown a strong comparative advantage toward alternative delivery modalities – namely, in the following areas:

- ownership and reinforcing government internal processes;
- flexibility and diversification in the use of resources;
- appropriateness to address complex policy experimentation in institutional sensitive environments.

In addition, in some cases, SBS has provided the opportunity for positive combinations with projects or facilities, namely to enhance capacity development, as for example: the contribution of the TDCA Facility to *PrimCare* in the Health Sector, and the support project to a number of NGOs to complement the *Access to Justice* programme.

**Cluster 2 - Value added of the EU-SA development co-operation**

**Conclusion 6: SBS funds have created strong opportunities to test policy and institutional processes through innovative and risk-taking initiatives.**

The creation of financial opportunities to enhance a nationally-owned process of policy innovation in the targeted sectors is the most original and successful contribution of SBS.

Overall, the weight of SBS funds is relatively low when compared to GoSA additional allocations across sectors for the whole period considered. It represents an average of 1%. However, it is estimated, that within targeted sectors, funds transferred have increased GoSA's fiscal space through the provision of more significant additional resources. SBS funds represented approximately 8% and 7% respectively of the additional funds made available within the private sector development/ employment sector and the governance sector in the period 2000-2011. Through the provision of these additional resources, SBS operations have enabled line departments to finance innovative policies and programmes that had not yet found an allocation in the national budget. More specifically - and in line with the mandated function for development aid as defined by GoSA's ODA guidelines - SBS has, in most cases, successfully supported policy innovation and piloting, including:

- the testing of innovative models for service delivery in the health sector (e.g. outreach teams and mobile clinics),
- the piloting of innovative institutional and policy frameworks (e.g. in the Water Sector) and of new forms of area-based governance and management (e.g. in the Urban Renewal Sector),
- the launching of new mechanisms to deepen and broaden engagement with civil society actors (e.g. in the Justice and Water Sectors),
- the launching, testing and subsequent mainstreaming of pilot initiatives and mechanisms (e.g. in the Water Sector, in the area of Science and Technology, and in the private sector in relation to the funding windows for SMEs provided through the IDC).

**Conclusion 7: In the absence of a mutually agreed definition of policy dialogue, the dialogue has mostly focused on programme management issues and has only more recently expanded at the broader level of the Strategic Partnership to generate exchange of experiences and know-how.**

As knowledge sharing should be a key feature of the EU value added, policy dialogue is particularly important. Despite this and despite the multiple references to policy dialogue in the EU-SA strategic and programming documents since 2000, the evaluation has highlighted the absence of a codified and shared definition of policy dialogue<sup>2</sup>.

At SBS operation level, policy dialogue has helped to identify the specific sector policy support programmes, to define the performance assessment framework of the FAs, and to assess the achievement of targets set for the KPIs. This operation-level policy dialogue has been particularly important and has expanded to strategic themes in particular in the Governance Sector and partly in the Water Sector.

However, in most cases, the operation-level policy dialogue has remained focused on ensuring an appropriate management of the programmes. The potential of the broader opportunities offered by the elaborated dialogue framework of the EU-SA TDCA and Strategic Partnership was not exploited,

<sup>2</sup> See section 4.2 "EQ2 (Step 1) - Policy Dialogue, TA and H&A" (p.19) in the main report and the extended formulation of Conclusion 7 (p. 103).

especially before 2008, because of the lack of a clear and shared view by the parties on how to address and combine them in the BS framework, also in light of the lack of procedures and expertise. As of 2008, following the JAP, these opportunities have started to be better used (e.g. *PrimCare*, *IPA*, *LSPSP*) with significant results, and SBS effects have been strengthened. It should be acknowledged however, that such new practice has not yet filled up the gaps of the pre-2008 period.

**Conclusion 8: Capacity Building and Capacity Development inputs strongly relied on existing national capacities and mainly focused on managerial and technical issues. They were rarely used for exchange of experience and know-how between the parties, according to the TDCA/SP framework, although the few cases where this happened showed a considerable value added.**

Although Capacity Building and Capacity Development (CB/CD) features are included in almost all SBS operations, the content or focus of the CB/CD inputs and the ways in which it is integrated within the SBS operations strongly varies, leading to conclude that they depend on – and respond to - sector/context specific characteristics, rather than to temporal evolutions and broader lessons learned.

In most cases, CB/CD has been:

- aimed at facilitating the implementation of the SBS supported programmes and at strengthening the capacities of the institution(s) and sector actors involved;
- managed independently by GoSA and provided by national experts at various levels (scientific, managerial, technical) or exceptionally delegated to relevant NSAs (e.g. *Access to Justice*, *PrimCare*);
- included either as a condition in the performance assessment framework or just mentioned as an expected result without condition.

Only rarely have CB measures been embedded within the SBS operations and only in the cases of *RCF* and *PrimCare* was CB/CD provided to exchange specific know-how based on EU or worldwide practices, with the support of international partners (respectively, EIB and advisory services managed by DFID).

**Conclusion 9: The strategic dialogue and the knowledge sharing processes combined with SBS are limited by the absence of specific tools and procedures.**

Even if the SBS parties would agree to expand the level of dialogue and address relevant knowledge sharing initiatives, they would be hampered by the lack of skills, procedures and tools. The most suitable tool to address such level of exchange is presently the TDCA Dialogue Facility, but this has still a relatively limited scope and is under the Strategic Partnership. The development cooperation partners in the EUD and NT do not have a direct access to it. Furthermore, the programme managers in the EUD and NT do not have easy access to specialised expertise. On the EU side, access to the sectoral DGs of the European Commission and to the sectoral institutions of the EU Member States (EU MS) is not facilitated by agreed procedures.

### *Cluster 3 - Outcomes and impacts at sector level*

**Conclusion 10: While GoSA employment creation programmes supported by SBS have yielded considerable achievements, these are, to a certain extent, offset by persistent structural bottlenecks.**

Despite the high political priority placed on private sector and employment strategies, which have led to the creation of two million new jobs over the period and to the significant growth registered in the rate of investments, the official unemployment rate has declined only marginally and remains high at approximately 25%.

SBS funds have contributed helping GoSA to:

- address complementary areas in the main sector policy framework (through *SWEEEP*);
- launch a new and promising programme focusing on innovation for poverty reduction (*IPA*);
- test new lending products to address market failures in the financing of SMMEs and/or risky projects (*RCF*); and
- strengthen its employment creation programmes (*ECF*).

Beyond the funds, other SBS inputs have been deployed as follows:

- dialogue in the case of *IPA*, with a number of implications – partly still to be developed – in terms of strategic exchange on Science & Technology, and systematisation and extension of lessons learned;

- CB/CD inputs, based on exchange of know-how between SA and EU have been used in the RCF, through the EIB involvement.

GoSA policies and programmes supported through SBS have only partially tackled some of the bottlenecks that constrain economic growth.

**Conclusion 11: SBS operations have supported the GoSA in the implementation of crucial reform processes in the water and sanitation sector leading to significant development results. More recently, the declining intensity and quality of the SA-EU dialogue in the sector has limited exchanges on potential solutions to address important persistent bottlenecks.**

Over the last decade, important reforms took place in the Water Sector that took into account important transformation processes in terms of local governance and evolution in the national financial framework. SBS funds and dialogue – based on previous experience of collaboration – have combined at the right time to help the government design and implement a new institutional approach in the sector, with a focus on the poorest provinces and the recognition of clear progress made in the establishment of democratic local governments.

The implementation of the SBS-supported GoSA programme, combined with significant public investment in infrastructure, has allowed the achievement of important results in terms of access to water and sanitation in the poorer provinces. However, other objectives of the programme - such as the involvement of CSOs - have been overlooked.

While the EU funds remained significant, the level of dialogue has fallen in recent years. The impoverishment of the dialogue has hampered the possibility for GoSA and the EU to exchange ideas on ways to address the new bottlenecks and potentially to identify solutions that could be supported by the EU.

**Conclusion 12: By building on existing policy partnerships in the Governance Sector, SBS has supported a successful DoJCD innovative programme to improve access to justice in the poor areas, and the institutionalisation of the Legislative Sector within crucial areas for South Africa's process toward a stable and inclusive constitutional democracy.**

Over the years, the EU has established a firm partnership with state institutions in the justice and legislative sectors and with a variety of strategically important non-state actors in multiple sectors, which has allowed the EU and its government partners (DoJCD and SALS/LSS) to implement two SBS relevant and effective operations. The dialogue and financial inputs of these two operations, building on the existing policy commitments in the two governance sectors, helped shape and support two important government programmes in justice and the legislative sector.

In the case of the Justice Sector, this involved innovative approaches of DoJCD to strategic partnerships with key civil society actors to extend access to justice, sensitise on constitutional rights, and create policy feedback mechanisms for new cycles of policy innovation.

In the case of the legislative sector, the pitfalls of fragmenting Parliament and the nine Provincial Legislatures have been avoided, and the *LSPSP* was viewed positively for its contributions to the institutionalisation of the Legislative Sector. Consistent dialogue, combined with appropriate financial support, strengthened key stakeholders and sector actors in their efforts aimed at harmonising sector systems and procedures, at strengthening key functions (e.g. financial, managerial, human resources, etc.), and at developing capacities in vital areas such as research, public outreach and international co-operation.

#### **Cluster 4 - Other key issues on the implementation of the SBS modality**

**Conclusion 13: SBS has contributed to policy experiences that have shown how CSOs are essential actors in reaching socially excluded groups.**

Some SBS operations, such as *Access to Justice*, *MSB* (Water sector), and *PrimCare* (Health) have supported GoSA programmes with a significant involvement of non-state actors, using various modalities. In all three cases, SBS has contributed to policy experiences that have shown how CSOs are essential actors in reaching the most marginalised groups and build with them local networks for sustainable service delivery. In the case of water, there has been a negative lesson learned, as a result of CSO involvement being overlooked.

The use of SBS instead of alternative modalities, has allowed GoSA to test out the partnership with CSOs as its own policy and build on its own experience. In one case, EU-funded actions complementary to SBS have been put in place, with success (*Access to Justice*).

**Conclusion 14: SBS has endeavoured to extend its support to local institutions with different modalities and results.**

SBS has endeavoured to support both national Government institutions with their CSOs partners and Local Governments with local level CSOs. Local partners have been supported in most sectors, namely in Water, Governance, Health and decentralised Urban Development, either through specific BS components or through complementary GoSA actions. Cases of particular success are the support to local governments in the Water Sector and Health Sectors. In the Governance Sector, local authorities have been positively involved in the access to justice through an increase in the demand-side pressure, while the LPSP has favoured the coordination between the national and provincial assemblies. In decentralised urban development, the two supported programmes had different results (rather positive in *eThekwin*i and rather negative in *URP Eastern Cape*).

**Conclusion 15: The good quality of PFM acted as an enabling factor for SBS, rather than an SBS objective; at the same time, SBS contributed to reinforce PFM systems, namely at sectoral level.**

SBS has contributed to increasing the amount of aid integrated in the budgeting process and aligned to the government systems (SBS is in fact '*on plan*', '*on budget*', '*on-Treasury*', '*on account*', '*on procurement*', '*on report*' and '*on audit*'). This is not always the case with regard to other donor funds that are managed by the donors and not necessarily reported on (by donors), giving rise to what has been termed the 'invisibility' of aid in South African processes.

Contrary to evaluations carried out in other countries (e.g. Mali, Tunisia, Zambia), this evaluation concludes that SBS operations have not provided important contributions to the substantial PFM reforms introduced in SA after the end of the apartheid, although these have been supported since the late 1990s by the EU through the implementation of successive Financial Management Improvement Programmes. In some cases, SBS operations did include one or more conditions related to improvements in PFM, and links between SBS operations and PFM improvements at sector level can be drawn in the Legislative, Justice and Water Sectors. However, no complementary CB/CD was provided to this end (with the exception of the Water Sector), and nor were improvements in overall PFM explicitly included as expected key results of the SBS operations.

**Conclusion 16: With SBS funds, predictability of aid has markedly improved compared to other forms of aid. However, and despite the rather low proportion of SBS in the overall GoSA public expenditures, delays in payment of some tranches have had negative consequences on the implementation of specific SBS-supported programmes.**

Over time, predictability of commitments of EU-SBS funds over a multi-year framework has increased and is significantly higher than that recorded for other forms of aid.

Despite this, and despite the fact that SBS funds represent a very small share of GoSA additional expenditure, the significant delays encountered in the payment of specific tranches have had important consequences on the implementation of some SBS supported programmes and even on the sustainability of the development actions. Indeed, the specific way in which GoSA uses BS funds (the transfers to line departments that are expected to be covered by SBS take place only if SBS funds have been actually received on the RDP Fund account) emphasises the consequences of disbursement delays in relation to budget implementation and project financing. These delays, however, are often the combined result of multiple causes. Among these: delays in the submission of payment files by the Line Departments to the NT and/or from the NT to the EUD; delays in actual payment/processing of request by the EU; lack of compliance with established conditions for payment or differing views on the achievement of predefined targets; and delays in the transfer of funds from the RDP Fund to line department accounts.

## Recommendations

### Cluster 1 - Development co-operation: priorities and modalities

#### Recommendation 1: Priorities.

**Development co-operation should continue to be recognised as a key element of the EU-SA partnership and remain focussed on national developmental needs; at the same time, approaches should be developed and relevant experience and possible lessons identified for replication at regional and international level.**

*This recommendation is mainly based on:*

- Conclusion 1.

*This recommendation is mainly addressed to:*

- NT, EEAS/DEVCO, EUD.

It is recommended that development co-operation should be kept focused on national developmental needs– namely, building a prosperous and inclusive democracy – as these will remain for decades a key challenge for government and civil society in South Africa.

#### Recommendation 2: Budget support modality.

**Budget support should be maintained as the key financing modality, to guarantee government ownership and strong links with the stakeholders involved in policy making and implementation. At the same time, enhanced dialogue and CB/CD components should be strengthened also through complementary actions to better reflect the value added of the SA-EU co-operation.**

*This recommendation is mainly based on:*

- Conclusions 2, 3, 4 and 5.

*This recommendation is mainly addressed to:*

- NT, EEAS/DEVCO, EUD.

Budget support should remain the key financing modality of the development co-operation, with the integration of expanded strategic dialogue and new capacity development components including through enhanced complementary actions. Strengthening the link with the actual policy processes will facilitate the complementarity of BS with other modalities of development cooperation, including specific capacity development initiatives and exchanges. This applies to both existing projects and facilities (e.g. PSPPD, TDCA Dialogue Facility), and to new initiatives that might be launched in the future. Such initiatives, without a relation to BS and the actual supported policy processes, would easily become rather academic and isolated exercises. At the same time, the complementarity with BS may reinforce their concreteness and continuity and help the partners identify new themes and approaches to inform policy research and debate on development matters in the respective countries and eventually inspire joint action at regional/ international level.

#### Recommendation 3: Future budget support.

**BS operations should continue to support creative and innovative public institutions with an established tradition of co-operation with the EU, one of the key success factors to date, and should possibly involve new development partners.**

*This recommendation is mainly based on:*

- Conclusions 4, 5 and 6.

*This recommendation is mainly addressed to:*

- NT, DEVCO/EEAS and EUD.

The implementation and management of future BS operations should draw on the lessons of past and on-going SBS with a view to build on the strengths and minimise the weaknesses. In particular, the formulation, implementation and management of future BS operations should ensure that:

- the most positive features of the SBS experience are not lost, namely that BS remains an opportunity for creative and innovative public institutions and their partners in the civil society with an established tradition of co-operation with EU;
- strategic dialogue in combination with sectoral policy support is expanded and strengthened, including through the set-up of complementary envelopes to finance specific CD initiatives aimed at facilitating the exchange of high-level know-how on policy experimentation.

In the shorter-term, linkages with existing facilities and structures (e.g. the TDCA-Facility and the PSPPD) should be strengthened, namely:

- support for capacity development to engage in strategic policy dialogue and leading to increased institutional capacity provided in the framework of the Dialogue Facility should be better linked to planned and on-going BS operations; and
- research and evaluations on policy interventions which address poverty and inequality, promoted by the PSPPD should be used also to feed the strategic policy dialogue and identify

areas of particular interest for future BS support.  
 The successful experience so far should help expand the collaboration to other development partners. In this respect, the EU should seek stronger complementarity and harmonisation of developmental actions including joint financing both with regards to EU MS and to other development partners.

**Recommendation 4: Budget support specific typology.**  
**The specific typology of SBS in SA should be considered as an option for cooperation with MICs, in specific cases.**

<p><i>This recommendation is mainly based on:</i></p> <ul style="list-style-type: none"> <li>• Conclusion 4.</li> </ul>	<p><i>This recommendation is mainly addressed to:</i></p> <ul style="list-style-type: none"> <li>• DEVCO.</li> </ul>
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The specific typology of SBS tested and fine-tuned in SA should be viewed as an option for cooperation also with other MICs, as it ensures complete government ownership of the policies and programmes supported whilst – at the same time - it allows ample space for expanding the knowledge sharing processes between the partners.

This typology seems particularly suited to those middle-income countries like SA, with which the EU has a strong partnership but has not established any association agreement that would allow more in depth political and policy debate on the domestic policies interested by the association.

BS would be used to support specific policies and programmes owned by the recipient Government with a focus on shared policy objectives and innovative / risk-taking components:

- the strong Government ownership and the relatively minimal financial weight of BS on the overall discretionary expenditure would minimise any negative tied-aid effect; while
- the focus on key thematic areas and programmes, within broader sector policies, would allow to better exploit the value added of the EU cooperation, and would enable significant qualitative contributions in terms of knowledge sharing to expand the knowledge base of both partners.

BS could thus be provided in countries in which governments decide to utilise the funds for specific programmes and actions, but at the same time the performance indicators and the policy dialogue cover sector wide performance.

The sustainability of the supported actions should be ensured through the participation of the recipient governments in the provision of the relevant financial and technical resources and the mainstreaming of experimentations, if successful, as happens in the case of South Africa.

**Cluster 2 - Value Added of the EU-SA development co-operation**

**Recommendation 5: Policy dialogue.**  
**‘Programme-level’ policy dialogue should be combined with a broader ‘strategic dialogue’ according to the Strategic Partnership, based on peer-to-peer exchange of knowledge on key development issues.**

<p><i>This recommendation is mainly based on:</i></p> <ul style="list-style-type: none"> <li>• Conclusions 7, 8 and 9.</li> </ul>	<p><i>This recommendation is mainly addressed to:</i></p> <ul style="list-style-type: none"> <li>• NT, Line Departments, DEVCO/EEAS and EUD.</li> </ul>
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According to the Budget Support Guidelines (EC-DEVCO, 2012), policy dialogue includes two distinct features:

- First, “it provides a framework to take stock of the respective commitments and to assess progress on both sides”.
- Second, “it can be used as a forward-looking tool”.

In South Africa, the second feature should be better developed and integrated with the first one. Such a ‘forward-looking’ or strategic approach should fit the dialogue framework promoted by the TDCA and the Strategic Partnership

### Recommendation 6: Capacity development.

**Continue mobilising expertise for institutional strengthening and Capacity Building / Capacity Development (CB/CD), but expand CB/CD initiatives to support advanced policy exchange and knowledge sharing, according to the Strategic Partnership.**

*This recommendation is mainly based on:*

- Conclusions 8 and 9.

*This recommendation is mainly addressed to:*

- NT, DEVCO/EEAS, EUD, Programmes' stakeholders.

The use of expertise, under various forms, to strengthen the institutions involved in the implementation of the SBS supported programmes has shown to be effective and deeply owned by the SA side. Therefore, it should be continued.

However, when designing BS operations, the CB/CD component should be expanded to include initiatives that allow the advanced policy exchanges and knowledge sharing processes mentioned in Recommendation 5. Such 'extended CB/CD' is possible, either by including within the BS package additional specific CB/CD components to respond to such need, or through the establishment of *ad hoc* complementary CB/CD actions be they financed by the EU or by other development partners.

Such components and/or complementary actions may include, for instance: (i) workshops on relevant intervention models tested worldwide; (ii) inter-institutional meetings and specific co-operation between SA and peer institutions from EU and/or other countries; (iii) study tours from SA to visit relevant peer institutions; (iv) accompanying studies and related analyses; etc.

When planning a BS operation, specific knowledge sharing initiatives should be identified and the related resources allocated, or the contribution of complementary programmes (namely the TDCA Dialogue Facility) required. In all the cases, however, the TDCA Dialogue Facility should include a specific component to support 'extended CB/CD' in the development cooperation programmes, namely BS.

In an adapted form, this recommendation is replicable in other partner countries receiving EU BS.

### Recommendation 7: New exchange tools.

**Create tools in the framework of the Strategic Partnership and the existing dialogue architecture to foster enhanced forms of knowledge sharing.**

*This recommendation is mainly based on:*

- Conclusions 6, 7, 8 and 9.

*This recommendation is mainly addressed to:*

- EUD, NT and DEVCO/EEAS.

The development of strategic dialogue and the integration of what has been called above 'extended CB/CD' (for knowledge sharing) with budget support, either as a component or a complement, requires a better use of the complex dialogue structure established by the TDCA and the Strategic Partnership and the set-up of specific tools:

- Instruments such as the TDCA Dialogue Facility could be used for this purpose provided that specific mandates, scopes and organisational arrangements are established to respond in a flexible and timely way to the demands arising from the design and implementation of the BS operations.
- The twinning (especially twinning light) tool should be made available to South Africa, allowing for short- and medium-term inter-institutional partnerships between SA and EU institutions, which can originate from initial exchanges of experience in the framework of thematic meetings.
- Specific facilities might be created. It would be difficult to imagine a specialised sector facility, given the range of themes addressed. A specific facility should be multi-sectoral, and should be able to tap into the expertise of the EU and the Member States (including public sector expertise), but also of other MICs. A specialised section of the existing TDCA Dialogue facility would fit the purpose.
- Horizontal programmes (like the regional ones in Latin America or Asia, for social cohesion, private enterprises, etc.) should be considered as well.

At the same time, lessons learnt from SBS operations at policy level should inform the agenda of the dialogue fora and feed wider policy thinking and dialogue for national and international learning thereby opening up new areas of dialogue.

In an adapted form, this recommendation is replicable in other Partner Countries receiving EU BS

**Recommendation 8: Regional and international level.****Extend lessons from co-operation at national level to regional and international level.**

<i>This recommendation is mainly based on:</i>	<i>This recommendation is mainly addressed to:</i>
<ul style="list-style-type: none"> <li>• Conclusions 1, 6, 7 and 8.</li> </ul>	<ul style="list-style-type: none"> <li>• NT, EEAS/ DEVCO and EUD.</li> </ul>
<p>As stressed in Recommendation 1, the co-operation on national development issues is a base to expand on the regional and international dimension of the SA-EU partnership.</p> <p>Integrating policy exchanges on international experience within bilateral budget support operations would help strengthen the national approaches and build references that can be used at regional and international level. This would feed the partnership for international development, which is identified as a key area by the SA-EU Strategic Partnership.</p> <p>Regional and international initiatives may be launched or supported as an extension of the development partnership within the country (e.g. Innovation for Poverty Alleviation, Access to Justice, Support to Parliaments, PrimCare).</p>	

**Cluster 3 - Sectoral issues****Recommendation 9: Sectoral priorities.****Keep the sectoral and thematic focus for BS operations, according to the SA demand, but open up dialogue and expand knowledge sharing to address relevant strategic themes.**

<i>This recommendation is mainly based on:</i>	<i>This recommendation is mainly addressed to:</i>
<ul style="list-style-type: none"> <li>• Conclusions 10, 11 and 12.</li> </ul>	<ul style="list-style-type: none"> <li>• NT, EUD, relevant SA stakeholders.</li> </ul>
<p>Possible future sectoral priorities will depend upon the government demand, in the strategic framework agreed upon between the partners; it is possible, however, to highlight, in the sectors covered so far, the areas that might or should be addressed by specific policy dialogue, CB/CD initiatives and other knowledge sharing support to fill the gaps that have been identified in the evaluation.</p> <ul style="list-style-type: none"> <li>• In the Employment Sector, capacity development initiatives should integrate the ongoing programmes, namely to address the institutional framework of the labour market and the skills profile of the labour force, as well as the SMMEs.</li> <li>• In the area of S&amp;T, the relevant experience should be open to a regional / continental network including African and EU specialised institutions.</li> <li>• In the Water Sector, a dialogue on possible CSOs involvement in social infrastructure maintenance, including examples from other development countries, should be implemented.</li> <li>• In the Governance Sector, both supported programmes through their positive experience could feed a fruitful dialogue at the TDCA level on the lessons learned, with possible extension at national, regional and continental level.</li> <li>• In the Health Sector, the integration between the SBS operation and the knowledge sharing initiatives at the level of the TDCA Facility on the health insurance models and other strategic themes should continue.</li> <li>• The promotion of a joint forum (instead of one-off initiatives) on fighting inequality, open to relevant third countries, would build on the experience of the ongoing programmes and highly complement them.</li> </ul>	

**Cluster 4 - Other key issues for development co-operation****Recommendation 10: Civil society.****Further expand the involvement of civil society actors.**

<i>This recommendation is mainly based on:</i>	<i>This recommendation is mainly addressed to:</i>
<ul style="list-style-type: none"> <li>• Conclusion 13.</li> </ul>	<ul style="list-style-type: none"> <li>• NT, DEVCO/EEAS, EUD and CSOs.</li> </ul>
<p>According to Conclusion 11, the involvement of CSOs allows to ensure an inclusive approach to service delivery as well as an adequate level of advocacy and watch-dogging vis-à-vis GoSA action.</p> <p>The attention to civil society should be extended to new actors (e.g. Trade Unions, judges, press, representatives of the entrepreneurs) to favour their participation in high level dialogue and exchange of experiences, namely with their peers in the EU, through the different opportunities provided by the SP. Through the TDCA Dialogue Facility and/or other tools (e.g. twinning), specific initiatives involving SA and EU partners could be supported in order to facilitate the establishment of stronger relationships between peer actors of the civil society.</p>	

**Recommendation 11: Local institutions.****Integrate BS with complementary CB/CD support to Local Authorities to ensure their full participation in development actions.***This recommendation is mainly based on:*

- Conclusion 14.

*This recommendation is mainly addressed to:*

- NT, EUD and CSOs.

When the dialogue identifies the need to provide specific support to local actors to enhance their participation in the supported programmes, complementary CB/CD actions should be put in place, either through specific SBS components / arrangements, or through separate support funded by the EU or by other development partners. The second approach should be preferred when specific gaps are identified that may be overcome through intensive, short-term CB/CD support provided either at provincial or municipal level. The first one should be preferred when longer term institutional and policy relations between national and provincial/local level institutions need to be addressed.

In any case, considering the persistent weakness of municipal authorities, especially in poorer areas, as well as their focus on implementation and lack of mandate on policy formulation and testing, it is not recommended to implement BS at the municipal level, unless it is a limited and closely monitored trial undertaken in the framework of the piloting of centrally driven innovative policies.

**Recommendation 12: Other EU actors.****Increase access to - and involvement of - the whole range of EU institutional actors.***This recommendation is mainly based on:*

- Conclusions 6, 7 and 8.

*This recommendation is mainly addressed to:*

- EUDs, EEAS, DEVCO, other DGs.

To feed the knowledge sharing processes that have been identified as the main outcomes of the SA-EU development cooperation (JAP 2007), it is necessary to draw on the EU experience in the different sectors and on that of different EU MS. This means that not only specific tools must be available (see Cluster 2), but access to relevant information and resources must be ensured.

In most sectors, SA is interested in the EU and EU MS experience and accumulated know-how, and ways to ensure easy access to such experience and know-how need to be favoured. Those EU institutions which are supposed to own and catalyse a synthesis of this experience and know-how, such as the EU sectoral DGs, should be mobilised – under the coordination of DG DEVCO/EEAS - to facilitate such access and, when needed, provide information and help to approach relevant MS.

In order to enable EUDs to access and involve DGs such as DG EMPL (Employment, Social Affairs and Inclusion), DG REGIO (Regional Policy), DG SANCO (Health and Consumers), DG RTD (Research and Innovation) and others, as well as on the experience of the EU MS and the EU worldwide partners, specific modalities and tools must be established, namely organisational and logistic arrangements should be ensured at country level, through existing and/or new facilities

In an adapted form, this recommendation is also applicable to the cooperation with other countries.

**Recommendation 13: Predictability****Enhance predictability of the flow of budget support funds.***This recommendation is mainly based on:*

- Conclusion 16.

*This recommendation is mainly addressed to:*

- NT, DEVCO, EUD.

Considering the effects of the disbursement delays on the operations of the GoSA programmes supported by BS, specific agreements and arrangements should be established to avoid this typical project-type bottleneck.

On the EU side, few arrangements should be adopted to reduce the actual delays in disbursement, such as the reduction of the number and simplification of KPIs used as disbursement triggers, so as to facilitate the disbursement assessments and negotiations.

On the SA side, improvements should regard the submission of payment files by the Line Departments to the NT and/or from the NT to the EUD. According to the SA stakeholders, however, the persistence of the present SA rule of establishing a direct dependency between BS disbursement and the budget of the GoSA supported programme would continue creating problems during implementation, with possible negative consequences on the sustainability of the action. That said, this rule is not a matter of discussion between SA and EU and this is why the present recommendation cannot enter into detailed proposals, apart from encouraging the adoption of any practical solution to the evident bottlenecks created.

# 1 Introduction

## 1.1 Objectives and Scope of the Evaluation

Objectives and scope of the evaluation are clearly defined in the sections 3 and 4 of the ToR (see Volume III – Annex 1). The main **objective of the evaluation** is “to assess to what extent Budget Support in South Africa contributed to achieve sustainable results on employment creation and poverty reduction with particular regard to inclusive and sustainable growth and the provision of social services. Indicators of success include the extent to which the support enabled the SA Government to implement its sector strategies and to enhance the efficiency and effectiveness of its policies, strategies and spending actions.”

The **period** under evaluation is 2000-2011. The assignment considers only **Budget Support (BS) operations financed by the European Union (EU)**. It is noteworthy that no **General Budget Support (GBS)** was provided until 2011 and thus the focus of the analysis is on Sector Budget Support (SBS) operations. Furthermore, the evaluation pays attention to **other aid modalities** used in South Africa (esp. projects) in order to assess the complementarities and synergy between them.

Section 4.2 of the ToR details the **thematic scope** of the evaluation. In the context of the 3 Step Approach to evaluate budget support, the sectoral scope of the analysis undertaken in Step 1 is narrowed down in Step 2 to allow a more detailed assessment of the effects of BS. More specifically,

- In the Step 1, the analysis covers all sectors that have received BS<sup>3</sup>;
- In the Step 2, the evaluation focuses on the implementation of three in-depth case studies in the following three sectors: Employment/Private Sector; Water; Governance.<sup>4</sup>

Table 1 below provides an overview of the SBS operations that fall within the scope of the evaluation and allows to distinguish between the SBS operations that are analysed under **Step 1** (all of them) and the SBS operations that fall within the three sectors selected for the case studies for which a more in-depth analysis, encompassing **Step 2**, has been carried out.

Table 1 Overview of the SBS operations in the scope of the evaluation

Title	Starting / end date	GoSA <sup>5</sup> main stakeholders	Allocated amounts (in M€)	Status	Step 1 / Step 2
<b>Employment / Private Sector Development</b>			<i>Sub-total: 313.9</i>		
Risk Capital Facility I (RCF I)	2002-2005	dti & IDC	52.9 + 3.1 (TA) + 2 (grants) + 0.9 (other)	Closed	Step 1 & Step 2
Risk Capital Facility II (RCF II)	2006-2011	dti & IDC	46.3 + 2.5 (TA) + 0.3 (other)	In closure	Step 1 & Step 2
SWEEEP I & SWEEEP II	2003-2008	dti	25+50	Closed	Step 1 & Step 2
Employment Creation (ECF)	2009-2014	Economic cluster (incl. dti, DPE, DoL, DEAT, DOA, DST, DHET)	100	Ongoing	Step 1 & Step 2
Innovation for Poverty Alleviation (IPA)	2008-2013	DST	29.68 + 0.32 (other)	In closure	Step 1 & Step 2
<b>Water</b>			<i>Sub-total: 242</i>		
Water Services Sector Support Programme - Masibambane I (MSB I)	2000-2004	DWAF, DPLG, SALGA & their provincial counterparts as well as municipalities.	75	Closed	Step 1 & Step 2
Masibambane II (MSB II)	2004-2007	DWAF, DPLG, SALGA local stakeholders.	60	Closed	Step 1 & Step 2
Water for Growth and Development - Masibambane III (MSB III)	2008-2012	DWAF, DPLG, SALGA local stakeholders.	107	Closed	Step 1 & Step 2

<sup>3</sup> The sectors are: Employment/Private Sector (incl. Science & Technology); Water (incl. Sanitation); Governance (incl. Legislative sector and Justice/Human Rights); Health; Education; and Urban Renewal.

<sup>4</sup> The ToR mention that the evaluation should comprise three in-depth sector case studies. The initial sectors mentioned in the ToR were: private sector, water and health. After consultation with key stakeholders, it was finally agreed with the MG to replace the case study on the health sector by a case study on the governance sector.

<sup>5</sup> Government of South Africa (GoSA).

Title	Starting / end date	GoSA <sup>5</sup> main stakeholders	Allocated amounts (in M€)	Status	Step 1/ Step 2
<b>Governance: Legislative and Judiciary</b>			<i>Sub-total: 70</i>		
The e-Justice Programme ( <i>e-Justice</i> )	2000-2007	Department of Justice	25	Closed	Step 1 & Step 2
Legislative Sector Policy Support Programme ( <i>LSPSP</i> )	2009-2013	Parliament	20	Ongoing	Step 1 & Step 2
Access to Justice	2009-2012	DoJCD	20 + 4.5 (CSO) + 0.25 (TA) + 0.25 (other)	Ongoing	Step 1 & Step 2
<b>Health</b>			<i>Sub-total: 171</i>		
Partnerships for Health II ( <i>PfH II</i> )	2007-2011	DoH, DHSC, National Health Council	44 + 1 (other)	In closure	Step 1
Primary Health Care Sector Policy Support Programme ( <i>PrimCare</i> )	2011-2015	DoH	110 + 10 (CSO) + 5.3 (TA) + 0.7 (other)	Ongoing	Step 1
<b>Education</b>			<i>Sub-total: 122.7</i>		
Primary Education Sector Policy Support Programme ( <i>PrimEd</i> )	2010-2014	DBE & DHET	122.7	Ongoing	Step 1
<b>Urban Development</b>			<i>Sub-total: 64.8</i>		
Urban Development Support to eThekwin Municipality ( <i>eThekwin</i> )	2003-2008	EMA and EXCO <sup>6</sup>	35	Closed	Step 1
Support to Urban Renewal Programme in Eastern Cape ( <i>URP Eastern Cape</i> )	2006-2012	Nelson Mandela Bay Municipality & Buffalo City Municipality	28.6 + 1.22 (TA) + 0.18 (other)	Ongoing	Step 1

Note: Dates indicated correspond to the period between the commencement of the Financial Agreement and the end date of operational implementation.

## 1.2 Organisation of the evaluation

The evaluation process is led by a **Management Group** (MG), consisting of the evaluation departments of the European Commission (DEVCO) (lead) and the Department of the National Treasury of South Africa. A **country Reference Group** (RG) consisting of key government stakeholders was also established to serve as a resource, provide advice and feedback to the MG and evaluation team, and review the draft reports.

## 1.3 Structure of the final evaluation report

The report consists of three volumes. This volume corresponds to the main report and consists of five sections:

- Section 1. Introduction: includes a brief overview of the evaluation objectives and scope;
- Section 2. Context: presents some key elements of the national context and the EU-SA partnership and co-operation framework;
- Section 3. Key methodological elements: details the conceptual framework used in the evaluation as well as some methodological challenges and limitations;
- Section 4. Answers to the Evaluation Questions: provides the results of the analysis for each of the evaluation questions and correspond to the core of the report;
- Sections 5 and 6 present the overall conclusions and recommendations of the evaluation.

Volume II of the report presents the detailed information matrix with the main evidence that underpins the findings of the evaluation.

Complementary information is provided in various annexes which are compiled in Volume III.

<sup>6</sup> EXCO refers to the Executive Committee of the EMA (main counterpart of the programme). The EXCO was responsible for the set-up of a Steering Committee that included a broader representation that went beyond the EMA to include provincial officials, and representatives from organised business and civil society.

## 2 Context

This section provides some key elements of context. Annex 3 presented in Volume III provides additional information on: the national socio-economic context, GoSA priorities, the major evolutions in the policy environment, the policy framework and management of Official Development Assistance (ODA) and the EU-SA partnership and cooperation framework.

### 2.1 Key Elements of the South Africa Context

South Africa is a middle income country with a well-diversified economy and, during most of the evaluation period, the country has experienced strong economic growth. South Africa's policy and institutional environments have significantly developed over the past two decades (see also sections 1.2 'The priorities of GoSA and major evolutions in the policy environment' and 1.3 'Institutional country context' of Annex 3 - Volume III) and, since the transition to a democratic government in 1994, the country made progress in addressing the social inequalities. However, very high levels of poverty and unemployment, the low level of human development as well as strong income inequalities (illustrated by South Africa's Gini Coefficient being one of the highest in the world) have still represented major challenges.

In South Africa, ODA constitutes just 1.3% of the government's budget and 0.3% of GNP. GoSA vision of ODA is that it should be used to support new and more effective ways of implementing government policies and priorities for poverty reduction and add value by furthering one or more of the following:

- *Innovation*: developing new and more effective approaches;
- *Piloting and testing*: pioneering new approaches for replication purposes;
- *Risk taking*: the willingness to invest in initiatives which have attendant risks;
- *Catalytic initiatives*: unlocking domestic resources; and
- *Capacity building*: ensuring that South African institutional capacity is enhanced for sustained, long term implementation.

The real value of ODA is thus realised when aid is able to provide tools, instruments and solutions which contribute to stimulate development for the most disadvantaged sectors of the population and ensure that the country is able to use its own resources more effectively and is conversely not justified when it is primarily used as an *additional* source of finance or *gap-filler* replacing resources which, in most cases, should be accessible domestically" (see also Core principles for ODA management in South Africa section 1.4 of Annex 3 in Volume III<sup>7</sup>).

Budget support operations in South Africa present a number of specificities compared to other countries. Budget support:

- is paid into Reconstruction and Development Programme (RDP) Fund<sup>8</sup> and then channelled to the executing agencies; as such it is 'on-Treasury' but not 'on parliament'; i.e. it is audited by the Auditor General but is not voted on by Parliament (see EQ 3).
- represents a particularly low share of overall sector budget (see EQ 3);
- supports policy partnerships within the EU-SA strategic framework, including piloting innovative approaches, knowledge-sharing, and capacity development (see EQ 2);
- is embedded in a long history and evolving EU-SA strategic partnership covering a wider range of policy areas (see EQ 1).

### 2.2 The EU-SA Partnership and Co-operation Framework

In 2004, a first important achievement of the EU-South Africa partnership was the establishment of the Trade and Development Cooperation Agreement (TDCA)<sup>9</sup>. This Agreement provides the legal framework for the relations and was designed to strengthen cooperation and pursue several key common objectives, including: strengthening dialogue between the parties, supporting South Africa in its economic and social transition process, the country's economic integration in Southern Africa and in

<sup>7</sup> The annex presents some key elements related to ODA outlined in the Policy Framework & Operational Guidelines for the Management of Official Development Assistance (2011, previous versions: 2003 and 2008).

<sup>8</sup> Central account at the SA Reserve Bank into which development partner funds for government projects are paid, and from which transfer payments are made to South African implementing agencies.

<sup>9</sup> Signed on 11 October 1999 in Pretoria, the TDCA entered fully into force on 1 May 2004. However, some provisions which fall within Community competence have been applied since 1 January 2000.

the world economy, and expanding and liberalising trade in goods, services and capital between the parties, toward a Free Trade Area. The TDCA and, in particular, its Title V, has formed the framework for development co-operation between the EU and SA. This co-operation framework was further spelled out in two joint Country Strategy Papers (CSPs).

In 2006, the partnership framework was also expanded through the establishment of a Strategic Partnership (SP)<sup>10</sup>. According to the related Action Plan of 2007, the TDCA provides an important framework for relations between South Africa and the European Union but “*furthermore, South Africa and the European Union's common interests provide a natural foundation for a strategic partnership that significantly enhances existing cooperation by moving from mere political dialogue to active political cooperation on issues of mutual interest, at bilateral, regional, continental or global level (...) enhanced political dialogue forms the very cornerstone of the Strategic Partnership. (...) The Joint Country Strategy reflects critically on what value-added development cooperation can bring to South African government-led poverty reduction and development programmes, such as the Accelerated Shared Growth Initiative of South Africa (ASGISA), the Joint Initiative for Priority Skills Acquisition (JIPSA) and Broad Based Black Economic Empowerment (BBBEE)*” (Ibid).

### 3 Key Methodological Elements

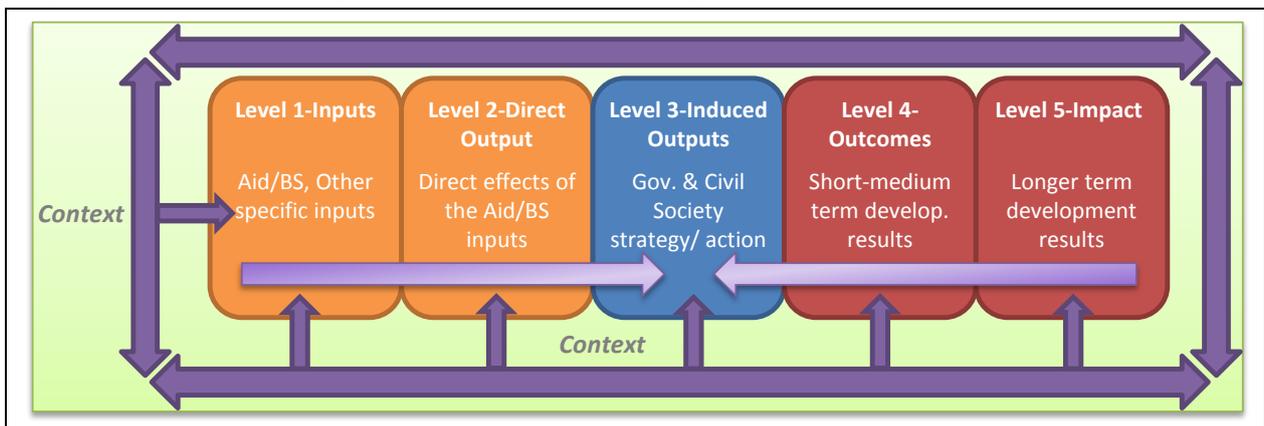
#### 3.1 Intervention Logic

##### 3.1.1 Intervention Logic and implicit theory of change

According to the 3 Step methodology, the intervention logic (IL) of the evaluation is based on a comprehensive evaluation framework (CEF), which includes a specific theory of change. As shown in the basic diagram below, the IL has four main components (highlighted with different colours):

- the government and civil society strategies/action (level 3);
- the development results (levels 4 and 5);
- the various inputs to the government and civil society strategies/action, namely BS, and their direct effects (levels 1 and 2); and
- the context, including EU and government strategy, country and sectoral level political economy, various political, economic and social factors intervening in the process (the context interacts with all the levels).

Figure 1 Basic diagram of the 3 Step methodology



The implicit theory of change of this IL is that government and civil society strategies/action (level 3), in their interaction with the context (which encompasses external / exogenous factors), play a direct role in the determination of the development results (levels 4 and 5). The inputs and direct effects of aid (namely in the case of BS, where they support general policy and budgetary capabilities) may only provide a contribution to enhance the government and civil society strategies/action.

<sup>10</sup> The Strategic Partnership is a special cooperation tool with countries outside the EU enlargement and neighbouring areas. There are ten country-level EU Strategic Partnerships so far, involving Brazil, Canada, China, India, Japan, Mexico, Russian Federation, South Africa, South Korea and United States. These are all countries with which EU has special relationships, due to their economic and political worldwide position and common interests.

### 3.1.2 The evaluation in three Steps

Therefore, in the evaluation:

- it is possible to establish a direct causality link between level 3 and levels 4 & 5, i.e. between government and civil society strategies/action, on one side, and development results, on the other side; and
- it is possible to establish a direct causality link between levels 1 & 2 and level 3, i.e. between aid (namely BS) inputs and direct effects, on one side, and government and civil society strategies and action, on the other side; but
- it is very difficult to identify a direct causality link between levels 1 & 2 and levels 4 & 5, i.e. between aid (and BS) inputs and direct effects, on one side, and development results on the other side. Indeed, too many different – and much more important than aid – determining factors intervene in the process and make such link very vague and almost impossible to isolate.

As a consequence of the mentioned theory of change and its implications, the methodology splits the evaluation in two parts: Step 1 to evaluate the causality links between levels 1 & 2 and level 3 of the IL; and Step 2 to evaluate the causality link between level 3 and levels 4 & 5. A Step 3 establishes a transitive relationship between levels 1 & 2 and levels 4 & 5, via the respective causality links identified in Step 1 and Step 2.

Given the different nature of the two exercises, the methodology adopts two different methods in Step 1 and Step 2. In the first case, the evaluation consists of a contribution assessment, while in the second case a policy impact assessment is necessary.

### 3.1.3 Comprehensive intervention logic

The five levels of the IL are described below:

- Level 1:* Budget support inputs. It includes as well other inputs – provided either by the same donors or by others or by the government – with which BS may have synergies and/or overlapping.
- Level 2:* Direct outputs of budget support: improvements in the relationships between external assistance and the national budget and policy processes.
- Level 3:* Induced outputs: expected positive changes in the quality of public policies, the strength of public sector institutions, the quality of public spending (increased allocative and operational efficiency), and consequent improvements in public service delivery.<sup>11</sup>
- Level 4:* Outcomes: envisaged positive effects at the level of final beneficiaries – service users and economic actors.
- Level 5:* Impact: envisaged positive effects on sustainable economic growth, poverty reduction, empowerment of the poor and improvements in their real incomes, and other issues and priorities specified in the BS operation(s) being subject of the evaluation.

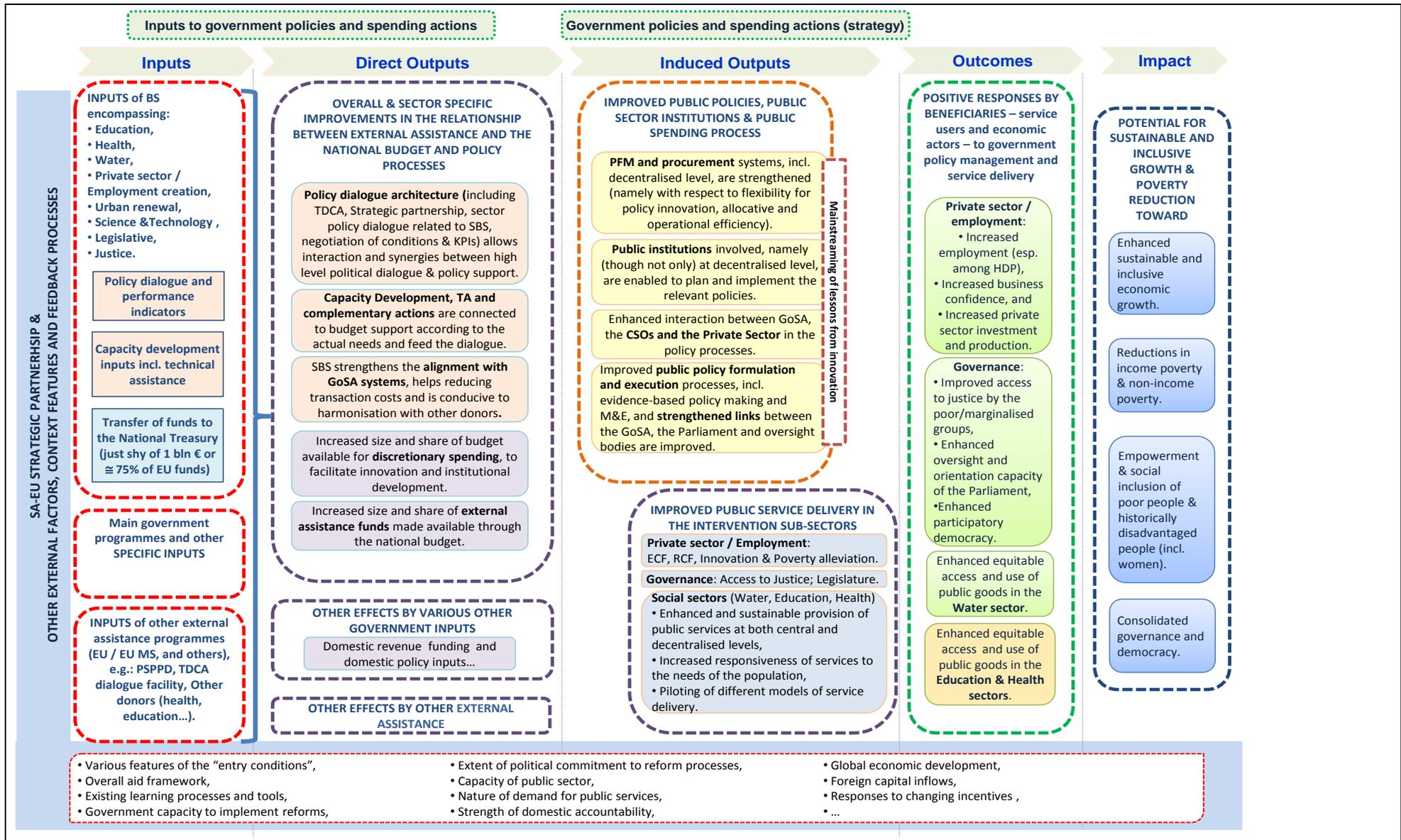
The IL is presented in a comprehensive version and in a sectoral version for the three focal sectors:

- the comprehensive IL provides a framework for the whole budget-support-based co-operation between EU and South Africa. It is used to assess the general effects produced by the BS operations in their synergies and interactions, and to assess the sectoral effects in all the sectors;
- the three sectoral IL are used to fine tune the identification of the inputs and the expected effects in the three focal, sectors: employment and private sector development, water and sanitation, and governance.

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<sup>11</sup> As explained in the Methodology, “according to the current DAC definitions, the accomplishment of a policy reform has to be considered as an ‘output’ in the intervention logic. It cannot be considered as an ‘outcome’ because it does not represent per se a benefit to the people targeted by the BS. On the other hand, the accomplishment of a policy reform is not a direct output of the BS operation although the intervention may have been designed to promote it, but rather an accomplishment of national stakeholders influenced by a number of other factors including BS. That is why this crucial level of the CEF is called ‘induced outputs’”.

Figure 2 Overall intervention logic



## 3.2 Type of assessments carried out

As explained above, the evaluation includes:

- a contribution assessment (Step 1), aimed at identifying the specific contribution of the BS operations – in their interaction with other government, non-government and donor funded programmes and with the context – to the improvement of government strategies and civil society action.
- a policy impact assessment (Step 2), aimed at identifying the actual achievements in terms of development results in the policy areas supported by the BS operations, and the policy and non-policy factors that have determined such achievements.
- a synthesis exercise (Step 3) that brings together the results of the contribution and policy impact assessment, aimed at identifying to what extent the policies supported by the different BS components (as shown by Step 1) have participated in the determination of the development results (as shown by Step 2). Such synthesis allows to establish a ‘transitive’ relationship between BS and the development results.

Such analyses have been structured according to a set of Evaluation Questions (EQs), formulated in the Inception phase. While EQs 1 to 5 concern Step 1, EQs 6 to 10 correspond to Step 2. The EQs include a number of Judgement Criteria (JC) which are assessed via a number of Indicators. The EQs, JC and Indicators compose the Evaluation Matrix.

## 3.3 Challenges and Limitations

### 3.3.1 Overall methodological challenges

A **strategy-level evaluation** of this kind is a challenge *per se*. It goes beyond a mere summation of evaluations of multiple operations and tackles many high-level issues. It also covers different dimensions, periods and areas of support, and simultaneously focuses on individual operations. This challenge has been tackled mainly through the **specific structured methodology**, based on an adaptation of the methodological approach to budget support evaluation developed in recent years.

### 3.3.2 Availability of information

Information available in **EU databases** was not always easily retrievable (e.g. information on the release of tranches in the earlier part of the period under evaluation). However, with the help of the Delegation of the European Union (EUD) and the National Treasury (NT), missing elements could be identified in archives or reconstructed so that an exhaustive database of project documentation related to the EU support could be established.

The evaluation covers a rather long period (2000-2011). The evaluation team was confronted by a lack of **‘institutional memory’** at both EUD and GoSA levels. There was also a tendency for people interviewed to only focus on on-going or up-coming projects and to disregard those that had been implemented earlier. However, as the evaluation team used different information sources (including documents and information provided by other interviewees), this could to a certain extent be compensated for by cross-checking and combining the information retrieved from the different sources. For some cases covered by the analysis, the evaluation team could also rely on a strong internal knowledge of the country context.

The evaluation uses three types of **quantitative data**:

- **‘Financial data’**: data on sector budget and expenditure.
- **‘Administrative data’**: data on activities implemented under the various public programmes and related outputs.
- **‘Data on development results’**: sectoral trends.

For all three types of data, it turned out to be particularly difficult to build comprehensive datasets (with disaggregated information) covering the earlier part of the evaluation period. The evaluation team faced some limitations in terms of **comparability** and **classification** when acquiring and analysing financial data from different sources, and **reliability** when analysing administrative data, which required regular cross-check to be utilised. With respect to data on development results, often an adequate level of disaggregation (by province, by group of beneficiary, by time...) was lacking and, in some cases, reliability was an issue for the earlier part of the evaluation period. In general, the problem was overcome by cross-checking indications on trends with qualitative information and using a variety of sources to reconstruct reliable and comprehensive datasets.

The insufficiency of data at disaggregated level has conditioned the application of quantitative policy impact assessments in many cases. The specific use of SBS to support experimental programmes, with often limited geographic incidence, could have allowed a wide use of the 'double difference' statistical methods. The lack of many data disaggregated by geographic area, although in some cases compensated by the use of proxy, has limited the application of such methods. A large use of qualitative methods (interviews with informed persons and story-telling) has been done to compensate the quantitative limitations.

## 4 Answers to the Evaluation Questions

Following the ToRs, and as agreed in the inception phase with the MG, the evaluation exercise is based on a set of ten Evaluation Questions (EQs) with a view to covering, as far as reasonably possible, the various aspects of the intervention logic. For each EQ, a number of Judgement Criteria (JC) and Indicators were defined to guide data collection and analysis (see Volume III – Annex 2 Final Evaluation Matrix).

Table 2 Overview of the Evaluation Questions

No.	Evaluation Question	Step/Level
EQ 1	To what extent did the <u>design of the budget support operations</u> respond to the specificities of the political, economic and social South African context, to the government's policy and aid framework and to the SA-EU Strategic Partnership?	Step 1, Level 0→1
EQ 2	To what extent has <u>policy dialogue</u> taken place and evolved in the context of BS operations, including exchange of information and experience on respective commitments and forward looking issues, and to what extent has it profited from the wider dialogue structure provided by the TDCA and the Strategic Partnership, and of specific <u>Capacity Development/Technical Assistance</u> inputs integrated in the framework of the programmes? To what extent has it led to greater <u>harmonisation and alignment and reduced transaction costs</u> of external assistance?	Step 1, Level 2
EQ 3	To what extent has budget support contributed to increased <u>alignment of ODA</u> to government's budgetary processes and to increased <u>additional expenditure</u> at sectoral level and decentralised level?	Step 1, Level 2
EQ 4	How has the <u>level and composition of public spending</u> for innovation and experimentation changed, and with which consequences in terms of <u>budgetary flexibility, allocative and operational efficiency, transparency and oversight</u> , including the decentralised levels, and what was the contribution of BS to the observed changes?	Step 1, Level 3
EQ 5	Have there been improvements in the areas supported by BS, in <u>policy formulation/policy review and implementation processes</u> , and related accountability, and to what extent and through which mechanisms (flow of funds, policy and institutional effects, others) has BS contributed to these improvements?	Step 1, Level 3
EQ 6	To what extent, in the <u>employment / private sector development sectors</u> , have the development outcomes pursued through the policies and programmes supported by SBS been (or are being) achieved? And which have been the determining factors of their achievement?	Step 2, Level 4
EQ 7	To what extent, in the <u>water sector</u> , have the development outcomes pursued through the policies and programmes supported by SBS been (or are being) achieved? And which have been the determining factors of their achievement?	Step 2, Level 4
EQ 8	To what extent, in the <u>sub-sectors of access to justice and legislative</u> , the development outcomes targeted by the policies and programmes supported by SBS been or are being achieved? And which have been the determining factors of their achievement?	Step 2, Level 4
EQ 9	What hypotheses can be made on the extent to which, in the <u>other supported sectors</u> , the development outcomes pursued through the policies and programmes supported by SBS have been (or are being) achieved, and on the related determining factors?	Step 2, Level 4
EQ 10	To what extent the outcomes achieved so far in the focal sectors have been <u>sustainable</u> and represent a potential toward consolidated <u>inclusive growth, poverty eradication and inequality reduction</u> ?	Step 2, Levels 4 & 5

The EQs can also be linked to one or several of the five DAC evaluation criteria (relevance, effectiveness, efficiency, impact and sustainability), the coherence and EU added-value criteria and other key issues (3Cs or cross-cutting issues) identified in the ToR of this evaluation. These linkages are illustrated in the following table, and further detailed in the individual EQs.

**Table 3** Coverage of the evaluation criteria by the evaluation questions

Question	Evaluation criteria							Other key issues	
	Relevance	Effectiveness	Efficiency	Impact	Sustainability	Coherence	Added value	3Cs	Cross-cutting issues <sup>12</sup>
EQ1- Relevance and Design of SBS	✓✓✓				✓✓	✓✓	✓✓✓	✓✓	✓✓✓
EQ2- Policy Dialogue, TA and H&A		✓✓	✓✓✓		✓✓	✓✓	✓✓	✓✓	✓✓
EQ3- Financial Inputs		✓✓	✓✓✓		✓✓		✓✓	✓✓	✓✓
EQ4- Public Spending / Budget management		✓✓✓	✓✓		✓✓				✓✓
EQ5- Policy formulation / implementation processes		✓✓✓	✓✓		✓✓			✓✓	✓✓
EQ6- Employment & Private Sector Development		✓✓✓		✓✓✓	✓✓				✓✓✓
EQ7- Water		✓✓✓		✓✓✓	✓✓				✓✓✓
EQ8- Access to justice / legislative		✓✓✓		✓✓✓	✓✓				✓✓✓
EQ9- Other sectors		✓✓✓		✓✓✓	✓✓				✓✓✓
EQ10- Impact		✓✓		✓✓✓	✓✓✓				

✓✓✓	The criterion is largely covered by the EQ
✓✓	The criterion is partially covered in the EQ

<sup>12</sup> The European Consensus for development identifies four “cross-cutting issues” of major importance for development: democracy and human rights; environmental sustainability; gender equality; HIV/AIDS. Taking into account the scope of the analysis, this evaluation focuses only on the issues of environmental sustainability, gender equality, HIV/AIDS and democracy.

## 4.1 EQ1 (Step 1) - Relevance and Design of SBS

**Evaluation Question 1: To what extent did the design of the budget support operations respond to the specificities of the political, economic and social South African context, to the government's policy and aid framework and to the SA-EU strategic partnership<sup>13</sup>?**

EU support provided via SBS has responded to the key priorities of GoSA strategy, as formulated for instance in the 2004-09 and 2009-14 Medium-Term Strategic Frameworks (MTSF), and reflected in the EU/SA CSPs (2003-06 and 2007-13). Specifically, the operations have focused on three broad areas that have been the pillars of the post-apartheid agenda:

- private sector development and employment;
- capacity development for basic service delivery (health, education and water);
- good governance (justice, legislative and decentralisation).

The SBS operations have built on specific demands of the GoSA departments, the Parliament and important Civil Society Organisations (CSOs), drawing on a significant track record of sector-level co-operation.

The design of SBS operations has taken into account the lessons of past EU-SA co-operation, including some initial sector support using the project approach. The SBS operations have also followed the evolution of the country strategic framework, to which they have responded by introducing changes at the level of the design and of the selection of indicators. Overall, the SBS operations have been strongly aligned to the national systems, being mostly embedded in GoSA programmes.

The objectives of the SBS operations have also been consistent with the priority framework of the SA-EU strategic partnership, which identifies development co-operation as a key area and establishes the Mogōbagōba Dialogue as an “*overarching umbrella structure for all existing fora of co-operation*”. However, the SBS operations have rarely explicitly referred to – and, as further discussed under EQ2, rarely directly profited from – the opportunities that the strategic partnership provides.

### 4.1.1 Relevance to GoSA priorities and the country's needs (JC1.1)

The GoSA priorities focus on sustainable economic growth and improved service delivery to fight unemployment and poverty, and on strengthening democracy and good governance. During the period under evaluation, such priorities have relied on an increasingly comprehensive policy framework. Key GoSA strategic objectives, as spelled out in the MTSF 2004-09, and confirmed and extended by the MTSF 2009-14, included: i) economic growth and sustainable livelihoods; ii) access to services and comprehensive social security; iii) crime and corruption; iv) constitutional rights and governance; v) international relations for growth and development. The extension in the MTSF 2009-14 concerned the identification of 10 priority areas: growth; infrastructure; rural development; skills; health; rule of law; social cohesion; African and international co-operation; environment; democracy.

The main GoSA priorities were reflected in both CSPs covering the period evaluated. The CSPs clearly refer to specific GoSA policies and strategies in the main sectors/areas of co-operation (see also Volume II - *Indicator 1.1.1*). The table below shows the overall correspondence between the GoSA priorities, the main areas of co-operation outlined in the CSPs, and the areas covered by SBS operations. It is interesting to note that SBS operations were implemented in almost all of the broad strategic areas of the GoSA.

In all sectors reviewed, the documentary evidence gathered (including evaluation, monitoring, and mid-term review reports) and the interviews with relevant people confirm that there is a high degree of correspondence between the overall and specific objectives of the SBS operations (including general and specific conditions) and the overall sectoral or sub-sectoral priorities defined by GoSA. (*Indicators 1.1.2 and 1.1.3*)

For instance, in the area of Employment/Private Sector Development, the Employment Creation programme is strongly in line with the GoSA policy implemented through the Accelerated and Shared Growth Initiative (ASGISA) and with the overall objective to halve poverty and unemployment by 2014. The 2010 ROM monitoring report also explains that the programme remained relevant to the New Growth Path, which replaced the ASGISA in 2010. The report further notes that the objectives of the

<sup>13</sup> When used with normal letters, ‘*strategic partnership*’ refers to the overall partnership framework which entails the TDCA, the 2006 agreement and related Joint Action Plan. When used with capital letters, ‘*Strategic Partnership*’ refers to the specific agreement of 2006.

programme are in line with the overall goals set in the GoSA Outcome Approach<sup>14</sup> and “are well connected to the four Outcomes” relevant to the sector<sup>15</sup>. Similar considerations hold true for the other sectors. (Indicator 1.1.3)

**Table 4** Overall correspondence between GoSA priority areas, areas of co-operation outlined in the CSPs, and areas covered by SBS operations

GoSA priorities	CSP 2007-2013	CSP 2003-2006	Covered by SBS
Economic growth and sustainable livelihoods	Promote pro-poor, sustainable economic growth ( <i>Focus area 1</i> )	Equitable and sustainable economic growth ( <i>Focus area 2</i> )	Yes
Access to services and comprehensive social security	Improve the capacity and provision of basic services for the poor ( <i>Focus area 2</i> )	Equitable access to and sustainable provision of social services ( <i>Focus area 1</i> )	Yes
Constitutional rights and governance	Promote good governance ( <i>Focus area 3</i> )	Deepening democracy ( <i>Focus area 3</i> )	Yes
International relations for growth and development	Regional and continental co-operation ( <i>Complementary area</i> )	Regional integration and co-operation ( <i>Focus area 4</i> )	No
Crime and corruption	Promote good governance ( <i>Focus area 3</i> )	n/a	Yes

In all sectors where the EU started to provide budget support, it had already been funding ‘project-type’ operations of significant size. Although not all SBS operations are a direct continuation of a previous EU-funded project, the experience gained by the EU in the various sectors certainly contributed to strengthening the alignment of the SBS objectives with the most important country needs and GoSA priorities.

The table below illustrates how most SBS operations have been built on the experience of, and have embedded the lessons learned from, a long history of sector-level co-operation.

**Table 5** Continuity of the support and transfer of lessons learned in the various sectors

Sector	Elements of continuity of the support provided in the sector
<b>Private Sector/ Employment</b>	Continued support was given in a number of specific areas of this sector, with increasing financial allocations. This was explained by the successful execution of early SBS operations (e.g. <i>SWEEEP</i> and <i>RCF</i> ), but also the recognition that the challenges to be addressed had not been fully met. As such, <i>SWEEEP</i> can be seen as a programme developed to complement the success of <i>RCF 1</i> : whereas <i>RCF 1</i> contributed to a ‘fund’ to the private sector via fixed instalments, <i>SWEEEP</i> included agreed indicators for variable tranches directly related to the strategic objectives of the <i>dti</i> . Initially, the SBS operations were designed to focus their support on a specific department (i.e. <i>dti</i> ) <sup>16</sup> . In the Innovation for Poverty Alleviation ( <i>IPA</i> ) programme, the design emphasised the need to support multi-level sectoral dialogue in the Science and Technology Sector. This is also the case with the Employment Creation programme, which is supporting the programme of action of the GoSA Economic Sectors and Employment cluster.
<b>Water</b>	Based on experience gained through the EU support to Eastern Cape and Northern Province (now Limpopo), the Water Services Sector support programme ( <i>WS-SSP</i> , later <i>MSB I</i> ) was designed to strengthen relevant structures at all three levels – including DWAF national office, DWAF regional offices, and the Water service authorities and providers at local government level – as well as improving implementation of existing policies and legislation, particularly those linked to the local government sector. Lessons learned from <i>MSB I</i> helped shape the design of <i>MSB II</i> , while <i>MSB III</i> also builds on lessons learned from earlier phases of <i>MSB</i> . In particular, the approach used in the three targeted provinces during <i>MSB I</i> was rolled out to all nine provinces in <i>MSB II</i> . This evolution was further pursued in <i>MSB III</i> .

<sup>14</sup> In 2010, the Government of South Africa adopted 12 priority outcomes with a view to measurable performance and accountable delivery. The President signed performance agreements with all Cabinet Ministers. In these performance agreements, Ministers were requested to establish and participate in Implementation Forums for each of the 12 outcomes. The Implementation Forums have developed delivery agreements for the Outcomes. All departments, agencies and spheres of government that are involved in the direct delivery required to achieve an outcome are party to the agreement. (<http://www.thepresidency.gov.za/pebble.asp?reid=1905>)

<sup>15</sup> The four outcomes are: Outcome 4: Decent employment through inclusive economic growth; Outcome 5: A skilled and capable workforce to support an inclusive growth path; Outcome 7: Vibrant, equitable and sustainable rural communities with food security for all; Outcome 10: Environmental assets and natural resources that are well protected and continually enhanced.

<sup>16</sup> In the case of the Risk Capital Facility, *dti* delegated the management responsibility to the Industrial Development Co-operation.

Sector	Elements of continuity of the support provided in the sector
	Moreover, the FA emphasises the need to build a strong monitoring, evaluation and reporting system in <i>MSB II</i> , having identified the shortfalls in this regard in <i>MSB I</i> . Finally, it can be seen that, whereas CSO was not a Key Result Area (KRA) in either <i>MSB I</i> or <i>MSB II</i> , it becomes a KRA in <i>MSB III</i> . Similar examples can be found with regard to the other cross cutting areas.
<b>Governance</b>	The SBS support to <i>Access to Justice</i> builds on a decade of project support (1996-2007) to the Foundation for Human Rights, a grant-making mechanism, which, in its second phase, has funded more than 900 CSO projects operating in the human rights sphere. The <i>LSPSP</i> builds on some of the experience with supporting parliament through the project modality, starting as of 1996. The multiple administrative, financial and communication hurdles between the Project Implementation Unit and Legislatures provided additional incentives to move from project to budget support – a modality seen as a more appropriate vehicle for supporting the sector policies.
<b>Health</b>	The Partnerships for the Delivery of Primary Health Care Programme was designed in 2001 and implemented in five of the nine South African Provinces in subsequent years. Building on the success of the programme, and taking into account the high level of relevance of the design highlighted in external monitoring missions, the SBS support to <i>Partnership for Health II (PfH II)</i> was launched to expand the current model of partnerships for health into the remaining four provinces. The SBS support to <i>PrimCare</i> was not a direct continuation of the Partnership for Health programmes, but nevertheless built on this experience. In particular, it has taken into account lessons learned from previous actions in terms of the relevance of developing partnerships at local level, the crucial dimension played by sectoral dialogue, the importance of carefully selecting key performance indicators, and the need to focus efforts on primary health care.
<b>Education</b>	The previous EU-funded programmes carried out in the sector directly influenced the design of the <i>PrimEd</i> SBS operation. These programmes (e.g. <u>Education Sector Support Programme</u> or <u>School Infrastructure Support Programmes</u> ) covered a variety of subjects (e.g. early childhood development, adult literacy, project management, school infrastructures) and all used a project-type modality. Mixed experience with the project modality, in terms of efficiency, effectiveness and impact, has prompted both partners to launch the <i>PrimEd</i> programme, which uses the SBS modality and focuses on primary education via a three-pronged approach (expanding access to early childhood development, ensuring effective implementation of the curriculum, and improving teacher training).
<b>Urban renewal</b>	Experience gained throughout the implementation of the SBS operation ‘Urban Development Support to eThekweni Municipality’ and from local development programmes (project aid) pointed to the need to: i) disseminate learning within the municipality; ii) support links between programme managers and line departments, and ensure linkages between the three spheres of government. As a result, the design of the Support to <u>Urban Renewal</u> Programme in Eastern Cape foresees a complementary envelope of € 1.4 M for the provision of TA to provide “support to the functions of the National and Provincial Urban Renewal Programme, Learning and dissemination of lessons”.

#### 4.1.2 Consistency with the SA-EU strategic partnership (JC1.2)

The first global agreement of the EU-SA partnership was the Trade, Development and Co-operation Agreement (TDCA), signed in 1999 and entering fully into effect in 2004. An important focus was trade and economic co-operation. However, it also addressed the area of development co-operation with the overall priority of fighting poverty.<sup>17</sup>

In 2006<sup>18</sup>, the framework of co-operation was consolidated through the establishment of a *Strategic Partnership* (SP)<sup>19</sup> and the subsequent implementation of a *Joint Action Plan*. It is noteworthy that South Africa is the only African country with which the EU has a Strategic Partnership.

The SP relies on a complex dialogue structure, including an annual presidential Summit, a Joint Co-operation Committee (JCC) and different sectoral dialogue forums<sup>20</sup>. The *Joint Action Plan* established a new “*overarching umbrella structure for all existing fora of co-operation*” – the *Mogôbagôba Dialogue*

<sup>17</sup> The bilateral agreement also covers several other fields such as socio-cultural cooperation.

<sup>18</sup> See COM(2006)347 final - *EC Towards an EU-SA Strategic Partnership*.

<sup>19</sup> The Strategic Partnership is a special co-operation tool with countries outside the EU enlargement and neighbouring areas. There are ten country-level EU Strategic Partnerships so far, involving Brazil, Canada, China, India, Japan, Mexico, Russian Federation, South Africa, South Korea and United States. These are all countries with which EU has special relationships, due to their economic and political worldwide position and common interests.

<sup>20</sup> The implementation of the development co-operation strategy is also reviewed in Annual Consultations. The discussions that take place during the Annual Consultations inform the annual SA-EU Summit.

– and sets the modalities for joint actions, in particular for enhanced political dialogue at summit level, and for specific co-operation forums for priority sectors. This is further discussed under EQ2.

The CSPs explicitly refer to the broader framework of relations between the EU and SA, pointing to the importance of the SP and the TDCA. For instance, the CSP 2007-13 indicates (p.28): “*Co-operation with South Africa needs to be developed into a strategic partnership, which will require wide-ranging, high-level dialogue between South Africa and the EU*”.

In addition, the objectives of the SBS operations have been, overall, consistent with the objectives outlined in the strategic partnership documents, including: economic growth and employment, enhancement of living conditions, and democratisation, human rights, and good governance.

However, very few SBS documents mention the TDCA (references were mainly found in the area of Employment/Private Sector) and an explicit reference to the SP was found in only one of the six SBS operations launched after the establishment of the SP<sup>21</sup>. (*Indicator 1.2.1*)

Interviews carried out also highlight the distinction made by many stakeholders between SBS operations, which are often seen as relating to ‘development aid’, and other ‘wider co-operation’, which deals with specific policy issues. In particular, from 2009 onwards, the implementation of the TDCA has been supported by the TDCA facility<sup>22</sup>. Under this programme, funds were made available via a dedicated ‘Dialogue facility’<sup>23</sup> to strengthen sectoral dialogue in a number of strategic areas. However, there is very little overlap between these areas and the themes covered by the SBS operations.

Overall, the strategic partnership and its main evolutions have clearly influenced the EU-SA development co-operation structure and priorities, but have had only a limited direct influence on the design of most SBS operations. More generally, concrete efforts to link the broader partnership framework and the response strategy for development co-operation outlined in the CSP do not appear particularly strong during the period evaluated.

Despite this, a strong link with the overall strategic partnership can still be observed for two SBS operations:

- The first case corresponds to the Legislative SPSP, in the Governance Sector. The 2007 Joint Action Plan indicates that both the EU and SA, “*in line with their strong democratic values, recognize the importance of regular and institutionalised parliamentary interaction*”. A rider to the financing agreement of the Legislative SPSP, signed in 2011, introduced a new result area that “*aims to strengthen the capacity to engage, participate in, and oversee international relations*” of the Legislative Sector in particular, with a view to improving and strengthening existing relations and establishing new relations with international Parliaments and parliamentary Bodies, including the EU.
- A strong alignment is also observed in the case of the Innovation for Poverty Alleviation SBS operation, with ‘science and technology’ being explicitly recognised as one of key areas of co-operation in the Joint Action Plan.

In both cases, it is noteworthy that the relevant EU and SA institutions involved in the programmes had already established a long partnership before the SBS operations were designed and implemented. For instance, in the area of science and technology, both partners were already engaged in a strong, high-level dialogue in the sector – namely, a 10-year-old agreement called the Science and Technology Bilateral Co-operation Agreement, which facilitated the dialogue in the context of the strategic partnership between the EU and SA. Similarly, the European Parliament and South African Parliament have conducted bi-annual Inter-Parliamentary Dialogue meetings since 1994. (*Indicator 1.2.2*)

#### 4.1.3 Adaptation of the SBS design to the context (JC1.3)

The design of SBS operations has substantially evolved during the period evaluated, responding to several dimensions of the context, in particular:

- **Evolution in the co-operation framework:** an increasing recognition of budget support as the preferred modality can be observed in the overall EU development co-operation policy framework (e.g. 2005 EU Consensus on development and, in the Development Co-operation Instrument established in 2007) and also in the SA-EU co-operation framework (e.g. 2003-2006

<sup>21</sup> In the financing agreement of the programme ‘Innovation for poverty alleviation’.

<sup>22</sup> The expected results of the ‘TDCA facility’ programme are: Result 1 - Improved sectoral policy dialogue and co-operation between the EU and South Africa; Result 2: Increased institutional capacity to help implement the areas of co-operation of the TDCA and the Strategic Partnership Action Plan.

<sup>23</sup> <http://www.dialoguefacility.org/>

& 2007-2013 Joint Country Strategy Papers, 2007 Strategic Partnership). This evolution can also be linked to the greater attention paid in the overall international aid framework to modalities using country systems, as highlighted in the (Rome/Paris/Accra/Busan) High Level Forums. This evolution has led to an increase in the overall and individual allocations related to SBS operations in South Africa.

- **Evolution in the national policy framework:** The move from ‘institutional support’ type programmes focusing on one department (e.g. *MSB I* or *RCF*) to broader sector approaches (e.g. *MSB III* or Employment Creation) led to changes in the organisation and implementation procedures of SBS operations, and the fact that the framework for conditionality and policy dialogue would apply to wider sets of national stakeholders and sectoral issues. Similarly, the increased attention paid to results in international co-operation and in the South Africa policy environment is reflected in a greater number of performance indicators focusing on the results level.
- **Development of EU standards and approaches to SBS:** The BS guidelines introduced by the EU in 2002 and 2007 strongly shaped the design of SBS operations – for example, by introducing the use of variable tranches or standardising the duration of the operations. In a number of cases, these evolutions were also taken into account in ongoing SBS operations through the introduction of riders.
- **Evolution in the national ODA management framework:** Together with the 2007 EU BS guidelines, the national ODA framework (draft version, 2007) contributed to the fact that sectoral dialogue and donor co-ordination became explicit general or specific conditions in most of the SBS operations launched after 2007.

There is also some evidence that the evolution in the design of SBS operations is partially linked to the integration of **lessons learned** from previous experience of EU-funded SBS or non-SBS operations in South Africa and elsewhere. The integration of such lessons was especially important with regard to the definition of the scope of the operations, including thematic issues to be covered, and actors to be involved. (see JC1.1) On the other hand, these lessons learned do not seem to have affected the design of the operations in terms of duration, overall amount allocated, or type and number of conditions, especially when compared to the aforementioned factors. Changes in such areas have indeed taken place (see Table 6), but they are primarily linked to evolutions in the context (including the co-operation framework and the EU approach to BS - see dimensions highlighted above) rather than to a direct transfer of lessons learned.

In terms of **mix of inputs**<sup>24</sup>, in the majority of cases, SBS operations have mainly focused on the delivery of *financial inputs*. Some form of *dialogue* is usually foreseen in the SBS Financing Agreements (FAs), but references often remain general, despite the CSP (2003) stating that the MIP 2000-2002 has introduced the BS modality, inter alia, with a view to ‘strengthen policy dialogue’. In several instances, reference is made to ‘sectoral dialogue’, ‘policy dialogue’ or just ‘dialogue’, without detailing what this would entail (see the discussion under EQ2).

Finally, *Technical Assistance/Capacity Development* (TA/CD) aspects are often explicitly mentioned in the initial design of SBS operations, and this is addressed in a variety of ways – as illustrated in the box

#### Functional definition of key terms

*Definitions are functional to a correct understanding of the text and do not intend to replace international definitions where they exist or provide new interpretations of existing concept.*

**Capacity Development** (CD): designates the process of strengthening the targeted actors of a development action (final beneficiaries or institutions) in order to empower them and strengthen both their operational capabilities and their autonomous initiative. In general terms, inputs to support CD (normally TA, but not only) represent a basic component of a BS package, together with funds and policy dialogue.

**Capacity building** (CD) designates approximately the same contents of Capacity Development, but putting less emphasis on its dynamic endogenous processes. Institutional building and institutional development are also used sometimes in the text as synonymous with slight differences.

**Technical Assistance** (TA) designates the mobilisation of external expertise (be it national or international). According to the DAC and EU, TA should increasingly assume a CD function, and be run by recipient governments through the use of locally based resources. Inputs and modalities other than TA may be used to support the acquisition of know-how in CD processes, such as: peer to peer inter-institutional exchanges, training, study tours, etc. The TA linked to the exchange of experience (see box next page) is different and originates from the Strategic Partnership and the objectives set for Development Cooperation.

<sup>24</sup> In the case of SBS operations, three types of inputs are usually distinguished: transfer of funds, policy dialogue, and complementary support (such as TA/CD).

below. However, TA/CD is not mentioned at all in two cases (*PrimEd* and *Innovation for Poverty alleviation*). Moreover, TA/CD is foreseen as a specific SBS component (with a specific financial allocation) only in a few cases (e.g. *RCF I & II*, *PrimCare* or *Access to Justice*). *RCF* and *PrimCare* are also the only cases where TA/CD is envisaged as a tool to facilitate exchange of high-level know-how on policy experimentation<sup>25</sup>. In the other instances, it is usually envisaged that the TA/CD dimension will be dealt with directly by the department in charge of the supported programme, and, in these cases, TA/CD aspects relate mainly to the strengthening of the capacities of the department or other sector actors (in areas such as M&E, human resources, planning & financial management).

**Box 1**      *How TA/CD features in the design of SBS operations in South Africa*

The various ways in which TA/Capacity Development features in the design of SBS operations can be distinguished according to the *content and objectives* of the TA/CD action as foreseen in the FA and the actual way TA/CD was *integrated* in the design framework.

In terms of **content and objectives**, four broad cases can be identified<sup>26</sup>:

- TA/CD provided to facilitate exchange of high-level know-how on policy experimentation – e.g. *SARRAH* programme supported under the *PrimCare* operation<sup>27</sup> or the *EIB* support provided under the *RCF* operations.
- TA/CD provided to strengthen the capacities of the institution leading the SBS-supported programme (capacities in terms of, for example, M&E, HR & financial management) – e.g. *MSB*, *Legislative or Access to Justice*.
- TA/CD provided to facilitate the actual implementation of a component of the SBS-supported programme (such as the preparation of calls for proposals) – e.g. *Access to Justice*.
- TA/CD provided to strengthen the capacities of other sector actors (such as decentralised bodies, CSOs, service providers or private sector for planning, management) – e.g. *PrimCare*, *MSB*, *RCF*.

In terms of the **integration** of this TA/CD support in the initial design of the SBS, there are also four broad cases:

- TA/CD as a specific component: case where there is an explicit 'component' of the operation with a specific EU-funded envelope planned for it – e.g. *PrimCare*, *Access to Justice*, *RCF*.
- TA/CD as a specific condition: case where there is no explicit financial allocation planned in the FA, but the FA mentions that a 'TA/CD system' should be established by GoSA during the implementation of the SBS-supported programme – e.g. *MSB III*.
- TA/CD as a key result area (KRA): case where TA/CD is considered as a KRA with sometimes, in older SBS, an indication on the specific allocation of funds to achieve this result (the FA indicates that x% of the SBS funds should be used for this KRA); this case is very similar to the above but does not relate directly to a specific condition – e.g. *eThekwini* or *MSB I*.
- General mention to TA/CD: case where the FA mentions a TA/CD dimension in the SBS-supported programme (which could be provided by consultants recruited by the lead department in charge of the programme, a national organisation or a CSO), but does not consider it either as an input or as an output of the SBS operation.

It is worth noting that the classification proposed above is fully in line with the definition of technical assistance provided in the SA ODA Guidelines, i.e. "Technical assistance is the provision of resources aimed at the transfer of technical and managerial skills and knowledge and technology for the purpose of building capacity to undertake development activities. Most commonly, TA takes the form of the placement of technical experts in a recipient institution on a short or long-term basis."<sup>28</sup>

A major evolution in terms of mix of inputs concerns the various attempts to address the participation of CSOs in the supported programmes, to integrate and strengthen public service delivery and also to

<sup>25</sup> It is noteworthy that the Legislative SPSP also implicitly envisages high-level exchange of know-how via co-operation activities between international Parliaments and parliamentary bodies.

<sup>26</sup> The expertise to be mobilised for 'evaluations and reviews' is sometimes referred to in the FAs as technical support, but this case is not included in this analysis.

<sup>27</sup> Support provided in the form of a contribution agreement (€ 6 M allocation) to DFID.

<sup>28</sup> Sources: *The Policy Framework & Operational Guidelines for the Management of Official Development Assistance*; IDC, National Treasury, 2011; p. 73; and *Sector Budget Support in South Africa: Introduction to EU Funding Modalities*; IDC, National Treasury, 2011, p. 11 "Where specified TA funds are included in the financing agreement [specific component in the classification provided in the box], they may be managed by the EU under centralised management, or by South Africa under decentralised management using EU procurement procedures. This management of the TA budget line includes deciding on the TA requirements, preparing ToRs, procuring TA, managing the TAs technically and contractually and making payments against the TA contracts. Where TA is provided, not as a separate budget line but through specific conditions under the SBS portion of the financing agreement, then South African government procurement procedures are used."

address specific governance and public service delivery failures. An important component directly targeting CSOs was included in the SBS package of two recently-launched SBS operations (*Access to Justice* and *PrimCare*). A third SBS operation (*MSB III*) also integrated the participation of CSOs in the Water Sector as a KRA. This evolution can be linked to:

- the importance of actively promoting the participation of this type of stakeholders in national development actions, as highlighted in the lessons emerging from previous programmes;
- the significant decrease in the EU portfolio of the direct support provided to CSOs (which are traditionally important recipients in the ‘project aid’ approach).

The table below provides additional information on the most notable evolutions in SBS design that took place during the period evaluated. It highlights three sub-periods. (*Indicators 1.3.1, 1.3.2 and 1.3.3*)

Table 6 Overview of major evolutions in SBS design during the evaluation period

<b>Phases and Main features of SBS operations</b>
<p><b>2000-2003 – Period I: First experiences with BS modality</b> SBS operations: MSB I; The e-Justice Programme; RCF I; Support to eThekwini Municipality; SWEEEP I</p>
<p>During the period, <b>five SBS operations</b> were launched, covering the following <b>four sectors</b>: <u>Water</u>, <u>Justice</u>, <u>Private Sector/Employment</u>, and <u>Urban Renewal</u>. Average allocation: approximately € 40 M. They are all rather ‘<b>focused</b>’ programmes, paying special attention to an institution (e.g. DoJ, <i>dti</i>), a geographic area (e.g. <i>MSB I</i> focused on three provinces), or a policy instrument (e.g. <i>RCF</i>). Moreover, the original design of the operations closely resembled the <b>design of a standard ‘project aid’</b> modality. The overall description of the programmes, as depicted in the FAs, details not only the <b>objectives and results, but also activities</b> (and a logframe). Details are also provided with regard to the <b>organisation and implementation procedures</b> to be followed (e.g. Steering Committee, Project Manager). The <b>incentive dimension</b> is not strongly developed. The <b>use of variable tranche</b> and <b>performance indicators</b> is only introduced in the last two operations (<i>SWEEEP</i> and through a rider in the case of <i>eThekwini</i>). Tranches are usually released upon the presentation of proof of compliance with general conditions, mainly related to the correct implementation of the programme, and the financial soundness of the institution/programme supported. That said, the <b>design varies greatly</b> from one operation to another, as illustrated by the <b>different durations</b> of the programmes (some programmes were planned to last five or even seven years) or the <b>number of tranches</b> (varying from two tranches in the case of <i>RCF I</i> to five in the case of the Support to <i>eThekwini</i> Municipality). This variety of design is largely explained by the fact that no standard approach to budget support had been developed at that time. These operations were part of the first ‘SBS’ designed by the EU worldwide and mainly built on the experience gained in the programme-based operations previously implemented in South Africa.</p>
<p><b>2004-2007 – Period II: Adaptation &amp; extension</b> SBS operations: MSB II; RCF II; Urban Renewal Programme in Eastern Cape; Partnerships for Health II; SWEEEP II</p>
<p>During this period, <b>five SBS operations</b> were launched, covering the following <b>four sectors</b>: <u>Water</u>, <u>Health</u>, <u>Private Sector/Employment</u> and <u>Urban Renewal</u>. As in the previous sub-period, the average financial <b>allocation</b> is around € 40 M. Four of the operations are actually an <b>extension of previous EU-funded sector programmes</b> (<i>PfHII</i>, <i>SWEEEP II</i>, <i>RCF II</i>, <i>MSB II</i>) and, for the Urban Renewal Programme in Eastern Cape, the design is a direct <b>adaptation</b> of the design of the Urban Development Support to <i>eThekwini</i> Municipality launched in the previous sub-period. This continuity explains why the design is still flavoured by ‘project aid’. That said, the <b>use of variable tranches</b> is more frequent, although still not systematic. Most SBS operations now clearly distinguish between general conditions (macro-economic stability, existence of a sector policy or sound PFM system) and specific conditions (e.g. M&amp;E system in place or positive outcome of an MTR). These evolutions were mainly <b>influenced by four elements</b>: (i) the 2002 EU Budget Support guidelines<sup>29</sup>; (ii) the “Policy Framework and Procedural Guidelines for the Management of ODA” established by GoSA in 2003; (iii) the 2003-2006 EU-SA country strategy paper; (iv) the experience gained in the SBS launched during the first period.</p>
<p><b>2008-2011 – Period III: Standardisation &amp; expansion</b> SBS operations: MSB III; Innovation for Poverty Alleviation; Legislative SPSP; Access to Justice; Employment Creation; PrimEd; PrimCare.</p>
<p>During this period, <b>seven SBS operations</b> were launched, covering <b>all focus areas</b> of the EU-SA co-operation strategy. The sub-period is characterised by a substantial <b>increase in the overall financial allocation</b>, with four SBS operations having a budget over € 100 M. In addition, two of these programmes (<i>MSB III</i> and <i>Employment Creation</i>) are designed to cover a <b>wider scope</b> going beyond the realms of a specific line department. <b>Participation of CSOs</b> is ensured via the inclusion of a KRA (e.g. <i>MSB III</i>) or the integration of a specific complementary support (<i>Access to Justice</i> and <i>PrimCare</i>) in the SBS package. The design uses a standard <b>duration</b> (three or four years maximum) and follows a <b>standard tranche release structure</b> (‘three fixed + two variable’ tranches). All SBS operations include a variable component.</p>

<sup>29</sup> They are known as the “*Guide to the programming and implementation of budget support in third countries*”.

### Phases and Main features of SBS operations

The reference to financial audits of the supported GoSA programmes or other implementation procedures disappears, and there is a greater **emphasis on results** (with the last three programmes launched having a higher number of key performance indicators focusing on the results level, compared to indicators on processes and outputs).

Finally, **sectoral dialogue** appears clearly in the design, with the majority of SBS operations using the existence of adequate structure for sectoral dialogue as a specific condition.

These evolutions were mainly influenced **by four elements**: (i) the 2007 EU guidelines on SPSP and GBS<sup>30</sup>; (ii) the 2007-2013 EU-SA country strategy paper; (iii) the further development of the national ODA framework (2008 Treasury Guidelines for the management of ODA) and evolutions in the national policy framework; (iv) the experience gained in the SBS launched in the previous periods.

Finally, most SBS operations have been implemented with an important **degree of flexibility**. In particular, for 13 of the 16 SBS operations, the initial financial agreement was amended during the implementation period<sup>31</sup>. In eight cases, the riders bring modifications to the performance assessment matrix (e.g. inclusion of a new result area, amendment of specific indicators, targets or sources of information). In five cases, the riders include a period extension. In four cases, the riders introduce a budget re-allocation.

While, in some instances (e.g. *e-Justice*, *URP Eastern Cape*), these changes illustrate an ambitious initial design of the performance matrix in terms of implementation period or targets, in most cases (e.g. *IPA*, *ECF*, *MSB II*), they reflect an adaptive process to a changing policy and institutional environment. (*Indicator 1.3.4*)

<sup>30</sup> Precise references: 2007, EuropeAid “*Tools and Methods Series - Guidelines on the Programming, Design & Management of General Budget Support*”; 2007, EuropeAid “*Tools and Methods Series - Support to Sector Programmes (Covering the three financing modalities: Sector Budget Support, Pool Funding, project procedures)*”.

<sup>31</sup> There was no rider for only the following three interventions: SWEEEP, MSB III and Access to Justice.

## 4.2 EQ2 (Step 1) - Policy Dialogue, TA and H&A

**Evaluation Question 2: To what extent has policy dialogue taken place and evolved in the context of BS operations, including exchange of information and experience on respective commitments and forward looking issues, and to what extent has it profited from the wider dialogue structure provided by the TDCA and the Strategic Partnership, and of specific Capacity Development/Technical Assistance inputs integrated in the framework of the programmes?**

**To what extent has it led to greater harmonisation and alignment and reduced transaction costs of external assistance?**

This EQ looks at the direct effects of the SBS non-financial inputs: the structure, opportunities, management and contents of the policy dialogue and the performance framework; the quality and use of TA/capacity development inputs; and the direct contribution of these to harmonisation, alignment, reduction of transaction costs and co-ordination/complementarities among EU policies and actors and other donors.

The evaluation work has highlighted the absence of a codified definition of policy dialogue, despite the multiple references to policy dialogue in the EU-SA strategic and programming documents since the year 2000 (see box on the right).

There is a complex architecture for political and policy dialogue in the framework of the EU-SA TDCA and Strategic Partnership, which presents important opportunities for development co-operation that still need to be fully deployed and optimally exploited. There is no shortage of areas of co-operation that are highly relevant for policy dialogue, in terms of shared priorities, lessons learnt and innovation. A real dialogue on policies and related measures, however, is still limited to the decision/identification and M&E of the SBS<sup>32</sup>. Its level, scope and depth in most areas are not yet aligned to the potential of either the actual EU-SA political and economic relationships, or the existing strategic partnership and the related instruments.

TA and capacity development inputs are almost completely delegated to GoSA and, exceptionally, to the relevant NSAs (e.g. *Access to Justice*), in the framework of the SBS-supported programmes. TA is mainly considered as a tool for operational and technical support, which may easily be deployed by GoSA at national level, where high-level TA is available. TA as an exchange of institutional, policy and research experiences between SA and EU partners is not considered by the two parties in SBS identification, apart from a few exceptions in recent years.

The SBS performance assessment frameworks, as their overall policy and institutional set-up, are strongly aligned to GoSA and other national counterparts' priorities and systems. By using and reinforcing national systems, SBS contributes to strengthening sectoral approaches and, in this way, harmonisation. Complementarities with other EU policies are present in some SBS, but are not sought and promoted systematically. Co-ordination and synergies with EU member states and other main donors are not significant, apart from the existing government-driven consultation framework at sectoral level.

### Definition issues on dialogue

In general terms, it is possible to define *policy dialogue* between development co-operation partners as being the exchange of experiences and ideas between the partners about development policies and measures at macro and/or sectoral level, to be supported in a given development context<sup>1</sup>. *Political dialogue* is a different matter: the attempts to define it on the basis of the subjects addressed are not convincing, as "it is difficult to specify exactly what should count for a political thing" (*Political Dialogue: Theories and Practices*, edited by Stephen L. Esquith, Rodopi 1996, p.11). One might say that the dialogue between co-operation partners becomes political when it affects directly their interests and positions. In all other cases, the dialogue remains on policies, with regard to an exchange of ideas and advice without global political implications – such as the establishment of a treaty, an international agreement or an official statement. According to such definitions, it is possible to have either a political or a policy dialogue on most of the subjects, including economic development, peace and security, trade, and human rights. Of course, some of these areas are more politically sensitive than others, so a frequent shift from policy to political dialogue, and vice versa, is necessary.

In South Africa, a wide use of the term 'sector dialogue' is made to refer to various policy dialogues carried out between the GoSA and its domestic partners at sectoral level. This dialogue is very relevant for – and even involves – the international partners, especially when they adopt a sector-wide approach. It remains, however, mainly a national exercise and should not be confused with policy dialogue between national and international partners.

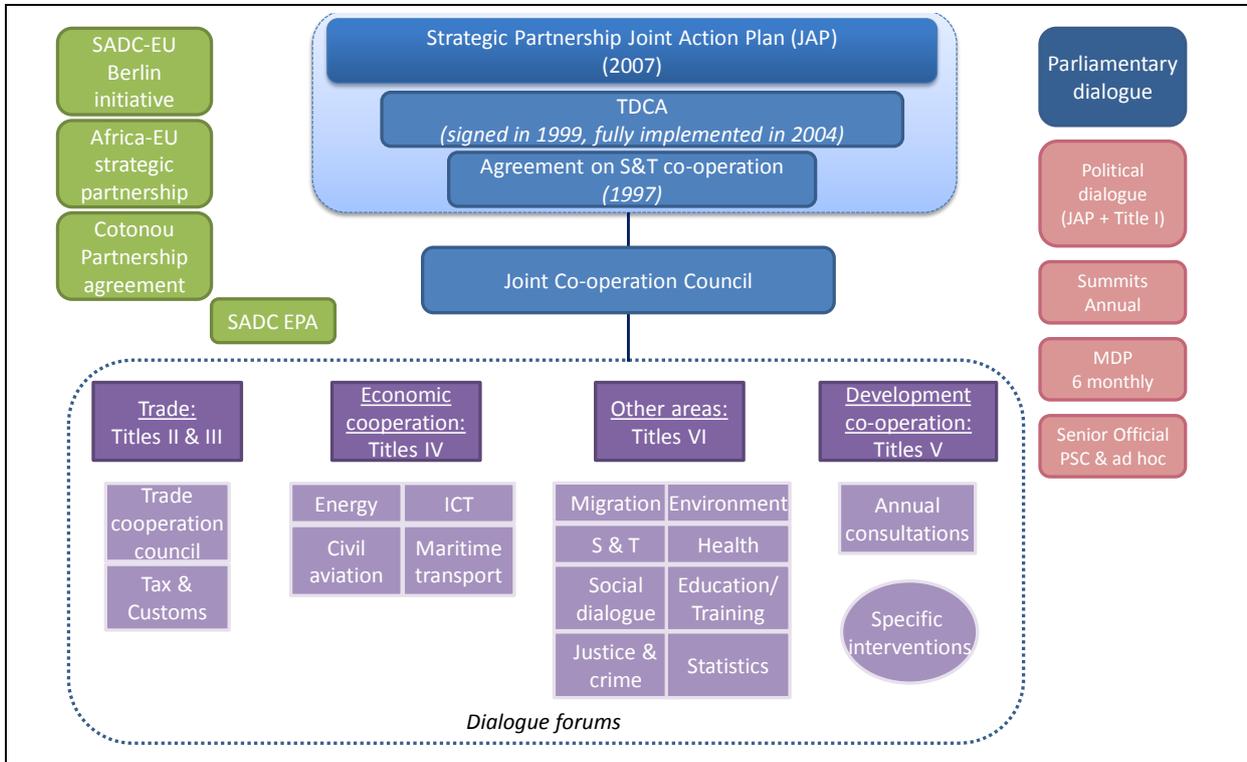
<sup>32</sup> It is important to note that there is no codified definition of policy dialogue, despite the multiple references to policy dialogue in the EU-SA strategic and programming documents since 2000. A specific definitional framework was therefore agreed upon in this evaluation based on the policy dialogue to take place at the broader level of the strategic partnership and the specific policy dialogue directly linked to BS, as a basic component of the BS package. In particular, at BS level, policy dialogue helps identify the specific sector policy support programmes, define the performance assessment framework of the FAs and assess their KPI.

#### 4.2.1 Dialogue architecture (JC2.1), different processes and approaches (JC2.2)

##### The dialogue structure

The development co-operation between SA and the EU relies on a broader partnership framework. Over time, both parties have put in place a rich policy and institutional architecture (see Figure 3) to manage the partnership.

Figure 3 EU-SA Dialogue Framework



Source: Adapted from TDCA facility (2010): Study on the EU Institutional and Policy Framework, and its link with the dialogue areas under the SA-EU Strategic Partnership

The TDCA (which was proposed in 1999, and entered into force in 2004) provided the legal basis for a multifaceted co-operation in a wide range of areas, and was underpinned by a regular political dialogue at various levels. In 2006, a qualitative leap forward was made with the Strategic Partnership and related Joint Action Plan (JAP, 2007). It sought to reflect the enhanced role of South Africa at regional and international level, and to move from “political dialogue to active co-operation on issues of mutual interest at bilateral, regional, continental and global levels” (JAP, p. 2). The Strategic Partnership stresses that “in view of the special circumstances in South Africa, the real value added by ODA is not only the finance itself, but what comes from it – namely, best practice, innovation, risk-taking, pilot programmes, systems development, capacity building and, above all, skills and knowledge” (JAP, 2007, page 5). To respond to such challenges, the development co-operation has largely focused on policy dialogue since the beginning, as shown by the Regulation 1726/2000: “the Community shall implement financial and technical co-operation with South Africa to support the policies and reforms carried out by the South African authorities in a context of policy dialogue and partnership”. According to the CSP (2003), the MIP 2000-2002 has introduced the BS modality, inter alia, with a view to “strengthen policy dialogue”.

##### Levels and types of dialogue

What is, in practice, policy dialogue in the EU-SA context? Since the launch of the first BS operations (early 2000), there are mainly two venues (or entry points) for policy dialogue in development co-operation between SA and the EU. Both affect BS operations, either directly or indirectly:

- the TDCA-related policy dialogue, including its introduction in 1997 in the area of Science and Technology (S&T)<sup>33</sup>;
- the policy dialogue linked to BS, as a basic component of the BS package.

<sup>33</sup> The S&T Cooperation Agreement was concluded in 1996 and entered into force in November 1997.

At the TDCA level, there are a lot of references to policy dialogue (PD) in the JCC since its inception and in the Annual Consultations, and PD in development co-operation is very much promoted in Education and Training, Health, Employment and Social Affairs, Crime and Justice, Energy, and ICT. Some of these dialogues continue over time and/or generate specific development co-operation initiatives, as in S&T and Health.

At the level of BS, a strong dialogue has taken place since the outset in the phases of programme design and performance assessment, even though the FAs – especially in the earliest phases – contain few explicit references to the PD. According to the BS guidelines, dialogue is a core element of the BS package and a centrepiece for mutual accountability. It has two distinct features:

- First, “it provides a framework to take stock of the respective commitments and to assess progress on both sides”.
- Second, “it can be used as a forward-looking tool”<sup>34</sup>. This feature must be adapted to the context.

In SA, the focus of such a ‘forward-looking’ approach may be intended as: “*exchanging experiences and information on the worldwide best practices, models and approaches regarding the policies supported, so that the partners can learn from each other and eventually strengthen the respective knowledge base and capacity*”<sup>35</sup>. This definition demarcates an area where the evaluation team has found common ground among the parties. It can be used to look at both the past opportunities and the future challenges.

### **SBS-related dialogue: features and constraints**

#### **a. The features**

The dialogue at the level of BS has materialised and evolved in different ways according to the different programmes and periods. The ‘First feature’ has been interpreted more or less dynamically (for example, in the Water sector, until 2006, there was a strong informal dialogue, less so in *SWEEP* and *ECF*, and there has been a rich exchange in the Governance sector). The ‘Second feature’ has been partly addressed in the Governance programmes, in Health, and S&T, and more specifically in most recent SBS programmes such as *LSPSP*, *PrimCare* and *IPA*.

Matching the two features (TDCA/Partnership and BS operations) is a big challenge with a lot of implications for the future. Until now, there are only two main examples:

- The Health programme *PrimCare* (2011-2015), where a well-designed SBS has allowed a high level of transfer of know-how on the national health insurance (NHI) system, involving the TDCA and SARRAH facilities.
- The *IPA* programme (2008-2013), which has followed the opposite route (from the TDCA to SBS) and represents an application of a high-level dialogue in S&T. As the Joint S&T Committee of 2011 states: “regular policy dialogue in science, technology and innovation, [supports] mutually *beneficial learning to be gained from these exchanges. Both sides agreed that South Africa and the European Union shared a significant number of science and technology policy priorities and challenges, especially with regard to harnessing innovation for economic competitiveness and increased social cohesion.*”

#### **b. The constraints**

Combining two such features should have been the consequence of both the dialogue architecture and the BS implementation, but several factors explain the gap between the institutional arrangements for dialogue ‘on paper’ and ‘in reality’:

- High-level ambitions versus day-to-day realities and expectations of actors on the ground. A number of factors limit the actual implementation of policy dialogue, among them: (i) the Government of South Africa is reluctant to address sensitive issues related to policy

<sup>34</sup> New Guidelines (2012) op. cit., p.31. The previous Guidelines (2006/7) do not change very much on dialogue, compared with the 2002/3 version. They stress that BS “*will be accompanied by dialogue on the overall policy and strategy, and on the functioning of public financial management. Furthermore, dialogue frequently leads to agreement on support for capacity development as an important accompanying measure*” (page 11), and SBS – namely, “*focus on the sectoral development and reform policy and strategy*” (page 14). Dialogue is seen as an input of BS, together with, for example, disbursement criteria or capacity development. (page 25).

<sup>35</sup> This definition found a preliminary consensus among the relevant stakeholders in the RG meeting of Monday, May 20<sup>th</sup>. The definition keeps the wide scope of the dialogue (policies and strategies) as in the aforementioned Guidelines, but highlights two issues that are considered very important in South Africa: reciprocal learning, and the fact that the dialogue on policies should avoid any donors’ intrusion in national implementation processes.

implementation with external actors – preferring to refer to ‘sectoral dialogue’, which is a process involving the national stakeholders in a given sector, extended to external partners for co-ordination purposes; (ii) the proposals for policy exchanges and dialogue from the EU partners in charge of development co-operation are, in many cases, limited to the shape and contents of the individual support programmes; and (iii) apart from the TDCA facility, there are few instruments and incentives to facilitate the identification and actual implementation of opportunities for policy exchanges between national and EU partners, including the know-how of Member States and DGs.

It should be considered that the Strategic Partnership is different from an Association Agreement (such as the ones the EU undertakes with some South-Mediterranean countries), where the co-operation on, for example, policy reforms and regulatory standards is part of an interstate treaty. In such cases, the EU and the partner country are required to work together towards selected joint policy objectives. In the case of the EU-SA Strategic Partnership, the possible value added of the dialogue on policies and strategies should be demonstrated through in-depth exchanges of experience to produce mutual benefits (see the experience of the highly relevant – although still at an initial stage – EU-funded ‘Dialogue Facility’).

- Unclear status of policy dialogue. As both a consequence and a cause of the issues raised above, there is lack of clarity on what policy dialogue really entails. Strategic and programme documents are relatively detailed on political dialogue (including themes, objectives and venues), while policy dialogue is generally addressed in vague terms, and there is no orientation on how it translates into specific sector policy dialogues.
- Delivering effective policy experimentation. The strong traction and interest on the part of South African side in widening the scope of policy innovation and experimentation opens a window of opportunity to discuss policies and programmes with the EU in the framework of development co-operation. Yet, it has proved challenging to use this potential optimally, although practices vary widely across sectors. The task at hand for both parties is to clarify the linkages between policy experimentation, budget support, and policy dialogue.
- Unclear mandate. Although the dialogue is supposed to be dealt with formally within the structures of the NT (annual consultations) and the South African government’s DIRCO (JCC, Summit and their related dialogue processes), at programme level the situation is less clear. Key policy documents regarding SBS operations do not always provide sufficient guidance as to what is expected from policy dialogue or the way in which the process should be conducted, including how to address the various dialogue instruments theoretically available. Thus, financing agreements tend to differ substantially in terms of: (i) incentives provided for dialogue; (ii) clarity on the scope and functions of dialogue; (iii) specification of process modalities. (see Indicators 2.1.1 & 2.1.2)

The EUD has recently started to adopt a more ‘structured approach’ to policy dialogue by introducing the practice of compiling an overview of dialogue instances linked to ongoing SBS operations, which highlights a mixed track record. This stock-taking exercise at programme level is a starting point, but is not sufficient to strengthen policy dialogue, as the EU should demonstrate to its national counterparts that it has interesting and relevant sectoral experiences, policy solutions and proposals to share with the South African side, before asking to discuss any specific application at programme level.

### **c. The dialogue in the preparatory phases**

The dialogue has been instrumental in the preparation of the SBS, permitting the consolidation of the common ground for confidence and shared experience on which SBS has been built, according to various ways:

- A long history of co-operation in the Water sector and a good understanding (dialogue) between the operational partners has led to the launch of the first SBS operation, with a view to testing new institutional and policy approaches. The EU side brought in models and experiences in the design phase that contributed to the strategic relevance of the supported programme (MSB). Then a climate of close collaboration and informal dialogue facilitated the implementation and the learning process, at least in the first phases. A long, positive experience of co-operation through different projects was also brought to the SBS in the Education sector, although the effects on strategic exchanges have been greatly limited.
- In the Governance Sector, the EU experience and dialogue with NSAs on sensitive issues and project support to government in complex matters (*Access to Justice* and *LSPSP*) have created a special trust between the partners, and have gradually triggered a bilateral (*LSPSP*) and tripartite (*Access to Justice*, with the participation of NSAs) dialogue, leading to SBS operations in the Justice and Legislative sectors, with significant strategic implications.

- The traction and dynamism in a specific area linked to wider thematic/political co-operation has triggered the definition of an SBS in the area of Science and Technology (*IPA*), and has opened up perspectives for strategic extension of the dialogue.
- Political dialogue has identified Employment as a key priority and has triggered specific SBS under the development co-operation umbrella (*SWEEEP*, *RCF*, *ECF*), but the policy dialogue following the launch of these operations has not translated such political priority into actual exchanges of experiences and expertise.

#### **d. The dialogue as a tool to enhance the learning process**

The dialogue has been a tool to expand the lessons from SBS supported programmes:

- In Justice, Legislative, and Health, there are clear opportunities and some attempts to extend the scope of dialogue from the SBS-supported programmes to encompass wider sector performance and strategies, including international models and cross-sector issues, but there is a limited range of tools and procedures to achieve that.
- In the Private Sector Development and Employment area (e.g. *ECF*, *SWEEEP*), there is little connection between the wide strategic priorities addressed in the political dialogue and the rather narrow operational dialogue at programme level. Opportunities and modalities to enhance such connection are not identified.
- There are cases where the EUD has tried to improve the link between SBS dialogue and the broader strategic partnership dialogue by increasing the internal co-ordination between the Operational Section, which co-ordinates the SBS operations, and the Political Economic and Trade Section, which operates in similar areas (e.g. Justice and Legislative).
- There are also cases where SA has pushed for the inclusion in the SBS of a wider strategic component, as in the Health sector (Health Insurance and Regulatory Health models). Such an extension has been made possible by the existence of several opportunities, such as expertise on Health Insurance systems made available via a DFID TA mechanism, and the contribution of the TDCA Dialogue Facility to organise thematic workshops.

In general, the experience of the SBS operations generates lessons that may feed wider policy thinking and dialogue for national and international learning (e.g. Water, Innovation for Poverty Alleviation, and the significance of their lessons for other African countries), but such a task goes beyond the scope and resources of the individual programmes. (see *Indicator 2.1.3*)

#### **Interests at stake, and evolution over time**

The key policy documents related to TDCA and Strategic Partnership stress the existence of a wide range of common interests between the two partners at bilateral, regional, continental or global level. This is based, among others, on economic grounds, including the fact that the EU is SA's main economic trade partner, with 27% of the total SA trade value in 2011<sup>36</sup>. The common interest in Africa's development and stabilisation is another strong driving factor of the EU-South Africa relationship. The aid envelope provided in the last planning period, 2007-2013, although relatively marginal compared to the GDP, also provides incentives for setting up particular forms of dialogue. On the other hand, there are also divergent interests and positions, related to various historical and geopolitical factors<sup>37</sup>. (see *Indicator 2.2.1*)

The JAP (2007) recognises that: i) the objective of dialogue is not necessarily to reach an agreement on each and every issue, but to better understand the other's position; and ii) that policy dialogue is, by definition, "*an evolutionary process*" (JAP, p. 3).

Apparently, the will and interest to engage in policy dialogue on both sides of the partnership are diversified, particularly in development co-operation (see *Indicators 2.2.1 to 2.2.5*):

- South Africa seems rather interested in attracting know-how and, partly, funds for policy experimentation: (i) with respect to know-how, there is a wide interest by GoSA, at the higher levels, and among policy researchers and academia, for new methods, approaches, and exchange of experiences with other countries to feed the ongoing country-wide policy research and debate – the success of the EU Dialogue Facility and the PSPPPD illustrating the high demand in this area; (ii) with respect to funds for innovation, the main interest comes from the GoSA departments, which seek the possibility of testing and developing the outputs of their

<sup>36</sup> The EU is South Africa's leading trade partners, with trade values double that of China, which is the second partner. In 2011, the EU provided 31.1% of the imports and absorbed 21.9% of the exports (EU/DGTRADE data).

<sup>37</sup> Inter alia, SA is part of the BRICS group, the interests of which do not always coincide with those of the EU.

internal policy research processes. Most SBS respond to this second type of demand, which is very strong and important, although it is less open to policy debate and exchange.

- The EU seems interested in providing two major types of inputs. First, policy support inputs to strengthen selected objectives and priorities in government policies (e.g. employment in disadvantaged areas; CSOs participation; gender equality; building participatory democracy). These are the CSP priorities, which – within the EUD and in Brussels – are particularly supported by DEVCO/EEAS. Second, there is also a certain interest in other types of contributions and supply, less directly linked to the actual policy support, but with a stronger ‘strategic dimension’, such as: social cohesion policies and existing models to fight inequality; more equitable tax policies; competitive and equitable higher education. The institutional support (or, better, the mandate) for this type of supply is weaker compared with the former, but not absent, as shown by the existence of specific actions (Dialogue Facility and PSPPD). Its delivery also depends on various actors, not limited to DEVCO, and including other DGs and Member States. Practice suggests that the EUD faces considerable challenges in mobilising expertise for policy experimentation and dialogue from these actors – thus potentially reducing the capacity of the EU to use policy dialogue as a fully-fledged co-operation instrument.

The present development co-operation is characterised by two features. First, there is a significant matching between the GoSA departments’ demand for funds and the policy support packages proposed by EU/DEVCO, mainly in the form of SBS. Despite the very suitable nature of SBS, however, the dialogue and exchange of experience in this type of co-operation is mainly limited to the management of the individual programmes (PAF, M&E, etc.). Indeed, the GoSA departments are reluctant to move towards a policy dialogue that could encroach on their policy choices and processes, and the EU does not have the means to make a broader dialogue appealing. Second, the other types of SA demand (development know-how) and EU supply (strategic themes for development) materialise in specific programmes (Dialogue Facility and PSPPD) which, despite their importance, do not find a connection with the bulk of the co-operation represented by the policy support programmes, SBS<sup>38</sup>.

There are meaningful examples, however, where such disconnection is partly mitigated. Water, Justice, Legislative, the Private Sector (*RCF, IPA*), Health and are all sectors where, especially with the development of sound ground for trust between the parties, broader policy issues have been addressed and partly developed in the dialogue, such as: institutional reorganisation at sectoral level (*MSB* in the Water sector); sub-sector strategies (*RCF* to finance Small and Medium Enterprises – SMEs); deep involvement of NSAs in pro-poor service delivery (*Access to Justice*); strengthening of the national and provincial representative assemblies as pillars of the democratic process (*LSPSP* in the Legislative sector); matching poverty reduction and applied research in science and technology (*IPA*); developing new approaches and models (*PrimCare* in the Health sector).

In all such cases, the exchange of policy information and experience is significant, although it rarely goes beyond the scope of the implementation of the specific supported programmes, building on the opportunities provided by the Strategic Partnership (e.g. dialogue tables, Dialogue Facility), to identify and improve shared approaches and strategies. Indeed, the Strategic Partnership, with its focus on ‘what comes from’ ODA (i.e. exchange of know-how), would allow for joint strategic thinking, as a complement to and an extension of the supported programmes, with a view to strengthening the respective positions on specific and general development matters, improving the knowledge base of the EU development co-operation policies, feeding the national policy debate, and sharing/extending ideas with/to other African countries (e.g. innovation and poverty reduction, sectoral reform models and experiences, participation of NSAs in service delivery).

To do so, SBS should include, or should be combined with, explicit strategic dialogue components, including themes, expertise and work plans. So far, this has happened only with *PrimCare*<sup>39</sup>, where the SBS has been closely combined with a Dialogue Facility initiative on the Health Insurance models, and with high-level expertise. This combination has not been planned as such, but it has been the consequence of a strong initiative of the Ministry of Health, which has been able to use and put together various instruments and opportunities available under the EU co-operation. The very good results attained should provide a basis to systemise, and possibly replicate, the experience.

<sup>38</sup> In the recent GBS, some advances in this respect have been made. The PSPPD is integrated into the GBS package, although it is not yet clear if and how it will be a vehicle for effective policy exchange between the parties.

<sup>39</sup> In other sections of this report, Legislative and IPA are mentioned, as well as examples of combinations of SBS with other partnership instruments (e.g. the Parliamentary dialogue, and the S&T dialogue) although, in such cases, the link is less direct than in *PrimCare*).

In the other mentioned cases, trust and opportunities are there, and the dialogue tackles matters that could be addressed at a broader strategic level, but there are no initiatives to materialise and expand such types of ‘forward-looking’ dialogue (see the dialogue categories according to the BS guidelines). The attempt to match SBS with high-level exchanges of experience has been hampered also by specific bottlenecks on the EU side, such as: i) often less than optimal understanding of the domestic policy processes, the relevant entry points, and interlocutors (including at decentralised level); ii) the lack of clarity on mandates and (facilitation) roles to be played by the EUD in policy dialogue processes; iii) the often limited possibilities to mobilise in a timely manner relevant internal and external expertise to engage in knowledge and exchange driven dialogue processes (reflected in the difficulties of getting effective support from other DGs); and iv) the way in which TA is addressed in SBS, which focuses on operational issues rather than policy support. On the GoSA side, constraints other than the ones mentioned above may relate to: (i) time constraints to prepare dialogue processes; and (ii) challenges to ensure internal co-ordination between various line ministries (e.g. Employment).

#### 4.2.2 The TA/CD component (JC2.3)

Capacity development is very often one of the objectives pursued through the implementation of SBS-supported programmes. That said, technical assistance or other capacity development measures are rarely included (embedded) within the SBS operations as one of the key components alongside the financial transfers. This is the case of: i) the *RCF I & RCF II*, which included an envelope for a TA facility whereby the EIB provided capacity development and supervision to the IDC; ii) the *URP Eastern Cape*, which included an envelope for a Technical Support Facility with a view to supporting the functions of the National and Provincial Urban Renewal Programme; and iii) in the *PrimCare* SBS, where a TA envelope has been included to acquire specific high-level EU expertise. (see *Indicators 2.2.1 and 2.2.2*)

In all other cases, although capacity development is a key focus area in terms of priorities of the targeted government programmes, it is not addressed through a complementary – internal or external – input of the SBS package. Since most of the supported programmes take into account policy innovation, the TA and capacity development intensity is quite high in the majority of them. Apart from the mentioned cases (*RCF*, *URP Eastern Cape* and *PrimCare*, where it is a specific component, and in *IPA*, where there is no mention), the FAs refer to TA/CD in various forms. As described in Box 1 (see EQ1), TA/CD is sometimes mentioned in the FAs as a specific condition, an explicit objective in the KRA or, in general terms, as a separate TA/CD support which could be provided by consultants recruited by the line Department, a national organisation, a CSO or another donor (in this case, TA/CD is not referred to as an output of the SBS operation in the FA).

Overall, technical assistance and capacity development measures directly financed by the EU amounted to € 15 M during the evaluation period – i.e. a small percentage (1.5%) of the overall funds provided by the EU in the form of SBS support, with the bulk of funds taking the form of financial transfers to the Treasury. Only five of the 16 programmes considered included specific TA inputs.

Looking at the *content of the TA/CD* as foreseen in the FAs, four broad cases can be identified<sup>40</sup> (see also Box 1 under EQ1). TA/CD can be provided to

- strengthen the capacities of the Institution leading the SBS-supported programme/policy (M&E, HR & Financial management, etc.).
- facilitate the actual implementation of a component of the SBS operation (e.g. preparation of call for proposals, etc.).
- strengthen the capacities of other sector actors (such as decentralised bodies, CSOs, service providers or private sector for planning, management).
- facilitate exchange of high-level know-how on policy experimentation – e.g. SARRAH programme under the SBS support to *PrimCare* or EIB support under *RCF*. In such cases, TA is closely linked to policy dialogue, especially to its ‘forward-looking’ dimension.

In the FA of *IPA*, no specific mention of TA/CD exists, but activities during the implementation have actually been related to this aspect. For instance, the MTR mentions the organisation of workshops and the recruitment of experts from Europe to address specific issues, such as how to access funding. Moreover, the MTR mentions TA support being given by other donors.

<sup>40</sup> The expertise necessary for evaluations and reviews is sometimes referred to in the FAs as technical support, but this is not included in this analysis.

In the Private Sector Development and Employment area, capacity development and TA activities were in-built in the broader GoSA programmes supported by SBS, and focused on specific areas for technical and institutional strengthening. However, only in the case of *RCFI* was the TA component financed through a complementary envelope of the SBS package and focused on matters of specific EU value added (EIB experience with SMEs). As a result, with the exception of *RCFI*, the areas addressed by TA did not lead to the exchange of know-how between the GoSA and the EU institutions involved but rather focused on the strengthening of the institutions involved (TA/CD mentioned either as a condition or as a KRA).

In the Water Sector, no TA was provided as part of the SBS package, although TA was widely used for a range of activities throughout the government-led (and SBS-supported) *MSB* programme. TA deployed by the government included specialists in a number of areas, such as programme management, monitoring and evaluation, auditing, financial analysis, economics and economic development, strategic analysis, business analysis, change management, organisational development, and policy analysis. In particular, in *MSB III*, TA extended its functions over all technical and institutional areas, including cross-cutting issues. All such TA was funded, identified and managed under the responsibility of the GoSA. Again, there was no linkage between TA outputs and exchange of know-how on policy experimentation.

In the Governance Sector, technical assistance and capacity development show particular features:

- In the case of *Access to Justice*, the largest part of the capacity development component is provided through FHR, which is a key partner in the programme and mobilises capacities with specialised civil society organisations for capacity development. Another capacity development component, however, is provided through a complementary project: the EU-managed CSO sub-component, which seeks to add value to the sector policy processes, but falls outside of government management systems. Strengthening capacities through both components of the Justice to All programme creates synergies, and informs policy dialogue and partnership between the EUD, DoJCD and FHR.
- In the *LSPSP*, TA and capacity development are an important input of the sector programme to strengthen the capacities of the Legislative Sector (systems, procedures, policies) – for example, to improve public participation and fulfil more effectively oversight and law-making functions. There are no TA inputs within the SBS package, but there is space in the sector programme to benefit from expertise and exchanges with other legislative bodies, including the European Parliament.

In the Health Sector, a specific allocation for TA is provided to finance the development of a model to involve General Practitioners in the District Health System (DHS). The TA has been contracted through a contribution agreement with DFID, which had initiated wider advisory support through its SARRAH programme. Interviews have highlighted a very positive role played by the TA, based on lessons from the EU and other international experiences. In addition, the TA is combined with some initiatives of the Dialogue Facility on Health Insurance and Regulatory Health. However, as the action started only in 2012, it is too early for an evaluation.

In the Urban Renewal Area, the EU-financed complementary TA provided as part of the SBS package in the *URP Eastern Cape* took the form of a Technical Facility with a view to supporting the national co-ordination and support for urban renewal. The TA facility was soundly grounded within the GoSA's institutional structure and was managed by the Urban Renewal Unit within the Department of Provincial and Local Government (DPLG), with support being provided both in Pretoria and at provincial level in Bisho. As a result, the TA was indeed aligned with – and responded to – specific government priorities, although evidence collected points to the absence of linkages between the work of the TA and policy dialogue. It is also worth noting that the Nelson Mandela Bay Municipality recruited – through the use of its own funds - a Technical and Operations Co-ordinator (TOC) responsible for the detailed planning, operation and management of the SBS operation and all related activities within the Municipality. (see also *Indicators 2.2.3 and 2.2.4*)

In conclusion, TA/CD is a recurrent and significant component of the SBS-supported programmes, but is rarely addressed as a component (internal or external) of the SBS package. One of the reasons is probably because it is primarily aimed at the strengthening of the capacities of the institutions involved addressed through widely-available, high-level national resources and only exceptionally is it linked to an exchange of know-how between EU and South Africa. The actual exchange of know-how happens, through different modalities, in two sectors: (i) Justice, where the EU builds on its specific experience and historical links with CSOs specialising in human rights; (ii) Health, where a strong and reform-minded ministry, with the help of some favourable circumstances, has been able to combine SBS, Dialogue Facility and high-level TA contributions towards strengthening the sectoral reform process.

### 4.2.3 Harmonisation & Alignment (JC2.4)

In general, all ODA that flows to SA has to be aligned with the priorities of the GoSA. The government departments are always in the forefront and proactive in determining what they require ODA for, and ensuring that it is in line with their priorities. Co-ordination mechanisms among donors are also part of the sector co-ordination, and their effectiveness depends upon the role played by the GoSA to ensure a strong sector approach.

There is evidence that SBS have established their performance indicators according to GoSA systems and performance matrices. All SBS are embedded in government programmes and follow their modalities in terms of institutional set-up, execution, monitoring, and control. The SBS alignment is stronger than in a project, as a project has its own institutional set-up (e.g. PIUs or PMUs, separate funds management) and, although it may be flexible and internalised, it responds to a direction chain and may reflect interests relatively external to the institutional framework in which it operates<sup>41</sup>.

That said, the contribution of SBS to improved harmonisation among donors is limited. SBS does not influence the harmonisation framework per se. It may contribute to strengthening the sector approach (as in the Governance, Water and, partly, Health), and thereby contribute to the improvement of the harmonisation framework through its contribution to the policy processes, but this is not a direct effect of SBS. (see EQ5, as well as *Indicators 2.4.1 and 2.4.2*)

The situation in the various sectors may be summarised as follows:

- In the Private Sector and Employment area, the SBS alignment is very strong and the harmonisation is ensured by the economic cluster meetings and the sub-sector meetings, which are particularly frequent in the IPA area.
- In the Water sector, the harmonisation among the donors is relatively strong, as a consequence of the GoSA engagement to ensure “*high-level discussions on water sector progress between Government and donors*” (general condition 4 of the SBS support to *MSB III*). There are, however, no separate formalised donor co-ordination mechanisms. Co-ordination was mainly done through the national sector co-ordination mechanisms, or bilaterally with GoSA. There are quarterly consultation and co-ordination meetings at national level, plus an annual water sector forum in each of the nine provinces. Donors did participate regularly in the quarterly MCC meetings, although their participation tailed off at the end of *MSB*.
- In Access to Justice and LSPSP, the alignment and the harmonisation are a consequence of the strengthening of the sector and sub-sector approach. Through the co-ordination and lead roles that DoJCD has taken up in broader departmental clusters, the department’s co-ordination efforts with donors become more relevant as this also creates opportunities for cross-departmental coherence.
- In the Health sector, an aid effectiveness framework and an ODA Co-ordinating and Planning Forum, involving all relevant actors, were established in 2010<sup>42</sup>. Such positive developments cannot be attributed specifically to the SBS operations, although the adoption of this modality by the EU certainly has helped to consolidate the direction taken by the GoSA, as stressed by the evaluation of the Paris declaration.
- In the Education sector, as the EU is the main donor and most of the others have significantly reduced their engagement, the effects of SBS on harmonisation have been rather limited.
- In the Urban Renewal area, donor co-ordination remains weak, and reviews of the relevant SBS operations often called for improvements in this area – together with improved policy dialogue – as a condition for improvement of sector policy support programmes.

### 4.2.4 Reduction of the transaction costs (JC2.5)

It is generally assumed<sup>43</sup> that the use of SBS should lead to reduced transaction costs.

<sup>41</sup> This may be a positive condition in some cases. There are important projects in SA that have performed well so far – for instance, PSPPPD. Such projects are useful to open up new policy areas, although their mainstreaming into the policy and institutional framework is complex.

<sup>42</sup> The aid effectiveness framework actually came into effect only on January 21st, 2011.

<sup>43</sup> See ‘Harmonising Donor Practices for Effective Aid Delivery - Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management’ (DAC 2006): “*Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment*”, page 13.

In the Private Sector and Employment area, this general acknowledgement is shared especially for the alignment of the management systems (including reporting), but there is also concern that, in many cases, there may be a potential/actual increase in costs to some departments as a result of the following factors:

- Delays in payment, with regard to the Consumer Protection Commission programme (*SWEEEP*).
- Lack of clarity about procedures and conditionalities that have caused frustration, cash flow problems, and distrust (*SWEEEP II*).
- Set-up of separate programme implementation units, as was the case for the implementation of the *ECF* and *IPA* within the mandated line departments – although, in the case of *IPA*, the implementation unit was later integrated into the main structure of the *DST*. *RCF* and *SWEEEP*, on the other hand, did not lead to the set-up of dedicated management units, and were both implemented using existing government structures, thereby leading to minimal increases in transaction costs.

In the Water Sector, there is a strong evidence for the reduction of transaction costs – namely, for the alignment of *MSB* with the monitoring and reporting system of *DWAF*. For example:

- *PAF* of *MSB II* and *MSB III* align to the Key Results Areas of *DWAF* and *MSB* reporting, thus feeding into *DWA* annual reporting.
- Annual reports of *MSB* were a General Condition of the EC FAs for all three phases of *MSB*, as were annual sector plans.
- All reporting was done by *DWAF*, with inputs from other key sector players; while the reporting on performance was shared (i.e. between sector players), there is little evidence that it was shared/joint with the EU Delegation.
- All quarterly and annual monitoring reports and all independent evaluation studies conducted during all three phases of *MSB* were joint.

In the Governance Sector, the shift from project support to SBS modality has done away with the separate PIUs in the Legislative Sector. This shift has also ensured EU alignment with functions and systems of the DoJCD and the Legislative Sector, such as administrative and policy management, monitoring, and co-ordination. It has, furthermore, helped to rationalise partnership meetings in the Legislative Sector, as communication becomes more streamlined and there is less ground for confusion. Therefore, transaction costs of both SBS operations are probably lower than for projects with comparable features, given these more integrated management systems, the avoidance of duplication, the clearer lines of communication, and overall a stronger sense of ownership with the DoJCD and the Legislative Sector.

In the Health Sector, although the shift to SBS has contributed to simplifying and aligning the EU support, there is not enough evidence to show that it has significantly reduced the duplication of meetings or monitoring missions, especially because the other donors have kept their own procedures and modalities. In the Education Sector, combined evidence gathered from interviews and the 2012 mid-term review shows that SBS has eased reporting procedures and has introduced flexibility in the use of funds compared with previous mechanisms used to deliver aid. In the area of Urban Renewal, the SBS FAs did not foresee the set-up of separate implementation units, and management functions were to be assumed by the dedicated government structures set-up for the broader government's Urban Renewal Programmes. In practice, however, the SBS operations were then managed separately through the set-up of dedicated implementation units, which, in the case of Nelson Mandela Bay, was managed by a TA recruited by the Municipality. In both cases, the SBS have required additional administration and time demands for engagement for the city, while at the same time reducing transaction costs for the EU. (see *Indicators 2.5.1, 2.5.2 and 2.5.3*)

Finally, since the EU is the only donor providing SBS, the shift to this modality did not have a specific direct effect towards establishing co-ordinated and joint monitoring processes and procedures with other donors – the main exception being found in the Water Sector<sup>44</sup>.

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<sup>44</sup> The only exception being linked to the support provided by Irish Aid to the multi-donor Water & Sanitation SWAp (*MSB*). In this respect the arrangement of pooled financing under *MSB* has proved to be a good mechanism for coordination of overall donor support to the Government of South Africa. While ensuring government leadership, it also reduces duplication and overhead costs at the same time as it gives the donors the possibility of supporting specific components of *MSB* that correspond to their priority areas.

#### 4.2.5 Co-ordination and complementarity (JC2.6)

Here, specific considerations are developed with regard to the capacity to ensure complementarities, synergies and co-ordination at the level of the various EU policies and instruments, among the main programmes funded by the EC and the EU Member States, and between the EU and other main donors.

It should be noted that, during the period evaluated, many donors have phased out or significantly reduced their engagement, so the issue of co-ordination among donors has partly lost its complexity and is addressed with a relative ease through the sectoral dialogue and consultations led by the government.

In general, few references can be found in the SBS FAs to other donor support and, where this is included, it is often in the form of a list of potentially complementary actions with the caveat that complementarities should be sought directly by the line department or other governmental counterpart in charge of the programme. This is the case, for example, with the *URP Eastern Cape* SBS. (see *Indicator 2.6.1*) As a result, while other programmes undertaken by the EU or other development partners are often acknowledged, important complementarities or linkages are rarely actively pursued during the formulation stage. With few exceptions (e.g. Justice, and Legislative sector), no evidence has been found in terms of cross-fertilisation between various programmes. (see *Indicator 2.6.2 and 2.6.3*)

In the Private Sector Development and Employment area:

- The Donor Working Group, established in 2007, was no longer functioning properly by the time the ECF became operational (2010). This can be viewed on the one hand as a consequence of the reduced number of donors directly supporting the sector (DFID and EU) and of the GoSAs tendency to deal with donors on an individual basis, and on the other hand of the complexities linked to coordination in sectors where multiple national departments are involved.
- In *IPA*, there is a case of complementarity among different EU policies: complementarities with the EU poverty alleviation engagement in the ACP countries are evident, but are only partially addressed, and there are complementarities with the EU Science and Technology programmes aiming at expanding the research area opened by *IPA*, mainly – though not solely – in other African countries.

In the Water Sector, the strength of the sectoral approach has ensured a strong synergy among donors. As previously mentioned, the SBS contribution has been mainly on strengthening the sectoral alignment under GoSA leadership (JC 2.3 above) and contributing to the institutional and policy consolidation of the Water Sector (EQ5). No donor co-ordination initiatives, outside the GoSA co-ordination, are identified. The potential dissemination to other African countries of the lessons learned is an area of complementarity among the EU policies that presently is not exploited.

In the Access to Justice and LSPSP, as in the Water Sector, the SBS contributions to co-ordination are mainly with regard to the sector strengthening. However, there was no evidence of solid levels of co-ordination between donors in the Justice sector (in *LSPSP*, there are no other donors), which may be due to the fact that aid volumes are low, and donors operate in entirely different sub-sectors. There are possibilities for complementarities among the EU policies and instruments. This potential has been partially exploited: linkages between *LSPSP* and the European Parliament external relations policy; linkages between the Access to Justice and the *LSPSP* and with other thematic instruments, such as the EIDHR Country-Based Support Scheme for South Africa. These programmes are a very good example of complementarity between SBS and CSO support programmes<sup>45</sup>, where there is a strong cross-fertilisation between the two aid modalities.

In the Health Sector, a case of complementarity within the EU framework is represented by the EC and DFID collaboration on the TA, mentioned above.

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<sup>45</sup> There is evidence of cross-fertilisation across the Justice and Legislative SBS operations, and of synergies within the *Access to Justice* programme, in which the EC applies two different aid modalities. The EC-managed civil society component of the *Access to Justice* programme reinforces capacities of civil society actors to engage with legislatures at national and provincial levels. Therefore, the EC supports the supply side of outreach by the legislatures to civil society (through the *LSPSP*) and the demand side by empowering civil society actors. The DoJCD and the Foundation for Human Rights also can rely on the research and capacity development outputs, as well as policy-relevant experimentation of those CSOs that are funded by the EC.

### 4.3 EQ3 (Step 1) - Financial Inputs

#### Evaluation Question 3: *To what extent has budget support contributed to increased alignment of ODA to government's budgetary processes and to increased additional expenditure at sectoral level and decentralised level?*

Channelling external aid flows through the Reconstruction and Development Programme Fund (RDP) is the modality established by South Africa to manage the aid that donors agree to put under government control, i.e. 'on-Treasury', although not 'on parliament'<sup>46</sup>. The amount of funds provided by the EU through this channel has been high: an average of 69% over the period 2001-2011, starting from a low of 46% in 2000 and increasing in the following years with the start of SBS disbursements). This share has been much lower, instead, for the total aid received by South Africa in the same period (about 20%).

The trends over the period as well demonstrate that the EU – by far the biggest RDP contributor – tends to increase that share, which is decreasing when considering all donors. Such considerations allow a positive appreciation on the role of SBS toward increasing the amount of aid integrated in the budgeting process and aligned to the government systems (SBS is in fact 'on plan', 'on budget', 'on-Treasury', 'on account', 'on procurement', 'on report' and 'on audit').

The predictability of the SBS funds presents a twofold feature:

- timeliness in the submission of forecasts with regards to EU-funded SBS operations is high, whereas information and predictability of other forms of aid is reported to be inadequate.
- timeliness in overall amounts disbursed through EU-funded SBS operations is high overall (on average across the evaluation period, 95% of the total volume of EU SBS forecasted amounts were disbursed to the RDP Fund within the same fiscal year) but hides important delays in the disbursement of individual tranches and there is no clear trend towards improved timeliness of disbursements.

The way GoSA uses budget support funds, whereby SBS disbursements are then transferred to line departments in order to finance given government programmes emphasises the consequences of disbursement delays for programme implementation. In cases where the delays have been important due to complex negotiations on programmes' achievements, the relevant departments have been directly affected in terms of suspension / slow-down of activities or lack of proper integration of the EU Funds within their Plans and Budgets (e.g. Urban Renewal).

A broad estimate of the additional allocations and of the role played by SBS in increasing the GoSA's fiscal space, i.e. *the ability of government's budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability* has been discussed with GoSA experts and formulated. When compared to the total additional funds (GoSA additional allocations plus SBS committed funds) across sectors, SBS funds have an extremely modest average weight of about 1%, which may allow a minimum flexibility, but remains negligible. If considered at sectoral level, however, such weight may become important and – in some sectors, in some fiscal years – it reaches 100% (employment / private sector in 2005/06, of the governance sector in 2011/2012 and of the urban development sector in 2002/03). Such estimates show that the SBS commitments, especially in given years, represent a strong financial opportunity for the departments to finance, in their entirety and complexity, policies and programmes that have not found yet an allocation in the national budget.

#### 4.3.1 External funds subject to the GoSA budgetary process (JC3.1)

In South Africa, donor financing is not systematically incorporated in the South African government budgetary appropriation processes and remains excluded from the appropriations.<sup>47</sup> This is the result of a specific choice of the GoSA whereby aid – and more specifically aid for which the South African

<sup>46</sup> See also section 4.3.1 and footnote 50.

<sup>47</sup> The "Development Cooperation Review III", July 2010, p.4, indicates that "ODA programmes and projects are reflected in some strategic and operational plans of South African government 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. [...] departments have been providing information on ODA as part of the budget submission since 2000. This information however has not been published consistently." This is confirmed by meetings with the National Treasury which indicate that throughout the evaluation period, aid has become increasingly part of the budgetary appropriation process although still weakly so.

government is at least partially responsible or accountable for management of the funds - is reported separately as extra-budgetary income to the respective government departments.<sup>48</sup>

As a consequence, reliance on the commonly used definitions of aid 'on budget' and aid 'off budget' cannot be applied in the case of South Africa as it would heavily underestimate the extent to which aid flowing to the government sector is actually captured by government systems. In light of this, focus has been placed on the evolution of the size and share of external aid 'on-Treasury' and 'off-Treasury'. In South Africa, in fact, there are two main channels of disbursement for ODA:

- ODA funds channelled through the Reconstruction and Development Programme Fund (RDP Fund), i.e. aid disbursed to the government's finance ministry and therefore on-Treasury, from where it goes, via regular government procedures, to the government institutions responsible for budget execution. This channel is always used for SBS but can also be used for other sector programme support or project based support;
- ODA funds that do not go through the RDP Fund (off-Treasury) but are either managed directly by the donor or transferred by the donor to a third party; in this case expenditure is undertaken by the development partner agency or by non-government agents (PIUs, CSOs) on its behalf and resources can or cannot be spent using government procedures.

The comparison between ODA receipts flowing through the RDP Fund account and total donor disbursements as recorded in the OECD database<sup>49</sup> shows that:

- Between 2000 and 2011, the RDP Fund account received between 13% and 27% of total ODA to South Africa with an average of 22% throughout the period (see Figure 4). Yearly ratios fluctuate throughout the period and there is no clear trend in one direction or another.
- In the same period, on average, 69% of EU funds were channelled through the RDP Fund. Once again, no clear trend can be identified, although there is a clear relation between the high amounts of funds transferred by the EU in connection with the implementation of SBS operations and the strong use by the EU of the RDP Fund: SBS funds account, on average, for 70% of all amounts disbursed by the EU through the RDP Fund.
- The EU is the donor that provides by far the most significant absolute amounts to the RDP Fund (between a low of R 381 M in the FY 2000/01 to a high R 1,274 M in 2008/09) leading to an average share of 62% of total RDP fund receipts over the period analysed.<sup>50</sup>

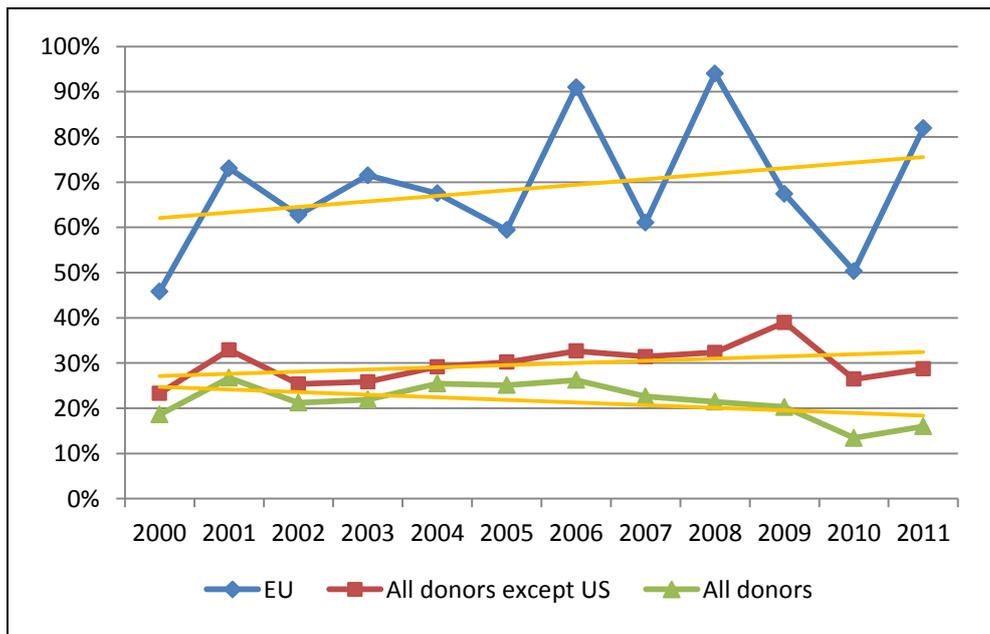
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<sup>48</sup> Aid flowing to each Government department is accounted for and reported every year as extra-budgetary income in the context of the annual Estimates of National Expenditures (ENE). However, while aid is therefore reflected in the budget documentation at department level (though not always in a consistent manner) and in the National Treasury RDP fund annual report, it is not reflected in the medium term expenditure framework Treasury's Medium Term Expenditure Framework (three year rolling budget estimate).

<sup>49</sup> While the team recognizes that a direct comparison between these two categories should be made with caution, it also believes that it is the best proxy available and can provide some insight into the absolute and relative amounts of donor funding 'on-Treasury' and 'off-Treasury' together with information on the preferences of donors, GoSA and the aid modalities used. Gathering of information through the OECD statistics was identified – together with IDC staff – as the best way to gain an insight on overall aid flows to the country, given that often government has little influence or information on the aid flows going directly to non-state actors, research institutes, foundations, private sector or project aid implemented directly by the Development Partners.

<sup>50</sup> Despite this, the South Africa 2011 Country Report, Monitoring progress of the Paris Declaration International Development Cooperation National Treasury Republic of South Africa (p.32-33) indicates that other donors show a higher percentage of ODA for government sector (more restricted interpretation of aid flows) going through the RDP Fund: Flanders, 99%; Ireland, 94%; Canada, 73%.

Figure 4 Ratio of RDP receipts to total ODA flows to South Africa, for the EC and for all donors (including and excluding the US), 2000–11



Sources: RDP audited reports and IDC data for RDP receipts reported on the basis of fiscal years and <http://stats.oecd.org/qwids/> for ODA data reported on the basis of calendar years.

The bulk of ODA channelled through the RDP – especially in light of the high percentage of funds transferred through the SBS modality - makes use of the South African government systems (i.e. it uses national budget execution modalities, national financial reporting systems, national auditing systems and national procurement systems)<sup>51</sup>. In addition, part of aid flowing to South Africa, despite not being channelled through the RDP, still makes use of government PFM systems or procurement systems. Surveys on monitoring *Progress in Implementing the Paris Declaration*<sup>52</sup> point to the fact that whereas in 2010, 13% of total aid flows to South Africa were channelled through the RDP, higher – though declining - percentages were recorded in respect of aid flows making use of country systems. More specifically, despite the desire expressed by donors to increase the use of South Africa’s PFM systems to a greater extent, no progress has been registered in the past decade. On the contrary:

- there has been a decline in donors’ use of South Africa’s PFM systems from 38% of aid for the government sector in 2005 to 25% in 2010 and a similar declining trend in the percentage of aid that made use of South Africa’s procurement systems from 44% in 2005 to 30% in 2010<sup>53</sup>; decline which could be linked to the strong growth of US ODA funding when compared to all ODA (between 2005 and 2010, US ODA has grown by 350% (or fivefold) whereas all ODA has increased by 50%).<sup>54</sup>
- there are significant variations in performance across donors whereby the EU scores are relatively high compared to other donors. In 2010, 78% of EU aid disbursed for government sector made use of the country’s PFM system and procurement systems (up from 42% in 2005). (See details under Indicator 3.1.2)

<sup>51</sup> “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 do not automatically use South African procurement systems.” The financing agreements of a number of programmes explicitly refer to the use of donor countries’ systems thereby limiting or excluding the use of the South African procurement systems. In the case of the EU for example, programme estimate payments (used in the project aid modality) are also channelled through the RDP account but funds are then to be used according to EU rules.

<sup>52</sup> Aid Effectiveness 2011: Progress in Implementing The Paris Declaration – Volume II Country Chapters / South Africa; p. 11-12.

<sup>53</sup> Similar findings emerge from the 2008 PEFA report which estimates that in 2007/08, only about 25% of donor funds made use of national systems,

<sup>54</sup> See details in Volume 2, Indicator 3.1.2 as well as table 28 “Total ODA flows to South Africa, 2000-2011, USD millions” under Indicator 3.1.1.

Key reasons provided by donors for not using South Africa's systems include:

- restrictions placed on donors by their own legislatures, and rules and policies on ODA management whereby transfer of funds through South African systems is either not possible or accompanied by heavy reporting obligations from donor headquarters;
- concerns related to the slow implementation of the Public Financial Management Act regulations at the sub-national level due to weak capacity of provincial government departments;
- slow transfer of funds through government processes and/or audit reports not always available on time or not meeting donor requirements;<sup>55</sup>
- preference for own project management units which are believed to be faster or provide for more flexible delivery.

In other cases, the preference for a mixed approach (where part of the funds make use of government systems and others do not) was the result of an agreement between national counterparts and the EU. In some cases, in fact, the use of donors' procedures and systems in the procurement of services facilitates access to international expertise that may not be equally accessible using the SA procurement system (e.g. the case of the EU financed '*Financial Management Improvement Programme II (FMIP II)*')<sup>56</sup>.

#### 4.3.2 Predictability of aid flows (JC3.2)

In the period covered by the evaluation, budget support was provided by the EU, by the Netherlands and by Ireland, although, in the latter cases, the transfer of funds came with a number of requirements that suggest that they do not fit in the category of budget support in its strict meaning<sup>57</sup>.

Timeliness in the submission of forecasts with regards to EU-funded SBS operations is high and all funds transferred in the framework of SBS operations are recorded by the GoSA<sup>58</sup>. The majority of SBS FAs include reliable indicative commitments of aid over a multi-year framework, i.e. forecasts for disbursements specifying – in addition to the foreseen amount - the month or quarter in which the disbursement is expected to take place provide. This is particularly true for the most recent SBS operations whereas in some of the earlier SBS a more generic reference to the fiscal year may be found. Overall, this ensures that forecasts are approved at least six weeks prior to the submission of the government budget, allowing SBS forecasts to be taken into account and planned prior to the start of the financial year by the GoSA and Line Departments.

Rates of disbursement are very high as 99% of allocated amounts in the framework of EU-funded SBS operations which are now completed have been disbursed. Only two closed programmes (MSB III and SWEEP II) present disbursement rates that fall below the 98% threshold and in both cases the de-commitment of funds was based upon the variable tranche assessments, i.e. lack of compliance with targets set for the KPIs.

Looking at timeliness of disbursements, the picture is more mixed. On average across the evaluation period, 95% of the total volume of EU SBS forecasted amounts (all programmes considered together) were disbursed (and credited to the RDP Fund) within the same fiscal year with highs of 112% in FY 2009/10 (more funds disbursed than what forecasted) and 108% in FY 2004/05, and lows of 60% in FY

<sup>55</sup> While the audit reports may not meet the timeline required by donors, they are mostly released on time. Information provided by the IDC / National Treasury points to the fact that "*on average, at national and provincial level, 99.9% of audit percent are 100% on time. This percentage however drops when looking at the local level, as it is estimated that between 5% and 10% of municipalities are – at times – late in submitting statements*".

<sup>56</sup> This is also confirmed in the DCR III (July 2010): "*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 – mitigate against such a shift*". p. 49

<sup>57</sup> This view is also shared by the IDC. In fact whereas in all cases, the funds are transferred to the RDP account for further transfer to the Line Departments, the FAs signed by Ireland and the Netherlands include some accompanying conditions which go beyond what is normally foreseen in relation to BS. In both cases, the FAs contain specific articles which stipulate that funds are to be used exclusively for the programme and that Line Departments will have to report on the use of funds.

<sup>58</sup> This is not always the case for Irish and Dutch SBS where disbursements are agreed on the basis of yearly plans and actual disbursement forecasts are generally not available prior to the GoSA submitting its proposal to the legislature.

2007/08 and 62% in 2010/2011<sup>59</sup> & <sup>60</sup>. These averages however hide major delays in the payments of a number of tranches and overall there is no clear trend towards improved timeliness of disbursements.

Despite this good performance when looking at aggregated data across all programmes and years, and despite the fact that ODA constitutes just 1.3% of the government's budget and 0.3% of GNP thereby decreasing the importance of aid predictability, delays at programme level remain important. Furthermore, the way in which GoSA uses budget support funds, whereby SBS disbursements credited to the RDP Fund are then transferred to line departments in order to finance given government programmes emphasises the consequences of disbursement delays. As a matter of fact, delays in disbursements of individual tranches at programme level negatively affect the Departments in terms of budget implementation, accountancy and ultimately project financing as they rely on the SBS funds for the implementation of specific sector / sub-sector policies / programmes<sup>61</sup>.

Only one of the EU funded SBS operations – the Partnerships for Health II - registered no delay in the disbursement of tranches. In all other cases, some delays were registered although these varied between minor delays (one or two quarters but within same fiscal year) to more important and continuous delays leading to disbursements in different years from those forecasted.

Evidence arising from the analyses at sector level shows that delayed disbursements have indeed affected effectiveness of programme implementation. This is the case for example of *MSB III* in the water sector and of the *URP Eastern Cape*:

- In the case of *MSB III* significant delays were registered in the disbursement of all tranches (often paid in different FYs from those forecasted). As a result, only 4% of forecasted SBS amounts in relation to water sector were disbursed in 2007/08 and an opposite high of 186% was disbursed in 2009/10, i.e. the last year of implementation<sup>62</sup>. Documentation reviewed points to considerable evidence of significant delays in disbursements during *MSB III*<sup>63</sup> which have arguably undermined effectiveness, leading to the finding that it represented a fatal blow for CSO participation in the programme and undermined trust and relationships between CSOs and other MSB water sector stakeholders, particularly the DWA<sup>64</sup>. The one year delay in the implementation of the proposed workplan led to unsustainable financial difficulties for a number of CSOs and/or to CSOs taking up other projects.
- With regards to the Urban Renewal sector and in particular at the *URP Eastern Cape*, delays have been registered in the payment of all tranches since the start of the programme and include delays of one FY or more.<sup>65</sup>. The final report concludes that "*the fact that the funds*

<sup>59</sup> Delays have been measured by comparing the dates in which the disbursements have taken place with the dates for disbursements as forecasted in the original FAs (or the forecasted date as amended in the rider).

<sup>60</sup> To be noted that, in the PEFA report of 2008 which covered the period 2005/06-2007/08, indicator D-1 received a 'D' score which means that 'in at least two of the three consecutive years considered the actual budget support outturn fell well below the 15% of the forecasted amount'.

<sup>61</sup> The PEFA report (p.20) also notes that "*officials state that in some cases donor activities have undermined the achievement of policy objectives by forcing the unforeseen reallocation of national resources to complete projects whose funding may have been suspended or delayed due to unmet conditionalities*", although data gathered by the team points to the fact that this has hardly happened and has led instead to delayed implementation of activities.

<sup>62</sup> Subsequent delays in the disbursement of the following tranches are also reported although in this case delays in timeliness of disbursements are partially offset as payments of previous delayed tranches take place in the same FY as the forecasted following tranche.

<sup>63</sup> Exchange of letters in respect of disbursement of tranches and notes to File re Request of disbursement point to the following reasons for delays: i) late submission of request by DWAF; ii) "heavy end of the year administrative burden" which delayed the analysis of the file by the EUD; iii) disagreement between the EUD and DWAF as to whether or not the proposed targets had been met; and iv) the complexity of assessment of the 3<sup>rd</sup> condition of the general conditions and absence of supporting documentation.

<sup>64</sup> MSB III final evaluation.

<sup>65</sup> "*The more demanding challenge has been the more than one year delay in receiving the start-up funds (first tranche) and the more than one and half year break that has elapsed since the presentation of the MTR*". ROM Report of the Support to Urban Renewal Programme in the Eastern Cape; MR-120520.02, 31/10/2010; p.3.

For this programme, a 2Q delay (though same FY) was registered in relation to the payment of the 1st tranche when compared to the date forecasted in the rider but a more significant delay and different financial year when compared to the original FA & Significant delays in 2nd and 3rd tranches (initially forecasted for 12/2006 & 12/2007, later postponed by rider to FYs 2010/11 and 2011/12 and still unpaid). Reasons for delays vary and are often the combined result of multiple causes including: i) difficulties encountered by the two Municipalities in complying with the established conditions for payment; ii) delays in actual payment / processing of request by the EU; iii) delays in the transfer of funds from the RDP Fund to the Municipalities' accounts.

*repeatedly failed to timely reach the Municipality for their incorporation in the annual IDP/Budget process, led to serious problems: lack of commitment, low spending, and further delays.*<sup>66</sup> (see details under *Indicator 3.2.1*)

When looking at predictability of project support, a significantly different picture emerges. Data provided in the surveys of the Paris Declaration and in the 2008 PEFA report points to:

- the existence of substantial off budget donor assistance the precise volume of which is unknown but estimated at two to three times of what flows to RDP.
- the current lack of a reliable and comprehensive information system on the actual value and composition of all donor assistance provided to the Government. The National Treasury continues to face problems in recording all aid flows often as the result of incomplete, inaccurate or delayed departmental reports. Efforts are underway within the IDC to address these data shortfalls including through the development of clearer requirements and guidelines for donors.
- the fact that very few donors provide meaningful budget estimates for disbursement of project aid in a timely fashion at least three months before the start of the fiscal year and generally do not provide quarterly reports on the disbursements within two months of the end-of the quarter.

However, whereas the latest survey of the Paris Declaration indicates an impressive improvement, though hiding marked differences across donors, the relevant indicator under the PEFA report has scored a 'D', i.e. the lowest score. (See *details under Indicator 3.2.2*)

The discrepancies between the finding of the two reports call into question whether indicator 7 of the Paris Declaration offers an accurate assessment of aid predictability given that it measures 'disbursements recorded by government' and 'aid scheduled by donors for disbursement' but does not look into actual completeness and timeliness of budget estimates by donors. Issue that has also been raised by the GoSA.

#### 4.3.3 Size and share of the government budget available for additional expenditures (JC3.3)<sup>67</sup>

In order to assess the role of budget support operations in increasing the GoSA's fiscal space, i.e. "*the ability of government's budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability*"<sup>68</sup>, reference will be made to additional allocations, that is additional spending made possible by: i) changes to the macro-framework (e.g. higher growth projections, reduction in the projected costs of servicing public debt); ii) drawdown of the contingency reserve; iii) savings on previously budgeted allocations. To ensure consistency in the type of amounts analysed, reference will be made to EU SBS funds committed rather than disbursed.

While the team recognizes that this does not provide the exact picture, it has been agreed with the management group that – in the absence of data on additional expenditures which could be readily used by the team - this would be the best proxy. For a complete description of the methodology agreed with the MG, see *Indicator 3.3.1* in Volume II.

While the presentation of the GoSA budget does not formally include the category of additional expenditure in a form that could be readily used by the team, the analysis of the budget reviews in relation to additional allocations and total national expenditure point to the following (see also figure below and detailed data under *Indicator 3.3.1*):

- A clear upward trend of total nominal GoSA expenditures over the 2000/01-2011/12 period. From a starting point of R 233,934 million in 2000/01 total expenditures register an average yearly growth rate of 13% and reach R 888,523 million in 2011/12.
- The absence of a corresponding continuous strong upward trend in additional allocations. These in fact vary significantly across the period analysed ranging between a low of R 8,430

<sup>66</sup> EU SPSP Technical and Operation Coordinator Final Report, April 2013, p.9.

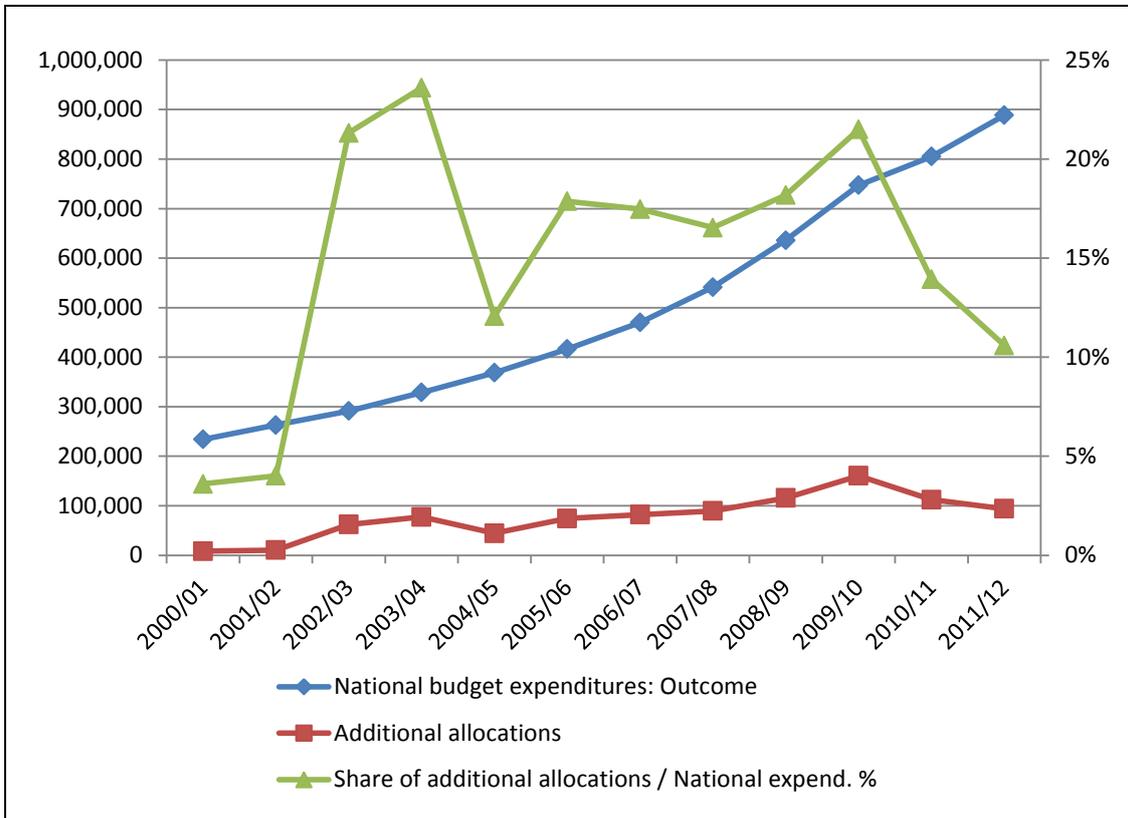
<sup>67</sup> The previous formulation of this JC, in line with the OECD/DAC methodology for the evaluation of budget support operations, referred to discretionary expenditures. However, in light of the fact that the presentation of the GoSA budget does not include this category of expenditures and following discussions with the Management Group of the evaluation, it was agreed to refer to the concept of additional allocations / expenditures. Discretionary expenditure is defined as "*spending set by annual appropriations [.. which.] is optional, and in contrast to entitlement programmes for which funding is mandatory*" (Mandal, U.C., 2007, *Dictionary of Public Administration*, Sarup & Sons, p.140), or in other words, new optional expenditure to be incurred in the year x to be decided and financed through unallocated revenue and/or budget savings from the year x-1.

<sup>68</sup> Source: GoSA, National Treasury *Budget review Glossary* (2011 and other years).

million in 2000/01 to a high of R 160,620 million in 2009/10. That said, with the exceptions of 2004/05 and of the 2009/10-2011/11 period, additional allocations have consistently grown reaching peaks well over R 100,000 million in the fiscal years from 2008/09 to 2010/1.

- An uneven but overall increase in the share of additional allocations which, as of 2002/03, constitute between 10% and 25% of overall GoSA expenditures (see *Indicator 3.3.1* for details).

**Figure 5** Trends in total national expenditure and additional allocations, Rand million (nominal) & Trends of share of additional allocations as % of national expenditure over the period 2000/01-2011/12



Source: Own calculations based on National Treasury, Budget Reviews 2001-2012

NB: Figures provided for the FYs 2010/11 and 2011/12 correspond to preliminary National budget expenditure outcomes. Additional allocations: figures provided correspond to the additional amounts allocated in the given year's budget for the following three year MTEF period.

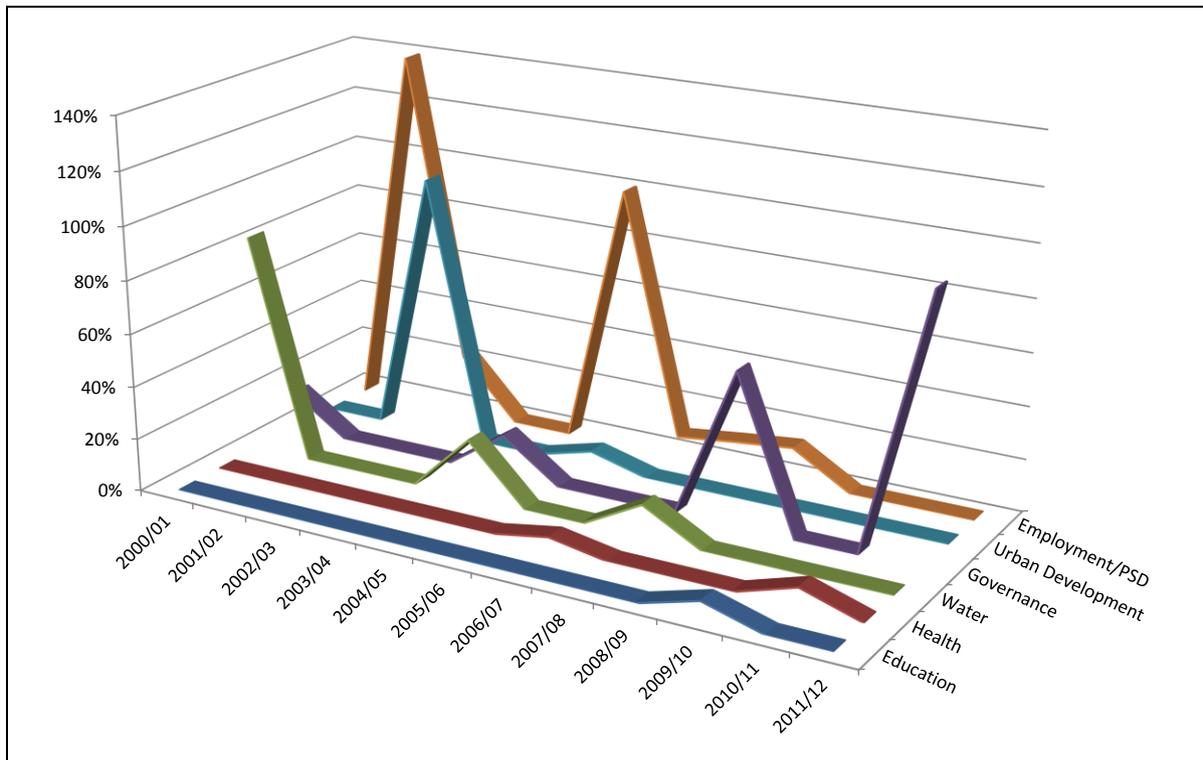
When looking at the size and share of SBS funds committed in relation to total additional funds (GoSA additional allocations plus SBS committed funds) over the period 2000-11, the situation at the overall level is different from the one at the level of the specific sectors supported by SBS (see Figure 6). In fact, while the average for the whole period considered across all sectors is 1%, disaggregated data at sector level for those sectors supported by SBS shows:

- Significantly variable shares across the different SBS supported sectors with no clearly identifiable trend
- A relatively high average of 8% in the employment / private sector development and of 7% in the governance sector, meaning that SBS committed funds have constituted approximately 8% and 7% respectively of the additional funds made available within those sectors in the period 2000-2011.
- In some years, the amounts committed through SBS operations correspond to the total amount made available for additional expenditure in a given sector. This is the case of the employment / private sector in 2005/06, of the governance sector in 2011/2012 and of the urban development sector in 2002/03. This means that in those years, SBS operations have provided a significant financial opportunity to line departments to finance, in their entirety and complexity, innovative, risk-taking policies and programmes that had not found yet an allocation in the national budget funds.

Analysis of data and interviews however indicate that there is no significant relation between SBS commitments and the broader process whereby the GoSA plans and allocates additional allocations

across sectors. That said, as indicated in EQ 4 there is some scattered evidence that points to a role of SBS in such processes in attracting additional allocations to finance activities / programmes tested with success in the framework of SBS supported programmes, i.e. through the mainstreaming within the main budget expenditure of the financing of activities/programmes previously supported by SBS operations (case of SBS supported programmes within the water sector) and / or through a leverage effect of SBS (SBS attracted GoSA additional expenditures to the sector) as seems to be the case in the Governance.

**Figure 6** Share of SBS committed funds as % of total additional allocations (GoSA additional allocations plus SBS committed funds), 2001-2011



Sources: own calculations based on data retrieved from the Budget Reviews (2001-2011) for GoSA additional allocations and EUD data for SBS commitments.

## 4.4 EQ4 (Step 1) - Public Spending / Budget management

**Evaluation Question 4: *How has the level and composition of public spending for innovation and experimentation changed, and with which consequences in terms of budgetary flexibility, allocative and operational efficiency, transparency and oversight, including the decentralised levels, and what was the contribution of BS to the observed changes?***

After the end of apartheid, substantial PFM reforms have been introduced in South Africa (MTEF, Public Finance Management Act, etc.). High levels of fiscal sustainability and strategic prioritisation of the public expenditure have been achieved. With specific reference to ODA, donor funds channelled through the RDP fund are budgeted for and reported on by GoSA in a comprehensive and transparent manner (as in the case of SBS). This is not the case of other donor funds which are not necessarily reported on (by donors) giving rise to what has been termed the 'invisibility' of aid in South African processes.

In this context, SBS has strengthened Treasury's capacity to provide rapid and flexible responses to the requests of funds for innovative policies and pilot initiatives coming from different government bodies - the identification of such bodies and the related programmes being driven by the dialogue between EU and SA counterparts. In the meantime, when policy innovation has produced positive results, the mainstreaming and consolidation of the related expenditure in the national budget has been facilitated thanks to the ownership of the supported process.

SBS operations have not provided important direct contributions to national or local PFM improvements, but they have facilitated the access of the departments to funds for experimentation and policy innovation. In most cases, without SBS, the departments would have not found an easy way to finance entirely their pilot initiatives. By creating such a facilitated access to innovation funds, SBS has contributed to improve PFM at sectoral level. To note, however, that significant support has been provided by the EU in the PFM area through the implementation of complementary actions, namely the two phases of the Financial Management Improvement Programme as of the late 1990s, and the intensification of the dialogue around the importance of conducting a PEFA assessment in 2008.

### 4.4.1 Improved budget management (JC4.1)

The change in Government following the 1994 elections opened up the way to important reforms in the South African PFM system and budget process. The legislation adopted in the field of financial management reflects that there is a broad policy framework for effective public finance management, accountability and transparency in government's spending.

Starting with the introduction of the Medium Term Expenditure Framework (MTEF) in 1998, the South African financial management and budget process has undergone major reforms aimed at advancing and promoting growth and development. The main initiatives introduced during the period covered by the evaluation included:

- The adoption of the Public Finance Management Act (PFMA) in 2000 and the Municipal Finance Management Act (MFMA) in 2004.
- Other important relevant legislations include the Preferential Procurement Policy Framework Act (2000), the Broad Based Black Economic Empowerment Act (2003), the Division of Revenue Act and the Appropriation Act.
- Strengthening of institutional arrangements and capacity building programmes.

Links between the GoSA's strategic priorities and the budget processes are strong. Policy is generally developed and implemented on a medium-term rolling basis whereby each department is responsible for developing its own strategic direction. At the provincial level, Provinces develop their Integrated Growth and Development Strategies whereas Municipalities develop medium term Integrated Development Plans.

The institution of the annual budget cycle provides a further mechanism for policy co-ordination. The introduction of a Planning Framework (Government Programme of Action) for government is designed to integrate and synchronize strategic policy processes with the budget cycle whereby every department and provincial administration is expected to develop their own planning cycles within the overall planning framework of Government as agreed by Cabinet.

The framework links the electoral, parliamentary and budgetary cycles, and ensures that policy decisions taken by Cabinet inform planning throughout government. The planning framework includes: i) a Medium Term Strategic Framework (MTSF), that sets out a limited but focused set of medium-term strategic objectives for five year periods coinciding with national and provincial elections, which are shared by all spheres of government and in turn inform the MTEF; and ii) a Medium Term Budget Policy

Statement (MTBPS), a Cabinet policy statement tabled annually in Parliament that sets out the economic context and assumptions that inform the following year's budget, as well as the framework in which the budget is prepared.<sup>69</sup> (further details can be found in Volume II under *Indicator 4.1.3*).

Documentation reviewed points to the significant success of South Africa in achieving the objectives of improved fiscal sustainability, alignment of spending with national priorities, improved accountability and increased levels of transparency and participation. The PEFA report, though slightly dated (published in September 2008 and covering the FYs 2005/06-2007/08), provides a comprehensive overview / benchmark of PFM systems, procedures and practices within the Central Government of South Africa and allows to highlight the significant achievements of the GoSA in terms of effective public finance management, accountability and transparency in government's spending. The same report also identifies some weaknesses as a basis for future improvements in the area of effectiveness of expenditure in line with strategically allocated resources; other documentation reviewed and interviews also point to the need for improved financial management capacity at decentralised level.

Evidence from the Water Sector case study suggests that the shift to a sector approach has improved PFM within the sector including through the funding of relevant capacity development activities. The sector approach has: i) enabled better planning through the support for Provincial Water Sector Plans and municipal Water Service Development Plans, which predated the municipal integrated development plans; and ii) enabled the sector to be prepared for the evolution of budgeting in South Africa towards outcome-based budgeting. Thus the SBS-supported *Masibambane* programme has most likely helped to improve absorption rates. However, the sector approach has not succeeded in engaging National Treasury substantively in sector development. The MTR of the *MSB II* (p.54) points to concerns about *"the integration of the planning process(es) in the sector with the budgeting system. As a result of decentralisation in service delivery and the changing fiscal environment [...], the water sector finds itself in a multi-sectoral environment with a more complex budget process and where the sector has to compete with other sectors for attention in local and provincial planning process as well as the budget process. Funds are no longer under the direct control of DWAF – the sector leader. The new environment therefore necessitates a need to encourage integration of the planning and budget process to ensure (continued) strategic allocation of funds. For this to happen, integration needs to be encouraged at three levels: national, provincial and at local/ implementation level."*

Evidence from the Governance case study also points to a number of improvements, including general progress by the DoJCD in the areas of comprehensive budgeting (shift to include functional budgeting and incorporation of donor funds on reports) and a move towards the quarterly monitoring of annual performance targets and the roll-out of the new PFM Capacity Development Strategy. With regards to the Legislative Sector, the case study points to positive assessments of SBS general conditions linked to PFM. More specifically to: i) an improved financial management environment in the legislative sector including the drafting of the consolidated Legislative Sector 2010/11 MTEF Budget and unqualified audit by the Auditor General's 2009/10; ii) the development by the Legislative Sector of its own financial management legislation and the passing of regulations and policies to assist individual legislatures to review their regulatory environment so as to comply with the newly passed financial management acts; and iii) the establishment as of February 2013 (i.e. after the end of the period evaluated but linked to the SBS operation) of the *Parliamentary Budget Office* which could lead to a strengthened oversight role of parliament as it seeks to build up the analytical and research capacity in the Legislative Sector.<sup>70</sup>

Looking at accountability issues and with specific reference to ODA, a distinction needs to be drawn between ODA flowing through the RDP Fund (which includes all SBS funds) and other aid flows. In fact, all donor funds managed through the RDP Fund (and therefore all funds provided through SBS) are budgeted for and reported on by government in a fairly transparent and comprehensive manner, unlike other donor funds which are managed by the donors and not necessarily reported on (by donors). This has led to what is termed in the DCR III report (July 2010) as the *"invisibility" of aid in South African processes*" (see also EQ3). As a result, there is a significant difference between aid that flows through the RDP Fund (on-Treasury) and other aid flows, although the specific institutional frameworks matter

<sup>69</sup> The budget framework consists of the fiscal framework, government spending priorities, the division of resources between national, provincial and local government, and a tabulation of the major conditional grants. The budget framework enables national departments, provinces and municipalities to prepare their detailed budgets for the following year. South Africa has a multi-year budgeting process, so the framework covers the present year and the three subsequent years. The fiscal framework sets out government's revenue projections, spending estimates, borrowing requirements and assumptions concerning debt interest costs over the period. *Source: Medium Term Budget Policy Statement, 2009, National Treasury.*

<sup>70</sup> Interviews point to the fact that in February 2013 the process of recruitment and staffing had not been resolved yet.

(national vs. local institutions). That said, provisions of funds through the RDP does not necessarily ensure mutual accountability in its broader sense as the reporting foreseen for the RDP fund does not include the onward management of resources. In this respect, it is to be noted that, in fact, all ODA (including SBS given its specific implementation features in the South African context) *“is 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. [and] 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”*<sup>71</sup>.

With regards to PFM capacity at decentralised level, documents reviewed and interviews highlight that while the Municipal Finance Management Act (MFMA) of 2004 has provided an enhanced impetus for financial management reform at local government level and capacity building programmes have been put in place to strengthen capacities (also with the support of the EU through the implementation of the Financial Management Improvement Programme – FMIP II<sup>72</sup>), there remains a *“striking gap between the sophisticated national budgeting and financial management structures, and great capacity weaknesses in poorer provinces and weaker municipalities”*<sup>73</sup>.

On this, evidence from the water sector case study points to the fact that, while the water sector benefits from generally good PFM, the local government financial reporting systems do not facilitate the separate identification of spending on subsectors, and in the absence of better financial ring-fencing of the water services function within municipalities, it is difficult to properly understand the financial performance of water services.

In the health sector, specific measures to improve public spending and PFM especially at decentralised level, have been implemented in 2012 with a view to improve the country’s healthcare system and get a clean audit from 2012 onwards. Measures also include the set-up of a programme to deploy interns to the department’s offices in all nine provinces for capacity building purposes in the areas of financial management, human resources and information management. (further details can be found in Volume II under *Indicator 4.1.5*)

#### 4.4.2 Improved allocative capacity (JC4.2)

Focus on policy experimentation. Most allocations to finance the SBS supported programmes have explicitly aimed at financing policy innovation and piloting. More specifically, SBS supported programmes have contributed or are expected to contribute to the implementation of pilots/risk taking/innovation and experimentation activities in line with the mandated function for development aid as defined by the ODA guidelines (see EQ5).

- In the case of urban renewal and with specific reference to the e-Thekwini programme, a well-designed pilot programme run by a well prepared management team was financed with a view to test new approaches to local development.
- In the health sector, the allocation allowed to scale up the experimentation of a number of innovative activities or models for service delivery (outreach teams, mobile clinics, etc.) which had been identified in the area of primary health care.
- In the education sector, the SBS supported programme allowed the recruitment of ‘seeds’ staff in several universities for the development of new curricula as well as the establishment of a research network (incl. a national research association and a scientific journal on primary education).<sup>74</sup>

<sup>71</sup> Source: DCR III report, July 2010, p.78. This also holds true for the EU-funded Financial Management Improvement Programme II during its second period of implementation; see *Indicator 4.1.2* for further details.

<sup>72</sup> The final evaluation of the FMIP II points to the significant support provided through the programme for the rollout of the PFMA and MFMA.

<sup>73</sup> Final Evaluation Report of the “Financial Management Improvement Programme II” – FMIP II (July 2010), p. 19.

<sup>74</sup> Interviewees highlighted that the amounts made available through SBS while representing a small fraction of the overall department’s budget, constitute an important amount when looking at the financing of pilot initiatives or new strategic programmes: amounts made available through the SBS almost reach the level of financial resources needed to implement significant components of important programmes planned by the Department of Higher Education and Training (DHET) such as the development of teacher education campuses.

- In the justice sector, the supported programme launched a new mechanism with the Foundation for Human Rights to deepen and broaden engagement with civil society actors which has included public funding.
- In the water sector, MSB has launched and tested an innovative institutional and policy framework at sectoral level, including a number of pilot initiatives and mechanisms, which have then been streamlined / rolled out. (see Indicator 4.2.1 for details)

Still in the water sector, SBS supported government programmes have seen an increase in budget allocations to NSAs in the water sector, even though NSAs only received a fraction of what was originally foreseen in the framework of the Masibambane programme<sup>75</sup>.

New prioritization in budget allocations. With respect to the mainstreaming of allocations for innovation and experimentation, the most evident change recorded by the team is that as of 2012/13 each department has a 'Science & Technology' budget line amounting to a total of R10.7 billion for 2012/13 thus rendering budgeting for innovation a priority for GoSA<sup>76</sup>: *"The SPSP has heightened the prioritisation of the sector programme. Part of the explanation to the dramatic rise in national budgetary allocation to S&T, from R400 million, in the 2004 financial year, to R4 billion, in 2012, could be linked to the work of the SPSP"*<sup>77</sup>, showing that a positive experimentation made possible by an SBS may contribute to wider strategic allocation processes.

#### 4.4.3 SBS contribution (JC4.3)

No specific direct SBS contribution to PFM in general terms. Improvements in the area of PFM are primarily linked to the strong drive and efforts put in place by the GoSA. In fact, while most of the SBS operations have one or more conditions which are related to improvements in PFM (be it at national level, department level or decentralised level), no TA has been provided to this end (with the exception of the water sector), nor have improvements in overall PFM been explicitly included as expected key results of the programmes. Support has nevertheless been provided by the EU in this area through the successive Financial Management Improvement Programmes aimed at supporting the implementation of government initiatives to improve public finance management at national and provincial spheres through the implementation of the PFMA and at the municipal sphere through the MFMA. In addition, the adoption of a more structured approach to the assessment of progress in the PFM area by the EU in 2007 highlighted the absence of a comprehensive baseline. This led to intensive dialogue between the EU and SA on conducting a PEFA assessment. The ensuing EU funded Public Financial Management Performance Assessment Report (2008) identified measures to address weaknesses which have then been integrated into the government's overall reform plans<sup>78</sup>.

Considering the reduced size of SBS compared to the overall budget, there couldn't have been any reasonable expectation about a possible role of SBS in facilitating / improving national PFM. This relatively low level of attention to national PFM related measures in the SBS operations is a direct consequence of the recognition by the EU of the high quality of PFM systems at country level; quality which the adoption of SBS contributes to strengthen although mainly in an indirect rather than direct manner (i.e. primarily through the use of the PFM systems rather than through the provision of dedicated TA embedded in the SBS operations or through PFM-related conditionalities). As a result, SBS operation documentation (financing agreements, monitoring reports, files related to tranche releases and evaluations of SBS operations) often refers to:

- the soundness of the GoSA's PFM system: e.g. *"High standards of public financial management already in place, as well as the improvements underway and being planned, South Africa remains eligible for continued Sector Budget Support from a PFM perspective. Significant improvements have been implemented during 2009 that continue to strengthen the public finance sector in South Africa"*<sup>79</sup> and

<sup>75</sup> The MSB III final evaluation noted that the Financial Agreement for MSB III valued the CSO component at 10% of the total programme, however actual expenditure on the CSO component totalled only 4% of total programme expenditure. MSB II final evaluation estimated that that R42 million of the proposed R100 million was transferred through CSO structures.

<sup>76</sup> <http://www.info.gov.za/speech/Dynamic?pageid=461&sid=27370&tid=67948>.

Evidence collected also points to an increase in the S&T budget expenditure from R3.7 billion in 2008/09 to R4.4 billion in 2011/12, at an average annual rate of 6 per cent (National Treasury, Estimate of Expenditure, page 6).

<sup>77</sup> ROM Report MR-135682.02, 11/2012, p.4.

<sup>78</sup> See Indicator 4.3.1 for details, including EU headquarters view on the role of EU SBS support to improved PFM.

<sup>79</sup> *Sector Budget Support Payment File: Sector Budget Support Payment Request: Masibambane III- 3<sup>rd</sup> Fixed Tranche and 2<sup>nd</sup> Variable Tranche, Ch1, p.11, October 2009,*

- the absence of a direct contribution of the SBS operations to improvements of the GoSA's PFM system: e.g. *"The efficient use of the medium term expenditure planning system and the improvements in PFM at the sector level is progress that has been achieved essentially by the SA government (the NT, the South African Revenue Service, the Department of Public Service and Administration and the Auditor-General's Office), without the contribution of the SPSP"* and *"the SPSP has not contributed to the improvement of the expenditure planning processes given that the grant provided through direct, non-targeted Sector Budget Support is not integrated in the National Budget, and it has not contributed to the progress registered in the PFM improvements either."*<sup>80</sup>

Contribution to PFM at sectoral level. These considerations hold true for most of the SBS operations with a notable exception in the Water Sector and to some extent also in the governance and health sectors where examples of a direct contribution of the SBS operations to improved PFM at sector level can be found. In the Water Sector, the sector case study points to the facilitation role played by SBS to improving PFM in the sector, including through complementary TA provided to strengthen PFM capacity at all three levels. Satisfactory progress in the implementation of the DWAF programme to improve and reform public financial management is reported at sectoral level (also on the basis of the AG issuing an unqualified report for DWA's financial statements and performance for the 2008/2009 financial year).<sup>81</sup> Achievements made possible, among others, by the TA provided in the framework of the SBS operation.<sup>82</sup>

Improvements in PFM at sector level have also been recorded in the governance sector, pointing to the fact that SBS (through the inclusion of specific conditions) has contributed or at least accelerated improvements in the areas of comprehensive budgeting, enhanced oversight and monitoring of performance targets, and roll-out of the new PFM Capacity development strategy. Similar considerations hold true with regards to the Health Sector where donor involvement and dialogue processes linked to SBS have led to the adoption of specific measures aimed at improving public spending and PFM in the sector at decentralised levels (see above).

With regards to the other sectors, the contribution provided by SBS to the establishment and consolidation of a sector approach (see EQ5) has indirectly contributed to facilitating sector budget management.

Finally, it is to be noted that interviews with the National Treasury have highlighted that under given conditions, the use of project aid, is the preferred aid modality. This is the case for example of the FMIP (programme in the area of PFM supported by the EU). This preference is linked to the specific context and content of the support programme and stems from two main considerations: i) the GoSA and National Treasury have a strong sense of the direction in which the PFM system should be driven forward; and ii) advances require, in addition to the commitment of the GoSA, the provision of high-level expertise for short-term ad hoc inputs which can often be better accessed through a programme implemented with a project aid modality. Regarding this last point, interviews highlight that the project aid modality facilitates the timely recruitment of high level expertise which could not be possible – or at least would be more difficult – should GoSA procurement procedures apply.

Contribution to allocative capacity for innovation. Looking at issues of allocative capacity, no overall achievements can be linked to the SBS operations when looking at changes in procedures and systems. However, results can be noted in terms of choices made. Evidence indicates that SBS operations facilitated the financing of pilot and innovative policies. More specifically, in the absence of SBS, departments must follow a process of negotiation and coordination at national level, before their specific requests to finance pilot programmes and innovative policies can be included in the budget framework. Normally, such a process takes time (even when financial resources are available), particularly when relevant programmes and policies are not based on previous successful experiences.

In all the examples of allocation for policy innovation mentioned above, SBS has played a role to accelerate the procedures and ensure a more comprehensive experimentation. In some cases, it has

<sup>80</sup> Employment creation, Sector Policy Support to the Economic Cluster, MR-136102.01, 12/02010, pp.3 & 5

<sup>81</sup> Note related to the release of the 3<sup>rd</sup> Fixed Tranche & 2<sup>nd</sup> Variable tranche; March 2010.

<sup>82</sup> *"It is reported that some of the successes for the financial management support are the following: i) The completion of the scope and definition of the financial monitoring and reporting platform. [...]; ii) Provision of support to regional offices to assist and train staff with regard to the upgrade of BAS and creditor reconciliations; iii) Review of head office and regional office's accounting processes to support the financial strategy; iv) Support to drive for a 2008/09 Clean Audit report (this has been achieved); and v) Review and update the departments financial policies and Procedures"*. Sector Budget Support Payment Request: Masibambane III- 3rd Fixed Tranche and 2nd Variable Tranche, p. 23 (EUD, October 2009)

been a significant source of funding: in the Urban Renewal sector (*eThekwin*), SBS has helped provide 'seed money' or 'oil', as stated by interviewees, to run the programme. In the Employment Sector, "*the SPSP has some added value in its assistance in developing innovative and pilot projects, considering that such projects cannot be funded through national budgets*".<sup>83</sup> The governance case study suggests that the SBS has contributed to ensuring both additional financial resources and flexibility to pilot and develop a funding mechanism with the Foundation for Human Rights to deepen and broaden engagement with civil society actors, including public funding. In the Health sector SBS has allowed to expand and complete the experimentation, avoid dispersion and test innovative models for service delivery in primary health. SBS support to IPA has allowed the experimentation of a comprehensive approach (applying research and innovation to sectoral policies) that has been mainstreamed in the global planning process. In the absence of SBS, some departments either would have had to wait to launch the same initiatives, or would have needed to adapt the initiatives to the limited availability of funds.

Alternative modalities would not have attained the same objectives. Findings indicate that SBS has acted as a facilitator of innovation: the role of SBS to facilitate the access of the departments to funds for innovative programmes, conceived within the departments and owned by the relevant institutions, would not be replaceable by a project or a facility. These could be an important complement to SBS but could not substitute them: a project – even in the best cases – can easily represent particular or external interests and introduce rigidities in the budgeting and policy processes that would induce a reduction of the ownership by the key sectoral actors. For such reasons in most sectors SBS represents an evolution of a cooperation, which started with project-type operations that showed their limits.

Compared to projects, SBS increases as well ODA transparency and accountability: the provision of aid in the form of SBS (RDP and other conditions) automatically ensures financial accountability (incomes/expenditures are reported on by the GoSA) and enables SBS to feature highly among government accountability documentation and planning, budgeting and reporting processes<sup>84</sup>.

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<sup>83</sup> Employment creation, ROM Report MR-136102.01, 12/02010, p.2

<sup>84</sup> Currently the main central mechanism to enable political accountability of ODA funds is the annual report on the RDP Fund, which however only covers ODA programmes financed through the RDP fund and concerns the management of the fund (deposits, disbursements and balance) but not the onward management of resources. DCR III report, July 2010, p. 81

## 4.5 EQ5 (Step 1) - Policy formulation / implementation processes

**Evaluation Question 5: Have there been improvements in the areas supported by BS, in policy formulation/policy review and implementation processes, and related accountability, and to what extent and through which mechanisms (flow of funds, policy and institutional effects, others) has BS contributed to these improvements?**

In a number of sectors and sub-sectors, the capacity of the SBS-supported programmes to enhance the internal policy and institutional processes of GoSA and other state or non-state institutions appears to be significant.

The availability of BS funds represents an opportunity for such institutions to design and implement, in a relatively short time, coherent programmes to test new policy and institutional approaches.

The dialogue between the two parties is important to decide, shape and monitor these programmes, although it is rarely connected to wider strategic exchanges. While capacity development is a priority area in most programmes, the exchange of experience and know-how has remained relatively weak.

The various components of the SBS package operate in different ways in each programme. The role of funds is always significant, while the strength and the quality of dialogue depends mainly upon: i) the actual level of trust and understanding among the main counterparts (positive examples: *MSB I*, *Access to Justice*, *LSPSP* and *IPA*); and ii) the specific dynamics and initiative at sectoral level (positive examples: *IPA* and *PrimCare*). Finally, while most SBS supported programmes have contributed to the strengthening of the institutional and operational capacities of the institutions involved, only in the cases of *RCF* and *PrimCare* (and partly in *IPA*), was capacity development associated with an exchange of know-how between the partners, which built on the specific experience of EU and SA.

The BS modality shows very strong comparative advantages *vis-à-vis* other modalities in terms of ownership and capacity to reflect and adapt to the specific recipients' dynamics. However, the way in which this modality has been implemented has limited the external contributions in terms of specialised know-how, unless specific arrangements were put in place (e.g. high-level TA components, complementarity with other programmes).

### 4.5.1 Strengthening of policies and policy processes (JC5.1)

There is significant evidence of the contribution of SBS-supported programmes to the policy process in various areas. In the cases of *MSB I*, *IPA*, *Access to Justice*, *LSPSP*, *PrimCare* and other SBS, the contribution to the innovation of the policy process is strong and visible. The programmes contributed to an experimentation that, based on its positive results, has helped to shape the main policy framework of the concerned sector (for instance, in the case of *MSB*) and/or establish new sector priorities and strategic budget allocations (for instance, in the case of *IPA*). In the case of *Access to Justice*, the programme has contributed to policy innovation through civil society participation in service delivery in strategic areas of constitutional development. The *LSPSP* has contributed to the policy process of Legislative Sector development and institutionalisation. (see also *Indicators 5.1.1 to 5.1.3* in Volume II)

In the Private Sector Development and Employment area, the strongest contributions may be summarised as follows:

- Mainstreaming of innovation in the policy and budgeting process (*IPA*) – namely, through the compulsory inclusion of ICT programmes in the budget across all departments, which reflects the strength of the lessons learned in the DST experience with the *IPA* programme.
- Filling specific gaps and/or addressing complementary areas in the main sector policy framework (*SWEEEP*), such as: research to support the strategic framework for women empowerment; fast-tracking formulation of new policies, as in the case of consumer policies; contribution to legal and regulatory reforms to improve the business environment.
- Testing and developing new implementation approaches (*RCF*), such as addressing financial market failures through IDC co-financing of risky projects.
- In the case of ECF, there is no evidence so far of specific contributions to the policy process in the area of employment generation.

In the Water Sector, the main contribution of the SBS-supported programmes was observed in the case of *MSB I*. The SBS operation allowed the provision of a comprehensive pilot experience, from which the lessons were consolidated and mainstreamed in the 2003 Strategic Framework for Water Services (SFWS) and further developed throughout the decade. In particular, *MSB I* illustrated the need to systematically shape the response to local and provincial governments around the key focus areas. The SFWS took into account local government transformation, new water policies, and the new financial framework. As stated by DWA, "by 2002 it became clear that the 1994 White Paper for Water Services

was outdated. It was necessary to put forward a vision for the water services sector in South Africa that took account of progress in the establishment of democratic local governments<sup>85</sup>.” Moreover, the SFWS confirmed that, while DWAF would no longer be directly involved in operating any water infrastructure or funding any new infrastructure, it would continue to set policy frameworks, oversee and regulate water service institutions, and support the functioning of those services, as *MSB I* had successfully experimented in doing. In *MSB II* and *III*, the contribution to improving policy process was less evident, and the focus was on widening and strengthening the implementation.

In the Governance Sector:

- The Access to Justice programme has helped DoJCD explore new strategies to better fulfil its constitutional mandate through innovative co-operation with civil society. The department engaged in systematic ways with one key non-state interlocutor, the Foundation for Human Rights (FHR), which fulfilled various core functions in a number of strategic areas. It developed credible and effective systems to operate as a grantor and engage with civil society for service delivery in priority policy areas. These areas included pilots both for testing out extending service delivery and for providing alternative services. In doing so, FHR also sought to strengthen capacities and leadership of civil society organisations. The department also involved FHR in seeking innovative ways to sensitise citizens on their constitutional rights and to strengthen organised forms of citizens’ demands for improved public service delivery and accountability. The positive DoJCD experience with FHR has demonstrated the relevance of such targeted engagement strategy with civil society and has provided a basis to mainstream such a partnership approach through the interdepartmental Justice, Conflict Prevention and Security Cluster in GoSA policies.
- The Legislative Sector support has become fully integrated into the sector architecture, and has effectively facilitated the co-operation and interaction between the multiple components of the sector in the four key result areas. The *LSPSP* has supported the complex and gradual institutionalisation of the Legislative Sector, as shown by its contribution to ensure continuity when the key political actors (most of the members of the Speakers’ Forum) changed in 2009. It also contributed to the establishment of sector co-ordination and co-operation arrangements, capacity development (for example, through specialised training and tertiary training packages), and development of transparent, harmonised and consensual rules of operation in areas such as oversight functions or ‘people-centred democracy’.

In the Health Sector, both SBS-supported programmes (*PfH II* and *PrimCare*) have contributed to shaping and strengthening DoH strategy to PHC services and to further developing the existing policy framework (e.g. on Community Care Worker Management). In particular, the programmes have had notable effects on:

- the successful experimentation of new initiatives and ways of delivering services at local level, with the results of enhancing the sector strategy that was being developed in this area;
- the greater involvement of new stakeholders in the sector governance (e.g. non-profit organisations, community caregivers, or private service providers) and, as a consequence, the greater participation in related policy processes.

Moreover, in the context of the development of the National Health Insurance system and the related policy framework, the DoH experimented with different innovative models for the delivery of health services (especially in remote areas), directly supported by the *PrimCare* programme.

In the Education Sector, the sector context that prevailed during the implementation of the SBS-supported programme was characterised by the difficulties experienced with the outcome-based education reform implemented in previous years<sup>86</sup> and the major institutional change that took place in 2009<sup>87</sup>. The SBS-supported national programme finally took the form of an innovation facility that allowed the experimentation of tools and systems to enhance the implementation of a variety of sector actions (e.g. development of a national textbook catalogue, new approach to multi-grade teaching or creation by DHET of synergies between various South African Universities in relation to teacher training programmes and research projects on teaching in early grades).

<sup>85</sup> DWAF (2004), *A history of the first decade of Water Service delivery in South Africa 1994-2004: meeting the millennium development challenges*, p. 21.

<sup>86</sup> The reform was finally dropped in 2010.

<sup>87</sup> The Department of Education was split into two departments: Department of Basic Education, and Department of Higher Education and Training.

In the Urban Renewal Area, while the SBS-supported programmes aim to enhance the commitment of the relevant Municipalities (and, more broadly, GoSA) to innovative forms of area-based governance and management, evidence of their contribution to the strengthening of policies and policy processes is mixed. Documentary evidence points to the transfer of good practices leading – especially in the case of *eThekweni* – to the adoption of similar practices within the broader work of the Municipality. However, these practices have yet to translate into formalised changes in policy processes. Interviews, on the other hand, point to the importance of: i) lessons learned through the SBS-supported URP – as well as other URPs – in shaping future policy for urban development; and ii) the role played by the *eThekweni* programme in testing the new Area-Based Management idea, and thereby contributing to policy direction through the subsequent set-up of the Neighbourhood Development Programme in 2007.

#### 4.5.2 Strengthening of public sector institutional and technical capacities (JC5.2)

Most SBS-supported programmes have contributed to strengthening the institutional framework of the relevant sectors by: enhancing the capacities of the institutions involved (e.g. *MSB* support to the new institutional set-up of the sector, based on the policy guidance of DWA and the management responsibility of local and provincial governments); strengthening the sectoral dialogue, thanks to the innovative policies supported (e.g. *IPA*); supporting and consolidating new institutional mechanisms that may include demand-side pressures from non-state actors (*Access to Justice*, *LSPSP*); helping existing institutions to specialise in new strategic functions (e.g. IDC for risk capital management). (see also *Indicators 5.1.1, 5.1.2 and 5.1.3*)

In the Private Sector Development and Employment area, the specific contributions are limited and may be summarised as follows:

- *SWEEP* has contributed to the creation of some spin-offs (e.g. SEDA incubation, involvement of non-profit organisation) and to the consolidation of several internal capacities, such as the donor co-ordination.
- IDC's support service has been consolidated through the implementation of the *RCF* and the related capacity-building components (EIB). In this framework, the IDC has acquired new skills and has established new functions which, in time, have led to: i) the transformation of the RCF unit into a much larger unit that manages a range of both off-balance sheet funds and IDC ring-fenced on-balance funds; and ii) the existence of a dedicated team that provides business support services (diagnosing business support needs, engaging and appointing consultants to work with clients in addressing the identified gaps, ...).
- *IPA* has helped to enhance the sectoral dialogue and has contributed to feeding the cluster approach in the sector. The contribution to the policy process highlighted above is itself a consequence of the *IPA*'s capacity to promote sectoral dialogue and co-ordination.
- *ECF* created a separate PMU and deployed specific TA, the contribution of which so far has been limited.

In the Water Sector, the contribution of *MSB I*, *MSB II* and *MSB III* to the institutional strengthening and capacity-building was particularly high.

- At provincial and local levels, there is considerable evidence of increased technical capacities in the sector. Through *MSB*, DWA and SALGA provided support to Water Service Authorities and Water Service Providers to establish their water governance functions, identify performance gaps, develop action plans with performance targets, and prepare support plans to achieve performance targets.
- Before Masibambane, there were some co-ordination forums, but they were generally seen as top-down rather than collaborative, and the stakeholders – according to the documentation and the interviews – had a sense of operating in silos. The current sector co-ordination structures at national and provincial levels have been initiated through *MSB*. As sector leader, these are chaired by DWA, and generally include the main actors (government and non-government) at the respective levels. Masibambane is widely seen as having been extremely successful in creating a sense of sector belonging and ownership, as well as a culture of consultation, co-ordination and experience-sharing at national and provincial levels, bringing together sector stakeholders.
- This institutional and capacity-building contribution was stronger in *MSB I*, continued in *MSB II*, and was reduced in *MSB III*, due to changes in leadership and expertise (*MSB III* final evaluation and interviews).

In the Governance Sector, the contribution to institutional strengthening and capacity-building is also strong. For example:

- The *Access to Justice* programme has helped to create an environment in which one non-state partner of DoJCD, the Foundation for Human Rights, was able to strengthen technical capacities in areas such as developing effective and credible grant schemes, assessing capacity needs with civil society grantees, improving monitoring and evaluation methodologies, and extending service delivery to poor and marginalised communities in the Justice Sector. The partnership model combined sector dialogue, policy innovation, policy-oriented research, and service delivery with networking, sensitisation on human rights, and capacity support for grantees. This mix of functions may create demand-side pressures at the interface between (organised) citizenry and public authorities (at different governance levels). Such demands can centre on improved service delivery, accountability, or transparency. There is also evidence of departmental buy-in to the idea of continued government support to civil society functions as experimented through FHR and the Access to Justice programme, although the exact arrangements are not yet articulated.
- The *LSPSP* has contributed to the institutional structuring of the Legislative Sector, thereby strengthening technical capacities (e.g. management, planning, standardisation, human resource functions, systems), as well as creating the environment and providing the mechanisms to stimulate sector actors at national and provincial levels to improve performance in key areas. With better systems in place, more training opportunities, and more opportunities for the various legislative bodies (including secretariats) to meet, the chances are higher that efforts by other institutions, such as the Auditor General of South Africa, or the capacity development efforts by the Fiscal and Financial Commission, add up to a stronger sector in terms of its key mandate. However, there are still strong political disincentives at work, and the change process is not merely a technocratic one of capacity strengthening. The LSPSP component that is geared to international co-operation with legislative bodies (including the European Parliament) has institutionalised this outreach function of the South African Legislative sector.

In the Health Sector, the contribution to institutional strengthening and capacity development is also strong. The Partnership for Health contributed to strengthening various aspects of sector governance. Capacity development, in particular, was a key feature of the programme, and there is evidence of notable improvement at all institutional levels. The TA recently provided under the PrimCare programme has also reportedly played a key role in terms of reinforcing institutional capacities at central level.

In the Education Sector, there is no strong evidence of significant increase in capacities within the line ministries or at provincial/local government level in relation to the initiatives supported. The internal calls for proposals organised by the departments under the programme have had some positive effects on the institutional structure, especially in terms of reinforcing internal reporting lines, but they have had limited short-term effects on the actual capacities of the national departments' staff in terms of formulation, reporting and monitoring.

Results in the Urban Renewal Area are overall limited, with significant differences across the municipalities, and are influenced by the fact that, while the programmes are located within the Municipalities, they are managed separately – often through the recruitment of additional staff. That said, and despite the continuing challenges posed by the human resource capacity (especially in some Municipalities), the programmes have indeed fostered the strengthening of individual and institutional capacities, although these remain seated within the intervention areas. Improvements have been recorded in terms of: i) more integrated patterns of line management delivery across line departments, and scattered evidence of enhanced inter-governmental co-ordination processes; and ii) the introduction of improved systems and procedures at Municipal level in the case of *eThekweni*.

#### 4.5.3 Enhanced multi-actor partnerships (JC5.3)

In the Governance Sector, this effect of the SBS-supported programmes has been particularly high, especially in the Access to Justice. In the Water Sector, the involvement of the NSAs has been partly overlooked. In the PSD, there are some positive examples.

In the Private Sector Development and Employment area, the specific contributions are limited:

- *SWEEP* contributed to the strengthening of a number of public-private partnerships (e.g. CAV, Deciduous Fruit Canning, Black Tea, National Tooling Initiatives, Business Unity South Africa).

- *IPA* has promoted some significant partnerships with private enterprises, national institutions and NGOs (e.g. Sasol Chemicity), although involvement of the private sector, according to the existing assessments, is suboptimal.
- In the *IDC-RCF* strategy, public-private partnerships do not seem a priority.
- In the *ECF*, the promotion of multi-actor partnerships is not a priority area.

In the Water Sector, non-state actors' participation throughout *MSB* was problematic, and deteriorated by the end of *MSB*<sup>88</sup>. The focus was on the building of a system based on the integration between DWA and the provincial and local administrations. The involvement of non-state actors was not a priority, and – according to some informed opinions – it probably diminished as an indirect consequence of the programme implementation.

In the Governance Sector, the implementation of the SBS-supported programmes has contributed directly and indirectly to enhanced partnerships with non-state actors:

- The *Access to Justice* SBS-supported programme is based on a strategic collaboration between DoJCD and FHR, a civil society actor that has, over the years, specialised in acting as a grantor, a facilitator, and a capacity developer (it calls on specialised CSOs to provide organisational and other support to a host of grassroots and civil society organisations). Structured mechanisms of co-ordination and consultation between DoJCD and FHR have been created and consolidated (quarterly meetings and reporting systems). In addition, the EUD has managed a complementary action to the SBS operation that supports a number of medium-sized and larger NGOs in related strategic intervention areas. Furthermore, the bilateral meetings between the EUD and its CSO partners created possibilities for synergies between the two components, although DoJCD was keen to see more transparency on the side of the EUD on the EUD-managed component.
- A specific component of the *LSPSP* addresses public participation with the Legislative Sector. A report on public participation (commissioned under the Legislative sector programme) pointed out that, while a Public Participation Framework and a number of structures were in place to support public participation at national and provincial levels (and, indeed, numerous exchanges take place between the various legislatures and citizens), a number of shortcomings needed to be addressed. To that end, the Legislative sector programme had launched a process to design a new public participation framework, which would contribute to greater standardisation and lesson-learning. Civil society, along with government and other legislative bodies in the world, are invited to the annual International Consultative Seminar.

The more structured and varied forms of engagement between civil society, citizens and public authorities (including People's Parliaments, but also, for example, sector dialogue, consultation, service delivery) are a feature of South Africa's participatory democracy. Both *Access to Justice* programme and *LSPSP* have contributed to creating opportunities for such engagement, which may – if sufficiently strong – create political incentives or create accountability pressures on public authorities at various levels in the two sub-sectors. This is a positive consequence, although public authorities might perceive it as a problem.

In the Health Sector, the two SBS-supported programmes have had a strong focus on multi-actor partnerships, and notable achievements have been recorded in this area. In particular, the civil society and the private sector were given an important role in the PHC model that was developed by DoH in recent years. The new framework for sector governance that has been established has also enabled non-state actors to play a stronger role in policy processes in a sector where, historically, relations had not always been easy between them and the Department.

In the Education Sector, there is an intense sectoral dialogue taking place at national level, but the overall role of civil society in policy formulation and M&E processes remains limited, while accountability chains have remained weak, especially at community level. Despite some notable examples (e.g. the previously mentioned networks of Universities to enhance teaching programmes and curriculum development), there is very little evidence that the SBS-supported initiatives have contributed to any evolution in this area.

In the Urban Renewal Area, there are mixed results – more pronounced in the case of *eThekweni* and extremely limited in the case of Buffalo City, with Nelson Mandela Bay somewhere in the middle. While

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<sup>88</sup> MSB III Final Evaluation found that “despite examples of individual CSOs doing relevant and vital work in the water sector, the programmatic development of CSOs in the sector has largely failed to take place over the course of Masibambane” (August 2011, p.25).

the involvement of civil society was not fostered through the inclusion of specific complementary envelopes, the implementation of the programmes has tested innovative forms of area-based management, giving rise to the increasing involvement of various community and civil society role-players in developmental local government. In the case of *eThekweni*, it is argued that, despite some limitations, general democratic engagement has been expanded in the learning areas as a result of the positive effect of the area-based programme on opportunities and space for consultation. More generally, it is argued that the programme has contributed to enhanced area-based communication between the Municipality and communities.

#### 4.5.4 Enhanced quality and quantity of goods and services provided (JC5.4)

In most cases, the SBS-supported programmes have contributed either directly or indirectly to enhancing the quantity of public goods and services provided, at least in their specific areas of implementation. Often they have contributed also to improving the quality of the delivery, when they have helped to provide new/innovative services (e.g. *IPA*, *Access to Justice*, *PrimCare*). However, there is little evidence that they have contributed to improving the quality of the standard services (e.g. in the Water Sector, there is little qualitative improvement). (see also *Indicator 5.4.1*)

In the Private Sector Development and Employment area, the specific contributions are summarised as follows:

- It is largely recognised that *RCF* has contributed to the creation and consolidation of a new instrument to support SMEs – namely, co-financing risky investments beyond the risk-aversion threshold of the existing financial system.
- *IPA*, despite its experimental and demonstrative nature, has contributed to an extension of ICT services to the rural poor, and the creation of specialised support services for new economic activities.
- *ECF* has not yet shown its expected potential for extended employment creation opportunities and support.
- *SWEEP*'s contribution has been mainly instrumental to providing complements to the policy and institutional process, while it is difficult to identify specific contributions in terms of actual service delivery.

In the Water Sector, the final evaluation of *MSB III* (2012) provided an updated assessment of the expanded coverage, but not of the quality of the service delivery. Indeed, whilst *MSB* contributed a lot to the quantitative extension of the coverage, serious questions remain about the quality of services provided. The final evaluation of *MSB III* notes that “a wide range of surveys, assessments, statistics and media reports indicate a combination of complex challenges and mismanagement in water services delivery”.

In the Governance Sector:

- DoJCD (Justice) was able to extend its service delivery reach by engaging with civil society on alternative service provision in areas such as conflict resolution and restorative justice (e.g. Community Advice Offices created, Service Level Agreements signed, cases diverted, asylum seekers assisted). Qualitative indicators and data are harder to come by, and the M&E systems in place do not yet provide adequate information.
- *LSPSP* has improved the implementation of the Legislative Sector strategy and the institutionalisation of the sector by strengthening the Legislative Sector Support unit, and by enhancing the opportunities for members of Parliament and of the provincial legislatures, as well as secretarial staff, to engage in structured ways on management and content issues. Peer learning, training, strengthening information services and creating international linkages and collaborations were facilitated and organised.

In the Health Sector, there have been significant and documented improvements over recent years in the quality of the PHC services provided and in the quantity of PHC services.

In the Education Sector, improvements have been recorded in certain results areas. However, important challenges prevail in the sector, and the effects of the supported actions (many of which started after 2011 and focus on improving the institutional environment at central level) will take time to materialise.

In the Urban Renewal Area, despite delays in the availability of funds (due to multiple factors), improvements have been registered with regard to the quantity of services provided through the SBS-supported URPs and to the ways in which needs are being met. All in all, the programmes have contributed to: i) improved basic and development infrastructure; ii) job creation (direct employment for infrastructure creation and skills training leading to job creation, including incubators); and iii)

improvements in terms of social development by supporting quality living environments, as well as safety and security projects.

#### 4.5.5 Strengthening of M&E capacities and systems (JC5.5)

In general, in the SBS-supported programmes, there has not been a specific focus on improving GoSA M&E capacities and systems. M&E systems have been developed in the Government-Wide Monitoring and Evaluation Framework (GWMEF) and were placed under the responsibility of the DPME of the Presidency in 2010 which has been supported by the EU. Water and Governance sectors are probably an exception, as the programmes have directly contributed to strengthening and aligning the monitoring systems to better fit the innovative policy and implementation frameworks (in the case of MSB, the monitoring system – and, consequently, reporting – has been radically revised and upgraded). (see also *Indicators 5.5.1 to 5.5.4*)

In the Private Sector Development and Employment area, the M&E mechanisms put in place have not specifically contributed to improving government capacities and tools. Specific attention has been given to ensure that the KPIs agreed upon between the parties correspond to the data collected for GoSA M&E (e.g. a rider approved in the *ECF* to strengthen alignment of the indicators).

In the Water Sector, it is agreed among sector partners that MSB has had a strong and positive effect on sector reporting by establishing clear sector goals and targets, a Regulatory Performance Management System (RPMS), and regular reporting modalities, with inputs from sector stakeholders, including municipalities. Furthermore, the quality of reporting from municipalities is seen as having improved significantly over the years, although M&E systems still appear to be top-down. The role of municipalities is mainly to feed information to national level. The system and data collection is not used locally as a planning and learning tool, but rather seen as a requirement from the national level to check municipal performance. This might explain some reluctance towards reporting on poor performance.

In the Governance Sector:

- The stakeholders in the *Access to Justice* programme – DoJCD and the Foundation for Human Rights – have agreed upon a framework for monitoring and evaluation that serves multiple purposes of multiple partners, and that is in line with the directives of the Presidency for monitoring and evaluation. FHR has started strengthening monitoring and reporting so as to better capture quality aspects of service delivery, as well as identifying the reasons behind success (or failure), using new approaches (such as story telling), making use of baseline surveys, and developing new systems. Included in the SBS package was the integration of a TA for Strategy, M&E Unit of the DoJCD.
- The Legislative Sector has rolled out a monitoring plan on the Legislative Sector Support for the whole sector. LSPSP monitoring is an integrated part of the sector-wide reporting, which combines process and results indicators and, for the time being, is mainly about quantitative measures, which don't as yet allow for assessment of sector performance in terms of its main mission, functions, or areas of responsibility.

In the Health Sector, there are well-established information systems. The initiatives supported by the two SBS operations have both placed special attention on data collection, including via the implementation of specific activities in this area. Overall, notable improvements have been recorded in terms of M&E capacities and systems.

In the Education Sector, the institutional changes that occurred in 2009 (with the split of the Department of Education into two departments) posed some challenges in terms of ensuring consistency and continuity in the database in place. Moreover, the way certain indicators are measured has evolved during programme implementation<sup>89</sup>. As a result, the MTR carried out in 2012 recommended to revise several indicators and targets. That said, the information systems in place are well established, and most initial KPIs were selected from existing lists of indicators that were regularly monitored. Overall, there are several areas of improvement in the way data is collected, and especially used.

In the case of the two Urban Renewal programmes, the riders have introduced key performance indicators (KPIs) corresponding to data that is monitored irrespective of the reporting needs linked to the SBS operations (FAs). That said, evidence collected points to the fact that both programmes lacked an efficient and effective M&E system, which has prevented: i) easy access to good quality data on programmes outcomes; and ii) the systematic gathering of experience to inform best practices and learning. In the case of *eThekweni*, the mid-term review actually points to the choice of the aid modality

<sup>89</sup> E.g. the approach to assess learning outcomes has evolved with the introduction of the Annual National Assessments in literacy and numeracy.

as one of the factors that have negatively affected the set-up and running of an effective monitoring system.

#### 4.5.6 Specific SBS contributions (JC5.6)

In most cases, the financial contribution of SBS has been a determinant in avoiding delays and dispersion in the implementation of innovative policies, the needs and design of which had originated from within the GoSA departments and/or other sector institutions. The EU-SA dialogue has contributed to the design and monitoring of most programmes – namely, by making the commitment to embark on the specific support, by agreeing on the framework of the indicators and triggers, and by assessing their achievements. In some cases (Governance), the dialogue – enhanced by long-standing relationships and high levels of trust – has provided an important contribution to conceiving and shaping the programmes. In other – and mostly more recent cases (i.e. third phase SBS operations) - it has interacted with the inter-institutional sectoral dialogue (*IPA*, *MSB*, *Access to Justice*, *LSPSP* or *PrimCare*), while in few cases (*IPA* and *LSPSP*) it has relied on significant links with the strategic partnership. TA and capacity-building provided through SBS or complementary actions have been important in many cases, although they have favoured specific know-how exchanges and related value added only in some programmes (e.g. *RCF*, *Access to Justice*, *PrimCare*). (see also *Indicators 5.6.1 and 5.6.2*)

In the Private Sector Development and Employment area, the SBS has contributed to the four programmes (*SWEEEP*, *RCF*, *IPA* and *ECF*), mainly allowing experimentation of new approaches and measures (*RCF* and *IPA*) and the provision of specific complements to existing policies (*SWEEEP* and *ECF*). In all these cases, the financial contribution of SBS seems the most important, since the experimental design and other policy support were conceived by the relevant departments and were implemented as coherent programmes due to the availability of the additional funds provided by SBS. The dialogue and other non-financial components have had some importance, particularly in the case of *IPA* and *RCF*:

- *IPA* was conceived in a framework of strong sectoral dialogue promoted by DST – namely, in the GoSA Economic Cluster, to advocate a more intensive application of the new technologies in the economic policies. On the other hand, DST considers the strategic dialogue with EU a fundamental window of opportunities for its international relations. In such a framework, its association with the EU, in the effort to enhance innovation in the national economic policies, was seen as a materialisation of the EU-SA strategic partnership – including the possibility of extending the Innovation for Poverty Alleviation approach to other African countries. The EU has been involved in the sectoral dialogue, in the accompanying workshops, and in dissemination activities.
- *RCF* has benefited from the EU experience mainly through the participation of the European Investment Bank (EIB), for the design and establishment of a risk capital facility and the necessary capacity-building support. EIB specific experience, in the EU, as well as in the accession and neighbouring countries, has been considered highly relevant and valuable for SA. Such exchange of know-how has been fundamental to launching and consolidating the IDC-managed programme.
- In the other cases, the dialogue has played a role in the phases of preparation, monitoring and evaluation of the SBS Financing Agreements – namely, for the definition and negotiation of the indicators and triggers. A TA component was included only in the *RCF* SBS, as the programme relied on the EIB experience and expertise.

In the Water Sector, the key SBS contribution has also been the availability of funds, which has allowed the launching and experimentation of an innovative policy approach, the results of which have brought about the establishment of a new sector policy framework. Indeed, the trust and dialogue developed over the years through project support have played a critical role when the decision to embark on budget support was taken in 1999, selecting the Water Sector and the experimentation of a new institutional set-up as an area for a challenging new partnership between GoSA and the EU. In the meantime, the dialogue has played a role during the implementation, mainly as a vehicle for raising concerns about the lack of progress made with regard to cross-cutting issues. For instance, in April 2009, the EUD raised concerns about the gender mainstreaming strategy not being developed, and about the role of civil society. The TA has not been included among the SBS inputs, although the quality and quantity of TA have been assessed by the EUD when considering requests for payment of the fixed tranches (*MSB III*).

In the Governance Sector, the dialogue between the EU and government partners has enabled the transformation from project to sector budget support, and has been a key factor in shaping and implementing the supported innovative programmes. For example:

- Building on the existing trust levels, the *Access to Justice* programme enabled DoJCD and FHR to pilot a government-owned engagement policy, with civil society as innovators, service deliverers, communicators and sensitisers, and as development actors in their own right (with the department respecting the CSO right to take the initiative). In addition, the EU agreed with the department to manage part of the financial resources of the Access to Justice programme directly through a Call For Proposals in support of bigger NGOs, on a complementary agenda. This approach, supported by the SBS funds, has: enhanced mechanisms for dialogue on policy innovation and implementation among key sector actors; supported demand-side pressures in certain policy areas; widened service delivery through CSO grantees; and contributed to innovative ways of sensitisation through public broadcasting and other avenues. Through the interdepartmental *Justice, Crime Prevention and Security Cluster*, the scope for uptake of such policy innovation was broadened.

If the trust and dialogue between the partners have played a key role in promoting the innovative approach, the funds have allowed such a challenging experimentation to materialise, and have leveraged on GoSA investment.

- In the LSPSP, the sector approach is the consequence of an evolution within the National Parliament and in its relationship with the Executive, but it has been strongly facilitated by the opportunity represented by the SBS, including the commitment of the EU to provide comprehensive support in such a sensitive area. The dialogue between the Assembly Speaker and the EUD has been fundamental to the shift from the previous support project to an SBS aimed at supporting a Sector-Wide Approach. As in the IPA case, here also the EU-SA strategic partnership has played a role as a backdrop to enhancing the sector co-operation reach, as shown by the support that the Sector programme provides to the EU-SA inter-parliamentary relationships.

The SBS funds not only have helped to bring about the effects of the dialogue and the partnership referred above, but may also have contributed to leveraging budget allocations in that it may have facilitated the negotiations led by the Assembly Speaker to obtain budget allocations for new programmes in the sector.

In the Health Sector, the whole SBS package has provided significant contributions. The availability of funds has been an important stimulus for DoH to identify and launch an innovative programme in the framework of the PHC strategy, with a focus on local service delivery, including a general re-engineering of the approach and a strong contribution by CSOs. Dialogue on the thematic issues, in the design phase, has helped to focus the EU contribution. The recent EU contribution (via a delegation agreement) to the TA provided by DFID is also likely to play an instrumental role in further strengthening the institutional environment and policy framework in the sector. The use of the TDCA Facility as a complement to address issues related to models and best practices – namely in the areas of NHI and Regulatory Medicine – has helped policy makers in their strategic decisions.

In the Education Sector, policy dialogue was very limited and TA/CD was neither provided in the form of a complementary envelope nor mentioned in the FA. The main contributions were made via the provision of funds for the experimentation of new tools or systems to enhance the implementation of the sector strategy.

In the Urban Renewal Area, the transfer of funds represents the most important component of the SBS operations, in the light of the very limited policy dialogue and what turned out to be a significant but insufficient provision for complementary TA. The testing of innovative forms of area-based governance was part of a national programme, conceived by the GoSA and put in place through national (but decentralised) mechanisms in the form of urban renewal programmes. However, SBS – through the provision of funds – has contributed to the testing of such an idea, especially during the initial phases with the support provided to *eThekweni*.

### **Counterfactual considerations**

Could the effects mentioned above have been obtained in the absence of the SBS, or through other forms of aid? In general, the answer should be “No”. In most cases, SBS guaranteed an opportunity to launch innovative/new policies originated from within the relevant institutions that could have been missed otherwise. In addition, the comparison with previous or potential projects demonstrates that the

level of ownership – and, hence, the adaptation, co-ordination and alignment – ensured by BS would not be attainable through alternative, more traditional instruments<sup>90</sup>. (see also *indicator 5.6.3*)

- In the *RCF* case, an IDC project probably could have produced comparable effects, although the level of GoSA ownership through the SBS is higher and could be used for better mainstreaming and further extension of the policy and the approach, beyond the IDC itself.
- In the *IPA* case, the experimentation and the important mainstreaming of its results (see above) could have been delayed and/or dispersed if the SBS was not available. On the other hand, a project would not have ensured a comparable level of ownership, with consequences in terms of flexible execution, rapid feedback and connection with the sectoral dialogue.
- In the *SWEEEP* case, the flexible and diversified use of SBS resources also would not have been possible with a traditional project, as shown by the various experiences of *dti*. Considering the multitude of areas addressed, however, a well-funded facility could have positively complemented the programme by ensuring a flexible access to high quality expertise.
- In the *Water* case, the possibility of an SBS has accelerated the experimentation, according to various stakeholders. It would not have been possible to address such complex policy experimentation and institutional sensitiveness through a project, with its external set-up and rigidities. The government ownership has allowed a more sensitive management, close consultations and co-ordination, and an implementation pace geared to the actual capacity development process. The most important comparative advantage of the BS modality has been the rapid feedback and mainstreaming of the lessons learned, which have supported the establishment of a new sector strategic framework. Nevertheless, a distinction should be made between the different phases of SBS. In the first two phases of *MSB*, there is evidence of trust being built and dialogue between partners being essential to pilot new approaches in a flexible way and to quickly mainstream the lessons learnt. However, in the final phase, the value added of SBS compared to an owned project is less evident.
- In the *Access to Justice*, it was stressed how the SBS, compared to previous projects, has facilitated the design and the implementation of the programme. Additionally, the ownership by DoJCD and FHR has been a determinant in ensuring a close dialogue among the parties (quarterly meetings and – on a more continuous basis– informal contacts) and strong synergies in the implementation, which would have been difficult to achieve through a project, with its deadlines, narrow output and results horizon, and contractual constraints.
- In the *LSPSP*, the comparison is relatively straightforward, since there was a project before the SBS. The project contributed to capacity-building, but was not considered an adequate – or a properly *owned* – tool to accompany the ambitious programme to enhance the Parliaments' capacity at all levels (National, Provincial, international) and strengthen the legislatures as a sector, including relations with the people.
- In both *Governance* SBS, transparency and accountability arrangements have improved compared to the previous project modalities (the Legislative Support Project and the EUD-FHR project) since the SBS modality has contributed to firmly integrating or anchoring the support in the management and policy systems of DoJCD and of the *Legislative Sector*.
- In the *Health Sector*, the use of SBS gave a clear message that the EU, as a partner, endorsed the national PHC strategy and would ensure that its contributions would directly support GoSA actions in this area – namely, the efforts aimed at strengthening GoSA leadership and co-ordination among the different sectoral partners. Moreover, SBS is perceived by stakeholders as enhancing the predictability of the support and ensuring greater sustainability by integrating this support into national efforts.
- In the *Education Sector*, it is probable that a facility-type arrangement would have allowed the support of similar types of innovative initiatives and access to high-level technical support. However, the SBS has been perceived by the national counterparts as having a clear

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<sup>90</sup> When comparing BS and project modalities, it should be taken into account that, in theory, one of the key differences between them relies on the different interests that support each of them: in the case of BS, the government institutions as such and their key partners are the owner and main supporters; in the case of a project, the owners and supporters are specific groups in the public administration, other non-governmental institutions (universities, NGOs) and donor-related institutions involved in the project conception and execution. The project may better respond to a need for mobilising non-government capacities and/or creating a balance, a stimulus towards the government mainstream. BS responds to the need for strengthening the internal dynamics and capacities of the government and its partner institutions.

comparative advantage because it has used national systems, has allowed greater flexibility, and has strengthened internal lines of communication.

- In the case of Urban Renewal, SBS has proved to be the most appropriate aid modality in the case of *eThekweni*, a strong institution described in one of the reports as '*one of the leading local authorities in the country*'. This has led to enhanced ownership, to a strong partnership, and has promoted flexibility and stronger empowerment by transferring decision-making to the implementing partner. The same cannot be said for *URP Eastern Cape*, where the political and institutional environment has significantly changed since the formulation of the programme, hampering the smooth implementation not only of the SBS but of the broader URP.

In many cases, however, there are also reasons why a complementary project-based co-operation could have improved the SBS performance. For instance, the low intensity of TA and capacity building inputs in most SBS could have been addressed through projects and/or facilities to ensure a direct access to international high-level expertise. For example:

- Employment is a typical case where the EU value added would probably be stronger by facilitating access to expertise and exchange of experience between EU and SA, between SA and other middle income countries with big inequality problems, and between SA and other African countries. The present EU contribution in the sector has been shown to be effective in the case of the IDC/*RCF* and *IPA*, but not (or not yet) in the case of the *ECF*, where the specific EU value added is not particularly clear.
- In most cases, including the most successful ones, the establishment of complementary actions (projects or facilities) to permit easy access to EU expertise and expertise from other parts of the world that the EU, as a global player, may mobilise, would have improved the exchange of experience and would have fed the dialogue between the parties (this has partly occurred in the case of Health: international workshops on National Health Insurance and Regulatory Medicine).

## 4.6 Step1 - Summary

The tables below summarise the SBS contribution to the induced outputs. In particular, it highlights the contribution of SBS to government policies, strategies and interventions, including reference to the type and degree of influence.

Table 7 Synthesis of Budget Support contribution to Government of South Africa policies (Step 1) - Private Sector/Employment sector

Contribution of BS operations	Changes at induced outputs level (incl. changes in GoSA policies)	Other historical and/or policy interacting factors, and/or internal or external factors
<p><i>Funds:</i> moderate (SWEEEP).  <i>Dialogue:</i> weak.  <i>TA/CD:</i> weak to moderate (financed through SBS).  <u>Counterfactual:</u> a facility could have played a comparable role, if ownership strong.</p>	<ul style="list-style-type: none"> <li>• dti capacities strengthened.</li> </ul>	
<p><i>Funds:</i> strong (IPA).  <i>Dialogue:</i> moderate.  <i>TA/CD:</i> absent (no specific input).  <u>Counterfactual:</u> an external project would have been rejected or unduly appropriated by its specific actors: ownership and mainstreaming limited.</p>	<ul style="list-style-type: none"> <li>• Mainstreaming of innovation in the policy and budgeting process.</li> </ul>	
<p><i>Funds:</i> moderate (SWEEEP).  <i>Dialogue:</i> weak.  <i>TA/CD:</i> absent (no specific input).  <u>Counterfactual:</u> see others</p>	<ul style="list-style-type: none"> <li>• Strategic framework for women empowerment.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong political and social priority toward employment generation</li> <li>• Very complex interests at stake complicate political debate and policy decision</li> </ul>
<p><i>Funds:</i> moderate (RCF &amp; SWEEEP).  <i>Dialogue:</i> weak.  <i>TA/CD:</i> weak to moderate.  <u>Counterfactual:</u> see others</p>	<ul style="list-style-type: none"> <li>• New business support service and legal/regulatory reforms to improve the business environment.</li> </ul>	
<p><i>Funds:</i> moderate to strong (RCF).  <i>Dialogue:</i> weak.  <i>TA/CD:</i> strong (EIB).  <u>Counterfactual:</u> a project could have had comparable effects, although the GoSA ownership has been stronger.</p>	<ul style="list-style-type: none"> <li>• Development of new lending products &amp; co-financing of risky projects (IDC).</li> </ul>	
<p><i>Funds:</i> moderate (ECF).  <i>Dialogue:</i> weak.  <i>TA/CD:</i> weak to moderate.  <u>Counterfactual:</u> a project could have had comparable effects, although the GoSA ownership has been stronger.</p>	<ul style="list-style-type: none"> <li>• Employment and industrial development programmes (public works, etc.).</li> </ul>	

Table 8 Synthesis of Budget Support contribution to Government of South Africa policies (Step 1) - Water sector

Contribution of BS operations	Changes at induced outputs level (incl. changes in GoSA policies)	Other historical and/or policy interacting factors, and/or internal or external factors
Mix of Funds and Dialogue: strong. TA/CD: strong (financed through SBS <sup>91</sup> ).	<ul style="list-style-type: none"> <li>Development of a new sector policy framework.</li> </ul>	<ul style="list-style-type: none"> <li>Strong political and social priority</li> <li>Number of initiatives and significant public investment.</li> </ul>
Funds: strong. Dialogue: weak to moderate. TA/CD: absent (no specific input).	<ul style="list-style-type: none"> <li>Transfer of responsibilities to municipalities.</li> </ul>	<ul style="list-style-type: none"> <li>New funding mechanisms (e.g. MIG, increase in LG Equitable Share): strong.</li> </ul>
Funds: strong Dialogue: weak TA/CD: strong (financed through SBS)	<ul style="list-style-type: none"> <li>Policies to strengthen local government capacities in place</li> </ul>	<ul style="list-style-type: none"> <li>Low capacities of local administrations</li> </ul>
Funds: weak to moderate – allowed implementation of pilot initiatives but important component of supported programme eventually not implemented. Dialogue: weak to moderate. TA/CD: absent (no specific input).	<ul style="list-style-type: none"> <li>Masibambane Civil Society Strategic Framework developed but weak implementation</li> </ul>	<ul style="list-style-type: none"> <li>GoSA priority was on public institutions</li> </ul>
Funds: strong. Dialogue: weak to moderate. TA/CD: absent (no specific input).	<ul style="list-style-type: none"> <li>Clear statements related to gender equality in sector policies, new gender mainstreaming strategy, and establishment of a Gender Unit within DWA.</li> </ul>	<ul style="list-style-type: none"> <li>Contributing factor: Integration of gender in wider legislative and policy framework.</li> </ul>
<p><b>Counterfactual:</b> In the first phases, the trust and the dialogue between partners have been essential to experiment new approaches in a flexible way and to quickly mainstream the lessons learned. A project would have introduced rigidities. In the second phase, the value added of SBS compared to an owned project is less evident.</p>		

Table 9 Synthesis of Budget Support contribution to Government of South Africa policies (Step 1) - Governance sector

Contribution of BS operations	Changes at induced outputs level (incl. changes in GoSA policies)	Other historical and/or policy interacting factors, and/or internal or external factors
Funds: strong. Dialogue: moderate to strong (historical collaboration of EU and CSO on human and civil rights). TA/CD: absent (except for one punctual input).	<ul style="list-style-type: none"> <li>Strengthened policy<sup>92</sup> implementation and testing of alternative service delivery through an innovative strategic partnership with civil society.</li> </ul>	<ul style="list-style-type: none"> <li>“Thick” institutional fabric in the justice sector with high degree of political commitment to <i>making the Constitutional Democracy work</i> (including through citizen participation),</li> <li>Combined with the demand for state responsiveness by a vibrant and multi-layered civil society</li> </ul>

<sup>91</sup> This means that TA is provided – at least in part – through SBS resources, but is completely managed by the GoSA programme, using national expertise. When TA is provided either directly or indirectly by SBS using international expertise for exchange of knowhow, this is specified.

<sup>92</sup> DoJCD Medium Term Strategic Frameworks – Programme 2 (Court services) and Strategic Plan for years 2012-2017.

Contribution of BS operations	Changes at induced outputs level (incl. changes in GoSA policies)	Other historical and/or policy interacting factors, and/or internal or external factors
<p><i>Funds:</i> strong. <i>Dialogue:</i> moderate to strong (consistent cooperation between EU and the five post-Apartheid Parliaments). <i>TA/CD:</i> absent (no specific input).</p>	<ul style="list-style-type: none"> <li>Improved institutionalisation of the Legislative Sector and strengthened policy implementation<sup>93</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>The Legislative Sector is a key state pillar of South Africa's young constitutional democracy with strong linkages with other state institutions such as government departments (National Treasury) and other statutory bodies (the Auditor General of South Africa, the Financial and Fiscal Commission)</li> <li>Strong demand side pressures from non-state actors (including civil society, independent media, etc.)</li> <li>Evolution of the institutional environment (increased relationships between NT and Legislative actors)</li> </ul>
<p><b>Counterfactual:</b> Compared to the previous project modalities in both sub-sectors, SBS has contributed to strengthening ownership, a programme design that is fit for purpose, trust-building policy dialogue, strengthened transparency and accountability arrangements in the sectors, and improved institutionalisation (in the case of the LSPSP) and stronger inter-departmental policy processes (in the case of DoJCD and the Justice, Crime Prevention and Security Cluster).</p>		

Table 10 Synthesis of Budget Support contribution to Government of South Africa policies (Step 1) – Non focal sectors

Contribution of BS operations	Changes at induced outputs level (incl. changes in GoSA policies)	Other historical and/or policy interacting factors, and/or internal or external factors
<b>Health</b>		
<p><i>Funds:</i> strong. <i>Dialogue:</i> moderate. <i>TA/CD:</i> moderate (only very recent inputs).</p>	<p>New original approach to service delivery in the primary health, including global reform of the Health Insurance and local networks of health agents (CSOs, practitioners).</p>	<p>New ideas and models developed through various processes (e.g. interactions between top level management and high level expertise from the country or abroad).</p>
<p><b>Counterfactual:</b> SBS (compared to other types of support) has contributed to the consolidation of the sectoral approach and coordination. It has supported DoH to strengthen the on-going comprehensive reform process. It has been able to integrate high level TA as well.</p>		
<b>Education</b>		
<p><i>Funds:</i> strong. <i>Dialogue:</i> weak. <i>TA/CD:</i> absent.</p>	<p>Improvement of tools and systems within national primary education programmes, incl. a focus on strengthening the teaching quality and capacity of teachers.</p>	<p>Recent policy change away from the ambitious Outcome Based Education (due to limited results). Strong political pressure on the sector.</p>
<p><b>Counterfactual:</b> a facility could have played a comparable role, if adequately owned.</p>		
<b>Urban renewal</b>		
<p><i>Funds:</i> strong. <i>Dialogue:</i> weak. <i>TA/CD:</i> weak (and only in one of the two programmes).</p>	<p>Urban renewal programme: piloting an integrated inter-governmental approach in eight urban nodes</p>	<p>Adoption of the Municipal Systems Act &amp; Municipal Finance Management Act. Weak local governments' capacities. GoSA priority / Presidential Initiative to address problems in exclusion areas set up through apartheid spatial planning.</p>
<p><b>Counterfactual:</b> in the <i>eThekweni</i> case, SBS has facilitated stronger ownership and more partnership compared to other modalities. This has allowed flexibility and empowerment. In the <i>URP Eastern Cape</i> case, due to the big changes in the political and institutional framework, probably a project would have suffered less, although the results would have been negative as well.</p>		

<sup>93</sup> Legislative Sector Policy and Strategic Framework.

## 4.7 EQ6 (Step 2) - Employment & Private Sector Development

**Evaluation Question 6: To what extent, in the employment / private sector development sectors, have the development outcomes pursued through the policies and programmes supported by SBS been (or are being) achieved? And which have been the determining factors of their achievement?**

*Box 2 Remark on the methodological approach to the identification of the determining factors in the Employment & Private Sector area*

EU-funded SBS operations in this sector aimed at supporting the implementation of government initiatives, policies, plans and strategies. While in some cases, the programmes supported by SBS had specific job creation objectives, their general aim was to support the employment strategies of the government, by providing policy and regulation improvements (e.g. *SWEEEP*), testing innovative approaches (e.g. *IPA*, *RCF*), and/or strengthening specific government interventions (e.g. *ECF*). With few exceptions, the outcome indicators included in the SBS FAs have focused on job creation, skills development, financial support / funding of SMMEs nation-wide targets.<sup>94</sup>

This has suggested a specific methodological approach for the identification of the determining factors of such indicators. As the outcomes to measure the success of the supported policies are nation-wide outcomes, the best way to assess the causal links between such outcomes and the policies supported is to refer to the existing up-to-date and recognized policy analyses and economic studies, which have investigated the effects of these policies at national level. This is the only possibility to address in a credible way – within the limited framework of this evaluation – an impact assessment of the policies supported.

### **Overall answer to the Evaluation Question**

In the period considered, employment data show a moderate growth, higher in the period 2004-07, then a downward trend due to the crisis (2008-09) and a slight recovery in 2010. In this period, more than 2 million new jobs were created, with one million lost and then recovered in the last 5 years. The increase in employment has not been able to reduce the unemployment rates which remain very high, especially among the women, the youth and in the rural areas. Investments have registered a significant growth, with a strong contribution by the private enterprises (with the exception of the years of crisis) and by the public corporations (mainly in infrastructure). Unfortunately, the Small, Medium and Micro-sized Enterprises (SMMEs<sup>95</sup>) are not among those who have profited of the growth, on the contrary they have been particularly affected by the crisis. This largely explains the low effects of the growth in terms of employment.

There is a consensus in the South African specialised literature about some of the main causes of the still relatively limited economic growth and – above all – of its limited effects on employment. Despite the positive results of GoSA programmes like the EPWP and CWP, aimed at job creation and at promotion of economic activities in the neediest areas, the nationwide employment growth is hampered by key factors. Among these, the institutional framework of the labour market, the inadequate skills profile of the labour force and a difficult environment for SMMEs development leading to a high level of concentration in the national economy which does not favour labour intensive growth. Industrial and trade policy also favours the protection of jobs rather than encourage competitiveness. Regulatory costs, local services, social stability and security are other factors that contribute to explain the decline in country competitiveness (SA has shifted from 37<sup>th</sup> to 50<sup>th</sup> in the World Economic Forum Index). Wide-reaching economic reforms, such as those set out in the NDP, are hampered by entrenched interests and a lack of political capital.

The policies and programmes supported by SBS have only marginally affected such policy bottlenecks and perhaps it could not have happened otherwise given the structural importance and political

<sup>94</sup> e.g. key performance indicators of *ECF* include: i) number of work opportunities created in the framework of the Expanded Public Works Programme (EPWP); ii) Participants in the Community Works Programme; iii) Skills development; iv) Support for IPAP 2 and New Growth Path; iv) enhanced Financial Support to SMMEs; vi) Monyetla Work Readiness programme. Job creation indicators (and targets) are also used under *IPA* and *RCF II* with the latter also including SMEs funding targets. (see volume 2 – EQ 6, for further details)

<sup>95</sup> The term SMME and SME are often used interchangeably in South Africa. A *small business* is defined by the National Small Business Act of 1996 amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as “ a separate and distinct business entity, including cooperative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the schedule.” The Act then further provides a categorisation of SMEs based on the industry using number of employees, annual turnover and gross assets excluding fixed property. In broad terms, an SME is entity that employs less than 200 staff with a turnover less than R50million per annum and gross assets less than R18million.

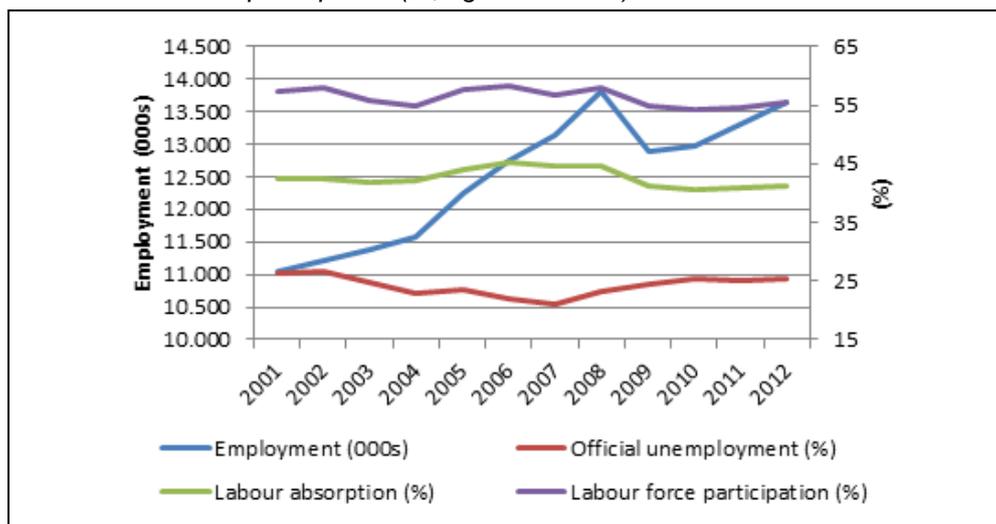
relevance of such policy bottlenecks. Probably more could have been done in terms of exchange of experiences and know-how on the specific matters building on: i) experience gained by EU Member States through the implementation of national reforms (e.g. labour market reforms in Germany in the first half of the 2000s; SMEs support strategies adopted by many EU countries); ii) lessons learned from the widespread programmes implemented by the EU in central and eastern Europe; and iii) EU and SA experience with third countries, including the informal sector and other matters (Brazil, Peru, etc.). A better knowledge of - and a joint reflection on such experiences - might have strengthened the national debate and as a consequence the shape of new policies.

**Evaluation Question 6.a: To what extent the main development outcomes identified as SBS targets have been achieved?**

**4.7.1 Employment and employability (JC6.1)**

Between 2001 and 2012 the South African economy added more than 2 million new jobs, all of which were added in the period up till the global financial crisis which reached South Africa in 2008. With the onset of the crisis 1 million jobs were shed between 2008 and 2009 but by 2012 employment levels had almost returned to pre-crisis levels. As a result: i) the official unemployment rate fell from 26% in 2001 to 21% in 2007 and went on to peak at 25.3% in September 2010;<sup>96</sup> and ii) both the labour absorption rate and the labour force participation rate have declined marginally during the 2001 to 2012 period. The fall in the labour absorption rate indicates that despite more people becoming employed during this period, growth in the working aged population has meant that proportionally fewer people were working in 2012 than in 2001.

Figure 7 Employment ('000s, left hand axis), official unemployment rate, labour absorption and labour force participation (% , right hand axis)



Source: Statistics South Africa's Labour Force Survey (pre-2008) and Quarterly Labour Force Survey (2008 and later). September figures.

Female employment has exhibited a similar trend to employment in general – a steady upward trend until 2008, a decline as the global financial crisis reached South Africa and a return to 2008 levels towards the end of the period. However, during the period the proportion of females in total employment has exhibited a downward trend (from 46 - 47% of total employment in the early 2000s to 43 - 44% as of 2010) indicating that the slowdown in South African economic growth as a result of the financial crisis had a much larger effect on female and other marginalised groups employment.

Over the 2001 to 2012 period, most of the jobs which were added to the economy were classified as being in the formal sector. The relative growth in jobs in the formal sector compared to the informal sector reinforces the small role which the South African informal sector plays in job creation if compared to other African countries. Almost all of the net job creation which has happened in the non-agricultural formal sector since 2006 has been in the community and personal services sector. This division

<sup>96</sup> The impact of the financial crisis on unemployment in South Africa is actually larger than the narrow definition of official unemployment suggests. Verick (2012) has shown that during this period many individuals actually gave up searching for jobs and thus were not categorized as unemployed under the official definition.

includes government, education, health and recreational, cultural and sporting activities. During this period manufacturing shed 185,000 jobs and construction lost 23,000 jobs. Job losses in these sectors are particularly disturbing since it is these sectors which are most likely to be labour intensive and have the ability to employ low-skilled workers. (see *Indicator 6.1.1*).

Employment of individuals with university degrees increased dramatically immediately after the democratic transition in 1994 with average annual growth of more than 11%. These growth rates declined substantially during the period 2000-2011 and during this period employment grew slower for those with degrees than those with only matric. (see *Indicator 6.1.5*)

In its drive to raise employment levels, GoSA has put in place a number of policies (e.g. New Growth Path - NGP, Industrial Policy Action Plan - IPAP) and programmes such as the Expanded Public Works GoSA programme (EPWP) and the Community Works Programme. In all cases, information gathered points to the achievement of important results:

- The Expanded Public Works GoSA programme (EPWP) aims to create job opportunities for the poor and unemployed in South Africa through the delivery of public and community services. In place since 2004/05, it has provided almost 3.8 million job opportunities in total, 2 million of which on infrastructure projects with over 800,000 in environmental and cultural projects<sup>97</sup>. The programme has been particularly successful in reaching its targets for both women and youth but has not met its targets for the disabled. EPWP job opportunities<sup>98</sup> can either be long- or short-term, and a different measure of its success is therefore gained by looking at the number of person years of work, including years of training, it has created. Despite the success of both phases (551,000 person years of work in Phase 1 and 600,000 in phase 2 as of 2012) substantially more jobs will need to be created in order to reach the target of 2 million full-time equivalent jobs. (see *Indicator 6.1.2*)
- The Community Works Programme (CWP) is another initiative supported through SBS which aims to create an employment social net for unemployed people in the most marginalised areas through providing participants with a minimum number of days of regular work. This programme was begun in 2007 but scaled up in 2009. The CWP has come close to meeting its targets in both 2009/10 and 2010/11 and created almost 24,000 full-time equivalent (FTE) jobs in 2010/11 at a cost of R19,000 per FTE. The CWP specifically targets the most marginalised and in 2009/10 71% of participants were female and half young people. (see *Indicator 6.1.2*)
- Finally, within the overall policy framework put in place by the government, SBS operations have supported – in addition to the above mentioned EPWP and CPW supported through the ECF – other specific job creation initiatives. Documentary evidence points to, among others: i) the creation of 45,900 jobs against a target of 41,229 through funding proposal in the framework of the IPAP 2 and NGP supported by the ECF;; ii) the creation of 33,000 jobs in 2007/8 against a target of 24,000 through programmes put in place by the Industrial Development Corporation (IDC) supported by the SWEEP; iii) the creation of 6,655 jobs between 2007 and 2012 through programmes put in place by the IDC supported by the Risk Capital Facility SBS operation; iv) the addition of over 700 jobs in 2011/12 as a result of demonstration projects put in place by the Department of Science and Technology and supported through the Innovation for Poverty Alleviation SBS operation. (see *Indicator 6.1.3*)

#### 4.7.2 Public & private sector investment (JC6.2)

A pressing concern for the new government in 1994 was reversing the increasing fiscal deficit which peaked at 7.3% in 1993 and curtailing government spending. This objective formed the core of the Growth, Employment and Redistribution (GEAR) strategy, introduced in 1996. GEAR was remarkably successful in cutting the government deficit – by 2000 the deficit was down to 2.1% of GDP. This fiscal prudence continued throughout the 2000s resulting in surpluses in 2007 and 2008. One of the outcomes of this fiscal prudence was low rates of gross fixed capital formation (GFCF) by both government and public corporations during the late 1990s. For both these groups GFCF was relatively erratic over this period and in 2001 GFCF levels were very similar to those in 1996 when GEAR was

<sup>97</sup> Source: EPWP reports. Over 1.7 million work opportunities were created the Phase 1 of the EPWP (2004/5 to 2008/9), largely exceeding the goal of 1 million, and – to date - 2.1 million job opportunities have been provided during Phase 2 (2009 and 2014), once again largely exceeding expectations.

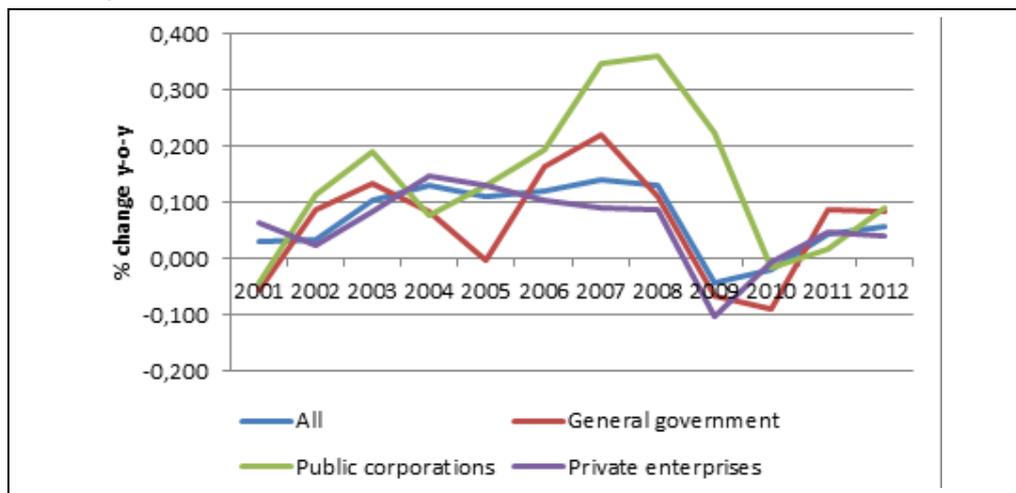
<sup>98</sup> A job opportunity in the EPWP is defined as: “Paid work created for an individual on an EPWP project for any period of time. In the case of social sector projects, learnerships will also constitute job opportunities. The same individual can be employed on different projects and each period of employment will be counted as a job opportunity.”

introduced. As Fedderke, et al. (2006) show this resulted in a decline in the infrastructural fixed capital stock, continuing a trend from the mid-1980s.

The government acknowledged that investment was below optimal levels and began to ramp up spending both directly and through public corporations. The 'Accelerated and Shared Growth Initiative - South Africa' (ASGISA) specifically targeted infrastructure investment and planned to raise public sector investment from 4 to 8% of GDP.

In real terms, increases in GFCF in both the public and private sector were substantial over the 2000s. Between 2000 and 2012 GFCF directly by government and by the private sector doubled. The real increase in GFCF by public corporations was even more substantial – in 2012 real GFCF was more than four times that of 2000. Much of this investment was on public infrastructure, including power generation, power distribution, rail transport, harbours and other physical infrastructure including an oil pipeline.

Figure 8 Gross Fixed Capital Formation by category, 2005 prices percentage change year-on-year

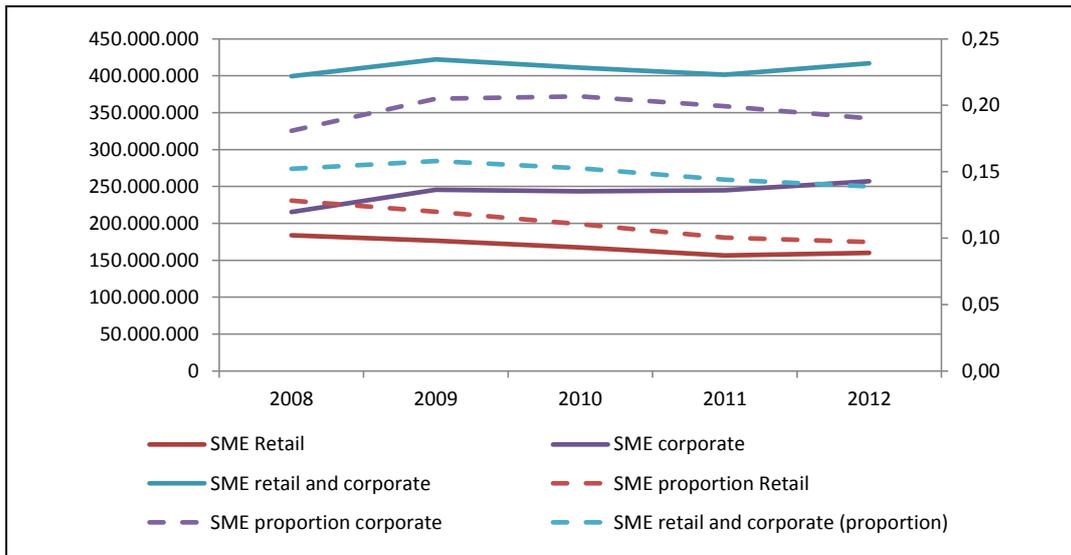


Source: South African Reserve Bank, series KBP6009Y, KBP6100Y, KBP6106Y, KBP6109Y.

This recent surge in investment by public corporations began in 2006 and lasted until 2009. During this period yearly growth in GFCF exceeded 20% in real terms and peaked at almost 40% between 2007 and 2008. During the period of 2006-2009 National Treasury budgeted R 58 billion to be spent on roads, R 58 billion on electricity, R 32 billion on housing, R 22 billion on education, R 19 billion on water, R 18 billion on rail and R 15 billion on ports, for capital and infrastructure investment. (see *Indicators 6.2.1 & 6.2.2*)

Large banks contribute 95% of all lending to SMEs in South Africa (World Bank, 2011). During the period 2008 to 2012 overall bank credit exposure to SMEs through both retail and corporate lending remained relatively constant. However, the proportional exposure of banks to SMEs has fallen over this period from approximately 15.2% to 13.9%. (see *Indicator 6.2.3*)

Figure 9 Bank credit exposure to SMEs, levels (LHS) R'000s, proportion of total exposure (RHS)



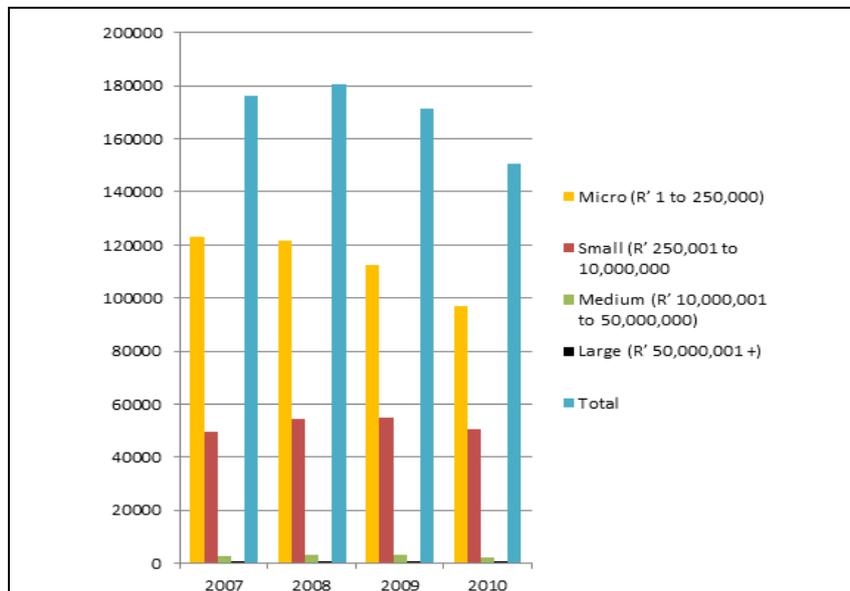
Source: South African Reserve Bank.

Access to finance is a larger obstacle for smaller firms than large ones, and particularly for those firms with less than 20 employees this does not seem to have changed between 2003 and 2007. In both years approximately 40% of firms in this size category reported that access to finance was some type of obstacle. This is in contrast to firms with more than 100 employees, where the proportion reporting that access to finance was an obstacle fell from 34% in 2003 to 21% in 2007.

In light of this, during the period 2007-12, RCF II supported the IDC which financed investments for R400 million in favour of 73 SMMEs. These SMMEs had 3,198 HDI shareholders of which almost half were female (source dti / IDC).

#### 4.7.3 Evolution in structure of SMMEs (JC6.3)

Figure 10 Corporate income tax payers by firm size category - all enterprises



Source: South African Revenue Services' Tax Statistics 2011.

Very little is known about the number of SMMEs in South Africa because data is not collected on these in a systematic manner. The South African Revenue Service (SARS) provides some information on

registered taxpayers for company tax.<sup>99</sup> Between the period 2007 and 2010 the number of corporate income tax payers fell substantially (from 176,175 in 2007 to 150,568 in 2010) driven by a fall in the number of micro firms (from 122,950 to 96,960). A change in tax thresholds is unlikely to have resulted in this. In the small and medium categories, where the reported number of firms is likely to be more accurate, numbers are roughly similar although numbers were slightly higher in the 2008/09 period. Figures show that there is no upward trend in the number of enterprises paying corporate income tax in South Africa over this period, i.e. South Africa is not creating large numbers of micro, small and medium firms. For manufacturing the picture is similar – across all size categories there were fewer firms in 2010 than in 2007. (see *Indicator 6.3.1*)

The seemingly declining contribution of SMMEs in the South African economy is also reflected in employment numbers. Figures from Statistics South Africa's Labour Force Survey (LFS) and Quarterly Labour Force Survey (QLFS) indicate that the share of employment in firms with less than 10 people has shown a broadly declining trend over the past decade. The share of employment in the 10-49 size category was increasing until 2008 but declined since then and the share of employment in firms with more than 50 workers seems to have increased. One study<sup>100</sup>, using data which Statistics South Africa collects directly from companies, shows that between 2005 and 2011, there was net job destruction in all size categories of firms with less than 500 employees.

Other surveys which focus on small and medium business also show declining employment among these sized firms. SBP's SME Growth Index (2012) showed that between 2011 and 2012 aggregate employment in firms with 10-49 employees decreased by 6%. This decline in employment was unevenly distributed across sectors. Manufacturing and business service firms reduced contracted by 7 and 8% respectively, whilst aggregate employment in the tourism sector fell by only 1%. (see *Ind. 6.3.2*)

On the other hand, Employment Equity reports submitted by business show a steady upward trend in the share of management who are female or black. The share of top management who are black almost doubled between 2000 and 2011. The share of senior management who are black also increased substantially, by 86%, over the same period. Although the share of female management has increased, it has done so at a slower rate.

Entrepreneurship also seems to be growing in South Africa. The Global Entrepreneurship Monitor (GEM) data suggests that the proportion of owner-managers in the South African population increased by about three times between 2001 and 2012. However, in comparison to other countries these proportions remain very low – in 2012 the proportion of owner-managers in Brazil was 15% whereas in South Africa it was only 2.3%. The involvement of HDIs in entrepreneurship also seems to be increasing. Between 2008 and 2012 Statistics South Africa's QLFS indicates that the number of Black individuals who were self-employed and employing other people increased by 6% and although the number of females fell by 9%. This increase has been more widespread than just entrepreneurs in micro firm: Black individuals who were self-employed with firms with more than 10 employees increased by 35%, and females increased by 13%, over this period. (see *Indicator 6.3.3*)

#### 4.7.4 Competitiveness of the South African economy and trade outlook (JC6.4)

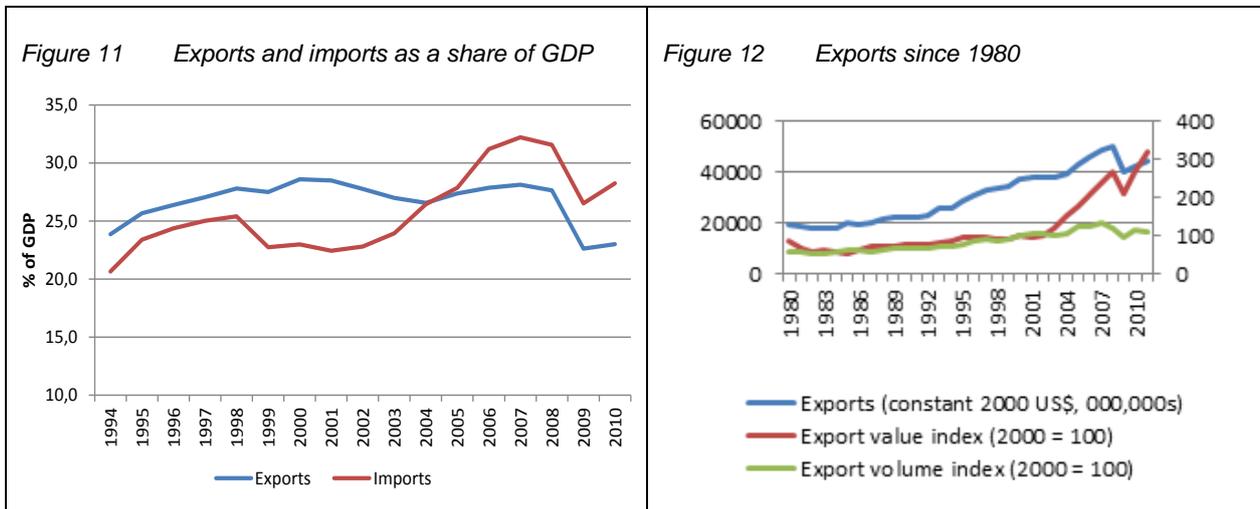
Since 2005 South Africa's ranking in global competitiveness has shown a steady downward trend. In 2005/6 it ranked 45<sup>th</sup> by the World Economic Forum (WEF) measure and 37<sup>th</sup> by the International Institute for Management Development (IMD) measure. By 2011/12 it had fallen to 50<sup>th</sup> (WEF) and 52<sup>nd</sup> (IMD). The Economic Freedom of the World indicator presents a longer term view and shows that this measure (which does not specifically measure competitiveness but is highly correlated with economic growth) is now higher than during apartheid and the mid-1990s but has been declining since 2000.

Worryingly, in terms of competitiveness, South Africa performs particularly badly on education and labour market aspects which have a direct influence on the poor and most marginalised. The two broad aspects which the WEF ranks South Africa lowest on is primary education and health, and labour market efficiency (Gwartney, Lawson, & Hall, 2011). Specifically South Africa ranks in the bottom 10% of all countries surveyed (142 countries in 2011) in the following areas: business costs of crime and violence; tuberculosis; HIV; life expectancy; quality of primary education, of the education system and of mathematics and science education; co-operation in labour-employer relations; flexibility of wage determination; hiring and firing practices; pay and productivity. (see *Indicator 6.4.1*)

<sup>99</sup> These numbers are likely to undercount smaller firms (particularly micro firms and to some extent small firms) who may fall under the tax threshold and there is also likely to be 'bracket creep' as firms enter higher tax brackets as their nominal incomes increase but not their real incomes. All else equal this should lead to more firms in the higher size categories over time.

<sup>100</sup> Kerr, et al., 2013

**Trade outlook.** South Africa has generally become more open since democracy in 1994. However, much of this has been driven by the increasing share of imports which exceeded exports in 2005. Worryingly, although exports exhibited a slight upward trend in terms of their share to GDP until 2007, they are below the share of GDP which they were in 1994. In addition to this, South Africa has, despite its historic reliance on primary products, failed to capitalise on the rise in commodity prices which happened during this period. The increase in real exports experienced over the period has been, since the early 2000s, been driven mostly by an increase in the value of exports rather than an increase in volume. Overall, the South African economy has become less export intensive and these exports are now higher value per unit indicating that actually the volume of exports, relative to GDP, is now lower than previously. (see *Indicator 6.4.2*)



Source: South African Reserve Bank

#### 4.7.5 Identification of the determinant factors

##### Evaluation Question 6.b: Which have been the main factors responsible for such achievements?

##### Identification of the determinant factors related to employment and employability

South African employment levels have increased over the past 10 years (and for even longer than this), adding more than 2 million jobs – an increase of approximately 20%. Much of this increase is the consequence of South Africa's relatively high economic growth during the period as the result of sensible macro-economic policies, investment and trade reforms in the 1990s, rather than any specific policy to increase employment. Despite the increase in employment, this has not been large enough to substantially reduce the official unemployment rate. This lack of progress in reducing unemployment has been the result of a number of factors, including structural constraints, adverse recent economic conditions, policy ineffectiveness and the unintended consequences of some policies which have actually discouraged employment growth.

From a long-term point of view, the South African economy, and with it labour demand, has been changing. Since, and even prior to, 1994, the historical drivers of the South African economy – agriculture and mining – have experienced declines in absolute employment numbers. This decline in the primary sector has not been compensated by an increase in manufacturing jobs (165,000 jobs lost between 1994 and 2004, and an additional 185,000 jobs shed between 2006 and 2012). Many of the jobs that have been created post-1994 have been in the service sector, including financial services and government. Labour demand has thus been moving away from labour-intensive sectors which require lower levels of skills to sectors where skills requirement have been higher. Even within sectors, production is becoming less labour-intensive and more skills and capital-intensive (in 2010, 20% fewer workers were required to produce the same amount of real output as in 1995). This has meant that South African economic growth is relatively low in terms of labour absorption. Zhan (2011), who compares the performance of South Africa in terms of job creation against a group of peers over the period 2000-2009, finds that the poor performance of South Africa is both a relatively lower output growth and a lower labour intensity of growth.

Part of these changes are explained by broader global trends – output per unit labour has been increasing in most developing and developed countries, but there are a number of South African specific factors which compound these, the two most important being the institutional and regulatory structure of the South African labour market, and the skills profile of labour market participants.

In fact, although the passing by South African government of employment and labour market legislation in the mid to late 1990s was intended to address some of the glaring regulatory failures which characterized the apartheid period, its application turned the South African labour market in one of the least competitive in the world. South Africa performs particularly badly in areas such as cooperation between employers and employees (138 out of 142), flexibility of wage determination (138 out of 142), hiring and firing practices (139 out of 142) and the link between pay and productivity (138 out of 142), especially when compared to other countries such as Malaysia or even Brazil.<sup>101</sup> These are all areas where outcomes are heavily influenced by the institutions in the labour market, such as bargaining councils, and where rapid job creators perform much better (Zhan, 2011). The continued close relationship between the Congress of South African Trade Unions (COSATU) and the ANC has meant that there has been no reform of labour market regulations to make the labour market more flexible. In fact recent amendments to South Africa's labour regulations have made the labour market less flexible and will further hamper employment growth. Specifically, one of the key institutional factors which has limited the creation of jobs and labour intensive firms is the sectoral nature of the wage bargaining system whereby agreements on wages and working conditions reached by a group of employers and employees in Bargaining Councils are extended to all firms in the sector. Academic research (Magruder, 2012) shows the impact of these Bargaining Councils on employment, entrepreneurship and small firms and recent events in the clothing and textile industry are a stark illustration of the negative consequences of these structures.<sup>102</sup>

The education and skills of the labour force has not changed sufficiently to adequately meet this demand. A shortage of skills was listed as one of the top three constraints to business in both of the World Bank's Investment Climate Assessments in 2004 and 2008. Kraak (2008) argues that by the mid-2000s the South African economy of education reached 'expansion saturation' after a period of massive growth and expansion. Contributors to this saturation included a declining share of education spending in the national budget, low financial allocations to adult basic education and training and early childhood development, a slowdown of learner enrolment in public schools, poor efficiency, and a decline in further education and training enrolments. He suggests that "*South Africa does not face a numerically severe 'skills crisis' as yet, but rather, a set of systematic malfunctions which need urgent attention.*" ASGISA specifically acknowledged the need for education and skills training and proposed a number of measures to address the issues mentioned by Kraak. One of these was the Joint Initiative for Priority Skills Acquisition (JIPSA).

The creation of jobs in South Africa stalled temporarily with the global financial crisis and the resulting slower rates of South African economic growth from 2008. Between 2007 and 2012 the unemployment rate increased by 4 percentage points driven by the loss of almost one million jobs between 2008 and 2009. The financial crisis has particularly affected the most marginalized in the labour market. Particularly for the youth, the sharp rises in unemployment rates are driven not by large-scale retrenchment but rather by fewer people being able to actually enter employment (Rankin, et al., 2012).

It is against this background and trends that the success of the various GoSA's initiatives (be they specific programmes or broader strategies / plans) supported by SBS needs to be measured.

Despite the large number of 'job opportunities' which the EPWP has created (actual job creation has exceeded targets), many commentators have been critical of the ability of the EPWP to improve the longer term employability of participants (see Centre for Development and Enterprise, 2012) for an overview of some of the evidence). The largely short-term nature of many EPWP job opportunities means that many participants do not gain useful skills and - as a result - there is little impact on post-EPWP employability (Nzimakwe, 2008). Furthermore, it does not seem that EPWP expenditures resulted in the creation of many micro, small or medium enterprises (McCord & Meth, 2009). As a result, the impact of the EPWP on employment creation at a national level has been marginal.

The CWP, being relatively new, has not undergone any quantitative evaluation of its impact. However, a set of studies provides some qualitative evidence of the impact of the programme. (Vawda, et al., 2013) find that the CWP has increased the capability set of participants. Participants interviewed report "*improvements in nutritional intake; that they continue to look for formal employment opportunities; they accumulate capital and assets; invest in savings products; engage in micro-enterprises; contribute to*

<sup>101</sup> World Economic Forum, 2012. See also volume 2 for comparative figures.

<sup>102</sup> For further details see volume 2 section 6.6 'Analysis of determining factors - JC6.1 Improved employability and employment especially among HDPs' and box 'The deleterious effect of South African collective bargaining institutions on smaller firms: the case of the Newcastle clothing firms' in volume 2, section 6.7 'Analysis of determining factors - JC6.3 Increased and diversified economic activity focusing in particular on SMMEs and BEE entrepreneurs'.

*improvement of community assets and social services; improve their educational qualifications; and reduce in alcohol consumption*". They also report that *"the work opportunities given by the CWP have shifted the perspectives of the participants, making them feel part of their community"*. Vawda, et al. (2013) argue that the low entry requirements and universal access makes the programme efficient in dealing with the needs of the most marginalised in the most marginalised communities. However, there are a number of perceived challenges facing the CWP including: late payments; insufficient and poor quality occupational and health gear; unfair recruitment practices; and limited management and leadership skills amongst managers. A second paper in this series - Stanwix & Van Der Westhuizen (2013) - argues that an increase in the reach of the CWP can impact on large numbers of people, although the impact on national poverty levels is fairly small.

Industrial policy, and its use to specifically create jobs, is controversial. A key aim of the Industrial Policy Action Plan (IPAP) is to promote a labour absorbing industrialisation path where the state plays an active leadership role. A concern often raised by the critics of industrial policy is that it creates rents which can be captured by specific interest groups and can end up benefiting a small, usually already well-off, group at the expense of the large group of consumers. Examples of this are:

- the South Africa's Motor Industry Development Plan (MIDP) which favoured the adjustment of African motor industry but has not created new jobs<sup>103</sup>; and
- the restriction of imports of Chinese clothing in 2007 and 2008 which was designed to protect local jobs, but resulted in large costs borne by consumers (during the period 2007-8 it increased consumer prices of these restricted products by 6-11%) and to the continued shedding of jobs in the sector throughout this period (see also Volume II, section 6.6 Analysis of determining factors - JC6.1).

### **Identification of the determinant factors related to public & private sector investment**

Government's performance in funding investment since the mid-2000s has been impressive. This has been possible for a number of reasons: i) GEAR's fiscal prudence significantly reduced the budget deficit and created fiscal space in the 2000s; ii) government investment, or at least the budget for investment, happens by fiat (there is little need to coax private sector actors or other constituencies); and iii) infrastructure and social investment is politically uncontroversial, supported by business, labour and government. This investment does not, or is not perceived to, challenge entrenched interests.

This increase in infrastructure bodes well for future economic growth given the relationship identified between infrastructure and growth by (Fedderke, et al., 2006)<sup>104</sup>. However, there are at least two concerns surrounding this investment. The first is the ability of the government, particularly at the municipal level, and public corporations to spend these amounts efficiently. The second, as (Frankel, et al., 2006) indicate, is that South African growth is likely to be investment intensive and thus increases in economic growth are likely to require very large amounts of investment. (Frankel, et al., 2006) argue that *"given the employment/productivity performance of the South African economy even such a large investment program will barely deliver the desired growth rates while imposing an impossible burden on public investment."* Public investment by itself is thus not sufficient for growth but requires other complementary economic policies which change the structure of the economy.

The fiscal space created in the 2000s meant that, at least in terms of the budget deficit, South Africa was well placed to weather the global financial crisis. Despite lower tax revenues as South African economic growth slowed from 2008, government spending was largely unaffected leading to an increase in the budget deficit.

Although private GFCF has risen steadily since 2001, higher levels of investment by both domestic and foreign firms are essential for future economic growth. Government spending on infrastructure has the potential to 'crowd-in' private investment but there are a number of factors which can limit this investment. Uncertainty about policy and the future performance of the South African economy is likely to temper investment levels. Although government strategies, such as the National Development Plan, are relatively clear on the direction of economic policies, it is less clear whether these will actually be implemented. Other factors, such as crime, also limit investment. The (World Bank, 2009) provides

<sup>103</sup> The MIDP created incentives for foreign-owned companies not to leave the country; while it can therefore be argued that it prevented the loss of employment, its broader consequences are controversial. See F. Flatters (<http://qed.econ.queensu.ca/faculty/flatters/main/midp.html>) where it is argued that the 'saving of jobs' came at a very heavy cost to the consumer.

<sup>104</sup> See also Volume II - Box 12 *"The role of infrastructure investment in South African economic growth"* in § 6.6 "Analysis of determining factors - JC6.2 Increased public & private sector investment, overall and in priority sectors".

evidence that crime against business reduces the gross profitability ratio of fixed assets, and raises risk and uncertainty, which in turn will lead to lower investment.

For smaller firms, access to finance, and financial products, to help pay for investment can be a constraint and does not seem to have changed significantly over the period. It also seems like the gap in access between smaller and larger firms is bigger than for other similar countries. The World Bank (2009) shows that in South Africa only 59% of SMEs have any credit products compared to 82% of large firms, a gap of 23 percentage points. For countries like Argentina, Brazil, Malaysia and Thailand, this gap is in the range of 10 to 14 percentage points. The RCF has focused on such key bottlenecks by supporting the IDC to test and develop new lending products, but its systemic effects have been limited.

Ultimately, it is firms which drive private investment. Teal (1999) finds that uncertainty is important in constraining investment but argues that *“the reduction of risk and the creation of a more stable macroeconomic environment would undoubtedly be of enormous benefit [but] it may well not be sufficient to see a rise in investment.”* He also argues that for the other African countries considered there is little evidence that firms fail to invest because of a lack of sufficient funds and that a reason for lack of investment in South Africa could be linked to the fact that firms are relatively inefficient. This suggests that in the South African context policies to promote firm-level efficiency, such as trade liberalisation, product market competition and a reduced regulatory burden, are likely to lead to higher investment levels.

South Africa's limited domestic market and a regional market which is small and fragmented, also hampers private investment. Relatively high labour costs and an inflexible labour market, together with high transport and port costs within the country, and large distances to major trading partners also means that South Africa is an unattractive destination for companies wanting a low cost location as a base for exporting and limits integration into global value chains. The limited domestic and regional markets, as well as the barriers to exporting, means that South African firms struggle to attain scale economies which allow them to be competitive globally.

### **Identification of the determinant factors related to evolution in structure of SMMEs**

In addition to the broad movement away from the non-mineral tradable sector which is argued (Rodrik, 2006) to have led to lower growth and employment opportunities, particularly at the lower end of the skills distribution, South African industries are relatively concentrated with high mark-ups (Fedderke, et al., 2007). This makes it difficult for smaller firms to compete. Given the strong relationship between competition and productivity growth identified by empirical studies (Aghion, et al., 2005), this high concentration is a further factor limiting export-led growth. Economic sanctions and a closed economy during apartheid contributed to this. A more diversified economy, in terms of both SMMEs and more representation of HDIs through BBBEE, is thus essential for future economic growth and job creation.

Main limiting factors. The relatively fewer number of smaller firms in South Africa compared to a country like Brazil are the result of a number of factors. Costs of red-tape, regulations which raise labour costs, high concentration rates and the fact that smaller firms are more sensitive to economic fluctuations have all contributed to what seems like a declining role for smaller firms in the economy. Since 2006 net job creation has been concentrated in firms which employ more than 500 people (Kerr, et al., 2013). SARS returns suggest that there are fewer smaller firms, and the labour force statistics indicate that, at least since 2007, there is a lower proportion of people working in firms with less than 50 employees. A key factor which results in fewer smaller firms and lower levels of small firm employment is South Africa's institutional bargaining structure. Magruder (2012) shows that Bargaining Councils, which favour large firms, result in 7%-16 % fewer employees in small firms (those with less than 10 employees) and 7%-15% fewer entrepreneurs. Labour market institutions such as the CCMA also can absorb large amounts of management's time for smaller firms, making them less likely to survive and grow. Regulations, which all have a fixed-cost component, also disadvantage smaller firms relative to larger firms. These include regulations such as those associated with BBBEE but also aspects related to tax compliance.

There are also other service delivery issues which may disadvantage smaller firms relatively to larger firms. Small firms mention that municipal services are one of their most pressing concerns (SBP, 2012). An erratic electricity supply will disadvantage those firms who do not have a generator. Delays in company tax assessments or refunds will also disadvantage smaller firms without the cash-flow or cash reserves to carry them through these periods.

South Africa has a number of policies designed to promote SMMEs and entrepreneurship. These include the government funded agencies Small Enterprise Development Agency (SEDA), Small Enterprise Finance Agency (SEFA) and the small business activities of IDC, and the National Youth Development Agency. One measure against which SEDA evaluates its performance, is the proportion

of its clients whose turnover and employment have grown. Between 2011 and 2012 the set targets were exceeded for both measures. 56% of their clients experienced turnover growth and 25% experienced employment growth.

Other measures to encourage SMMEs include various tax incentives such as a progressive tax structure and accelerated depreciation, and initiatives undertaken by SARS to lessen the administrative burden associated with tax. (Friedland, 2010) suggests that one impact of these incentives was to increase capital intensity among small firms.

Overall though it seems that South Africa's small business policies can be improved. (Timms, 2011) argues that *“South Africa's small business policies have done little to create effective support agencies to help support business owners to start up and grow their business. Added to this awareness of many of the government's support schemes also remains very low. Much of this is as a result of the government's lack of co-ordinated strategies aimed at small business and a government support architecture... which is both clumsy and confusing – both to business owners and to government officials themselves. The government simply has too many agencies trying to assist business owners, which are in turn spread across two different departments – in turn confusing government officials.”*

### **Identification of the determinant factors related to competitiveness of the SA economy and trade outlook**

The competitiveness of the South African economy, as measured by various international rankings of competitiveness, has not improved over the period under review. The share of exports in South African GDP, another indication of South Africa's external competitiveness was lower in 2010 than in any year since 1994. Two key aspects which lead to South Africa's low ranking in the competitiveness comparisons are its education system and labour markets which have a direct impact on the ability of South African firms to compete in the international market through exports.

Despite large increases in the value of exports, the ratio of exports to GDP has remained relatively constant during the period. Over the period South Africa has not managed to become a more export-intensive economy. In addition to this, South African export growth has been mediocre relative to other middle-income economies (Alves and Edwards, 2006; Hausmann 2008). During the period imports have also grown more rapidly than exports leading to a current account deficit which, as has happened in the past, is likely to be a constraint to future growth. Recent economic development plans have acknowledged this, most recently the NDP which emphasises the potential contribution of exports to growth and jobs.

South African exports are limited by a number of factors:

- the current global economy (low growth rates in South Africa's traditional export markets of Europe and North America means that demand for South African goods and services is likely to be constrained in the future);
- an international trade environment which has become more competitive due to increases in exports from low-wage countries such as China. South African firms have not been able to switch to non-traditional markets to compensate for this since in many cases these markets are different. Markets such as the Southern African Development Community (SADC) and the rest of Africa, which many South African firms participate in, often require lower-value products and due to lower income levels are limited (Rankin & Schöer, 2013). South African firms are thus likely to send only a small proportion of their output into the region. These regional markets also do not serve as a stepping stone to international markets since the types of products which are exported to them are different to those required for exporting outside of Africa;
- limited availability of skills and wages in South Africa as firms which export outside of Africa pay higher wages, use more skilled labour and more productive than within Africa exporters (Edwards, et al., 2008). Without changes in their production technology these firms are constrained by the availability of the types of people which they employ;
- trade liberalisation, which in the view of (Edwards & Lawrence, 2006) was an important contributor to the improved export performance on the 1990s, has stalled recently. There is evidence that this trade liberalisation was related to improvements in productivity growth (Jonsson & Subramanian, 2001) (Harding & Rattso, 2005) and reduced mark-ups (Edwards & van de Winkel, 2005) (Fedderke, et al., 2007). Dawdling on further trade reform thus helps to maintain the levels of high concentration and limit productivity improvements in South Africa.
- costs exporters incur due to transport are high. South African port charges are considerably higher than the international norm (Botes, 2006) Firms also choose road over rail due to an unreliable rail network despite the additional costs linked to road transport (South African road

costs are also high by international standards). These high transport costs also act to limit imports. This has a dual impact – uncompetitive local producers are not forced to become more productive and the cost of importing intermediate inputs increases. This means that South African production costs increase which makes South African firms less competitive on the international market. These high transport costs are the result of the inefficiencies of public companies. Neither Portnet (which runs the ports) nor Transnet (which runs the railways) seem able to deliver efficient and cost-effective services. In addition to high costs within the country, South Africa is generally far from its main trading markets which further adds to the costs of trade and limits export participation.

#### 4.7.6 Step 2 - Summary table - Employment & Private sector

The table below synthesises the factors determining changes observed at outcome and impact level. In particular, the table highlights the determining factors of economic and social growth, and the causal links between outputs of the Government strategy on the one hand, and outcomes and impacts of the Government strategy on the other hand. Inclusion of internal and external factors allows to better qualify the role of the induced outputs.

Table 11 Synthesis of factors determining changes observed at the outcome and impact levels (Step 2) - Private Sector/Employment sector

GoSA Policies (induced output level in the IL) having contributed to	Influence →	Development Results	Influence ←	Other historical and/or policy interacting factors, and/or internal or external factors
<ul style="list-style-type: none"> <li>• Employment and industrial development programmes<sup>105</sup>.</li> <li>• Legal and regulatory reforms to improve the business environment.</li> <li>• <i>dti</i> capacities strengthened.</li> <li>• Strategic framework for women empowerment.</li> </ul>	<ul style="list-style-type: none"> <li>• moderate.</li> <li>• weak.</li> <li>• weak.</li> <li>• weak.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant but insufficient job creation (growth in working aged population leading to persistently high unemployment rates, esp. among women and poor).</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>• weak to moderate.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>• strong.</li> <li>• strong.</li> <li>• strong.</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>• High political priority attached to private sector and employment strategies.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>• Changes in the historical drivers of the South African economy (decline of primary sector, less labour-intensive production in the service sector).</li> <li>• Skills profile of labour market participants.</li> <li>• Institutional and regulatory structure of the South African labour market.</li> <li>• Global financial crisis.</li> </ul>
<ul style="list-style-type: none"> <li>• Employment and industrial development programmes.</li> <li>• <i>dti</i> capacities strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>• weak to moderate.</li> <li>• weak.</li> </ul>	<ul style="list-style-type: none"> <li>• Overall substantial increase in public &amp; private sector investment but only limited increase for SMMEs.</li> </ul>	<ul style="list-style-type: none"> <li>• moderate to strong.</li> <li>• moderate to strong.</li> </ul>	<p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>• Regulatory burden.</li> <li>• Global financial crisis.</li> </ul>
<ul style="list-style-type: none"> <li>• Employment and industrial development programmes.</li> <li>• Legal and regulatory reforms to improve the business environment.</li> <li>• <i>dti</i> capacities strengthened.</li> <li>• Development of new lending products &amp; co-financing of risky projects (IDC).</li> </ul>	<ul style="list-style-type: none"> <li>• weak.</li> <li>• weak.</li> <li>• weak.</li> <li>• weak.</li> </ul>	<ul style="list-style-type: none"> <li>• Declining contribution of SMMEs to the economy</li> </ul>	<ul style="list-style-type: none"> <li>• moderate to strong.</li> <li>• moderate to strong.</li> </ul>	<p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>• Service delivery issues (e.g. municipal services or failures in power supply system).</li> <li>• Other competitiveness policies.</li> </ul>

<sup>105</sup> E.g. Actions funded under RCF, SWEEP and ECF, in relation to the Industrial Policy Action Plans, the Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP).

<b>GoSA Policies (induced output level in the IL) having contributed to</b>	<b>Influence</b> →	<b>Development Results</b>	<b>Influence</b> ←	<b>Other historical and/or policy interacting factors, and/or internal or external factors</b>
<ul style="list-style-type: none"> <li>• Employment and industrial development programmes.</li> <li>• Legal and regulatory reforms to improve the business environment.</li> <li>• <i>dti</i> capacities strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>• weak.</li> <li>• weak.</li> <li>• weak.</li> </ul>	<ul style="list-style-type: none"> <li>• Decreased competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>• strong.</li> </ul>	<i>Limiting factors:</i> <ul style="list-style-type: none"> <li>• Institutional and regulatory structure of the South African labour market.</li> <li>• Skills profile of labour market participants.</li> <li>• Insecurity and social instability.</li> </ul>

Source: *Particip GmbH* analysis.

## 4.8 EQ7 (Step 2) - Water

**Evaluation Question 7: To what extent, in the water sector, have the development outcomes pursued through the policies and programmes supported by SBS been (or are being) achieved? And which have been the determining factors of their achievement?**

### **Brief overview of the context**

South Africa is a water scarce country with a water availability of 928 m<sup>3</sup>/year per capita; only 30 countries have less water per inhabitant. Agricultural irrigation alone stands for 60% of the total water use in South Africa. Urban requirements constitute 25% of total water use, with the remaining 15% shared by rural requirements, mining and bulk industrial requirements, power generation and forestation.<sup>106</sup>

Key policy reform process began immediately after the first free elections in 1994 with the Water Supply and Sanitation Policy White Paper, which established the responsibility of GoSA (DWA) for Water Supply and Sanitation (WSS) in rural areas (former homelands). The 1997 Water Services Act provides for the rights of access to basic water supply and basic sanitation by setting national standards and norms, and gives together with the 1996 Constitution DWA the responsibility to support and strengthen the capacity of municipalities to assume their role and functions. In 2000, the Free Basic Services Policy includes access rights to basic water and sanitation and refers to a clearly defined level of service such as 6,000 litres/month pr. household. The key document guiding sector reform is the 2003 Strategic Framework for Water Services (SFWS), prepared with extensive stakeholder consultation, which establishes DWA as sector leader responsible for regulation, support and policy, while service provision is transferred to local government. The 2004 National Water Resource Strategy (NWRS) provides the framework for water resource management (WRM) and a shift towards decentralised integrated WRM (IWRM) with the planned establishment of Catchment Management Agencies.

The policy reform process was accompanied by a number of programmes and mechanisms to address the major needs in the sector. In 1998/99, the Equitable Share funding was introduced to provide unconditional subsidies to local governments for recurrent expenditure (e.g., operations and maintenance). The Equitable Share allocation is also important to finance Free Basic Water (FBW), especially in local and district municipalities with large rural populations. In 1997, the Consolidated Municipal Infrastructure Programme (CMIP) was launched, the significance of which was that it provided funding for what was then DPLG to provide municipal infrastructure development support in urban and peri-urban areas, whereas DWAF would continue with its capital programme in the rural areas. Between 1997 and 2004 CMIP invested R4.9 billion in urban and peri-urban water and sanitation service infrastructure.<sup>107</sup> The conditional Municipal Infrastructure Grant (MIG) focusing on capital expenditure was then introduced to further ensure adequacy of funds and speedy roll out of investments.

The EU has been involved in the sector since 1994, in particular providing significant support to Limpopo Province and Eastern Cape. In 1994, GoSA embarked on a Community Water Supply and Sanitation Programme based on the experience from participatory WSS projects piloted and implemented in the early 1990s by NGOs. The GoSA programme 'Masibambane' (MSB) - supported by EU SBS – was launched in 2001. MSB I (2001-4) expanded WSS service provision in three provinces and contributed to design and adoption of the new Strategic Framework for Water Services (2003). Moreover, MSB promoted sector collaboration and an integrated approach to sector planning and established collaborative structures, first to promote WSS services, and later to promote water resource management. During MSB II (2004-7), the sector wide approach was up-scaled to covering the entire country, the focus shifted away from infrastructure construction to capacity building and DWA was established as the sector leader. Water for Growth and Development (WfG&D) was the overarching theme of MSB III (2007-10) which saw the scope broadened to promote integrated water resource management (IWRM). Service provision is now transferred to local government, and DWA focuses on sector policy, support for local governments, monitoring the performance of new water supply institutions, and the regulation of the sector.

### **Overall answer to the Evaluation Question**

Significant achievements have been attained in the period 2000-2011 in terms of increased access to water and sanitation facilities and, to a lesser extent, in terms of the quality of the drinking water. There is evidence that Masibambane - the GoSA programme supported by SBS - has contributed to these improvements. The strategies and policies developed by the programme, the sector leadership promoted by the programme, and the wide range of innovative pilot projects also funded by the programme played a key role in this development. That said, broader GoSA efforts and funding mechanisms put in place such as the Equitable Share and MIG were also key to profoundly influence the reduction of the infrastructure backlog. So did the overall strategic direction provided by GoSA influence the policies developed by MSB (such as the political imperative of the Free Basic Water Policy and the need to transform Irrigation Boards into more equitable WUAs).

<sup>106</sup> DWAF (undated) *Governing Board Induction Manual*, p.8, accessed 20/02/2012 <http://www.dwaf.gov.za/IO/cmaDoc.aspx>.

<sup>107</sup> DWAF, 2004 A history of the first decade of Water Service Delivery in South Africa 1994-2004: meeting the millennium development goals, p.13.

However, important geographical disparities prevail and some provinces still present significant backlogs in terms of access to basic water supply and sanitation services. The GoSA programme has had less effect on significantly improving living conditions. The focus on backlog reduction as opposed to operations and maintenance has meant that the recent gains are being undermined as the quality of the service provision deteriorates.

Moreover, whilst the Masibambane has also helped increase the number of WUAs and thus help strengthen initiatives to protect South Africa's fragile water resources, the programme was less successful in increasing the participation of CSOs in the management of these resources.

Finally, the programme has been successful in promoting the participation of women in the management of the sector, especially at the top/senior level. But it has not made much progress in increasing the wider participation of women in the sector and, despite clear improvements in terms of access to pipe water, the burden for women in accessing water still represents a challenge in the most vulnerable provinces.

### Evaluation Question 7a: To what extent the main development outcomes identified as SBS targets have been achieved?

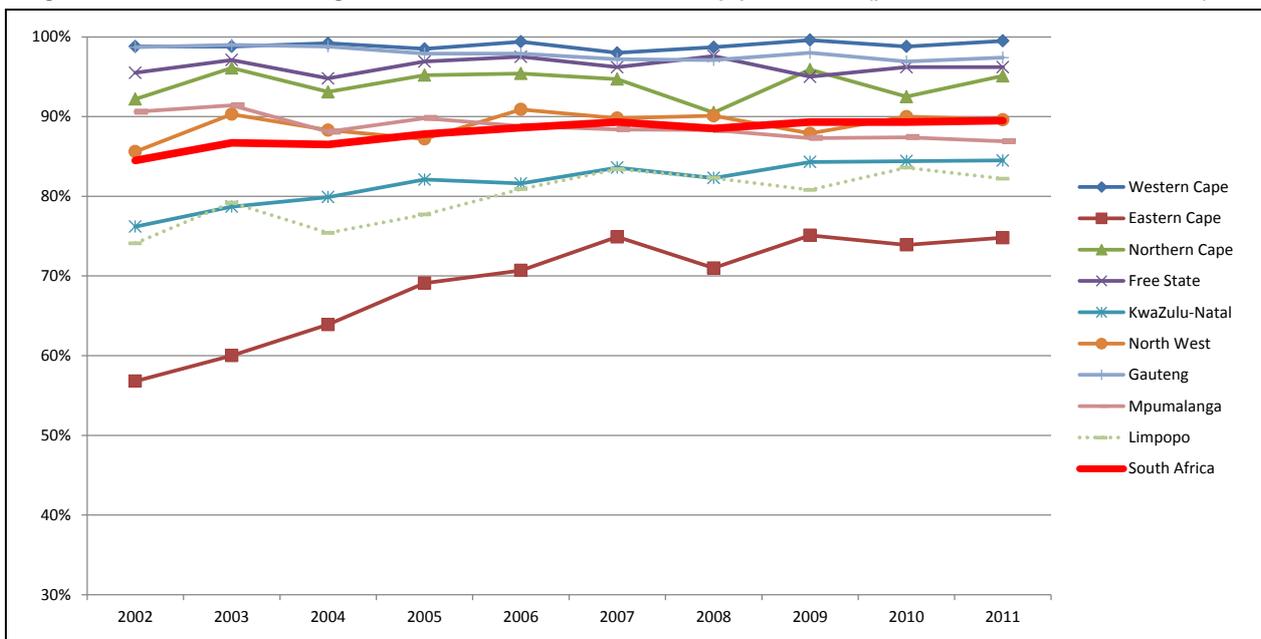
#### 4.8.1 Equitable access to basic water supply and sanitation services (JC7.1) & Access to clean water and efficient use of water resources (JC7.2)

In 1994, it was estimated that only 59% of the population had access to a basic water supply, by the end of MSB this figure had increased to 97%. In 1994, only 49% of people had access to sanitation facilities, by the end of MSB this had increased to 79%. Significant achievements have been attained in the period 2000-2011 in terms of ensuring that all South Africans have access to water and sanitation services. This was done in parallel to an important reform process in the sector that, in particular, saw the transfer of water services schemes initially operated by the national department (DWAF) to water services institutions (local governments or water boards).

Data from the General Household Survey (GHS) shows improvements in a number of indicators (e.g. access to pipe waters, distance from nearest water sources, type of sanitation facilities used in the households, etc.) in all provinces over the period 2000-2011. Positive progress has also been recorded in terms of the proportion of schools with access to water. (see *Indicators 7.1.1 to 7.1.4* in Volume II)

The figure below depicts the evolution in terms of percentage of households with access to piped water over the period 2002-2011.

Figure 13 Percentage of households with access to piped water (provincial and national level)



Source: own calculations based on data from the GHS survey (2002-2011)

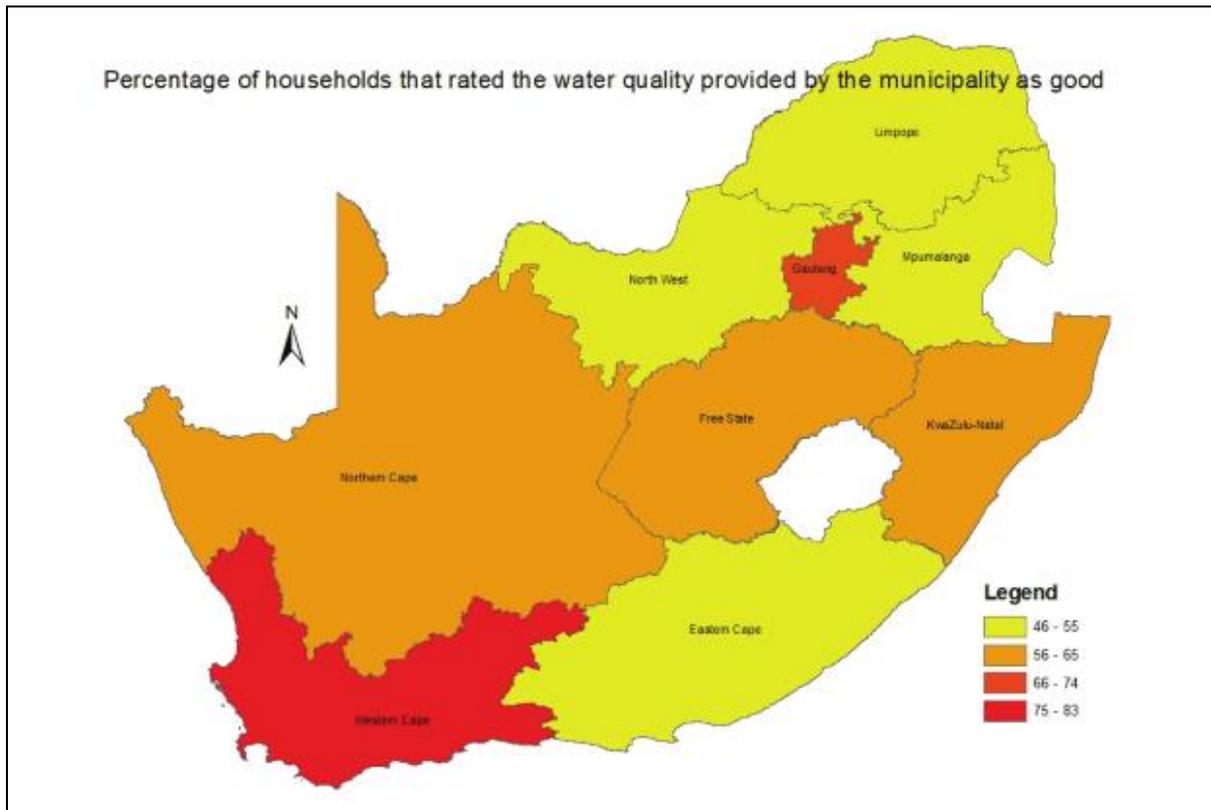
Some positive development in terms of access to clean water have also been observed, as illustrated by the percentage of households with water from the main source not safe to drink which decreased by more than 30% in several provinces between 2002 and 2007 (see details related to *Indicator 7.2.2* in

Volume II). There are also improvements in related health outcomes, as illustrated by the overall decrease in diarrhoea incidence under 5 in recent years. (see *Indicator 7.2.1* in Volume II)

Despite the substantial achievements in the water and sanitation sector described above, important geographical disparities prevail and some provinces still present significant backlogs in terms of access to basic water supply and sanitation services.

In 2011, as illustrated in Figure 14 below, only slightly more than half of the residents in Northern Cape (59.3%), Free State (59.3%) and KwaZulu-Natal (61.2%) rated water services as good. In other provinces such as Limpopo, North West, Mpumalanga or Eastern Cape, less than half of the residents perceive the water quality as good.

Figure 14 Percentage of households that rated the water quality provided by the municipality as good, 2011



Source: GHS survey 2011.

Moreover, further improvements in the sector are hampered by serious problems faced in terms of operations and maintenance of the infrastructure developed in the last decades. The 2011 'Infrastructure Report Card' prepared by the South African Institution of Civil Engineering (SAICE)<sup>108</sup> notes a deterioration in the state of water services infrastructure outside of the major urban areas: "The quality and reliability of basic infrastructure serving the majority of our citizens is poor and, in many places, getting worse. Urgent attention is required to stabilize and improve these." It rated the state of water infrastructure in the major urban centres as 'C plus' and wastewater infrastructure as 'C minus' ('satisfactory for now'); but it gave all other areas a 'D minus' ('at risk') for water infrastructure, and an 'E minus' ('unfit for purpose') for their sanitation infrastructure.<sup>109</sup>

In 2012, DPME conducted a study on the "quality of sanitation in South Africa". The study underlines that "approximately 11% of households (Formal - no services and Informal - no services) still have to be provided with sanitation services (these households have never had a government supported sanitation intervention). Additionally at least 26% (rounded) of households within formal areas disturbingly have sanitation services which do not meet the standards due to the deterioration of infrastructure". The deterioration is mainly explained by a lack of technical capacity to ensure effective

<sup>108</sup> [http://www.csir.co.za/enews/2011\\_jun/download/infrastructure\\_report\\_card\\_sa\\_2011.pdf](http://www.csir.co.za/enews/2011_jun/download/infrastructure_report_card_sa_2011.pdf)

<sup>109</sup> See also 'Challenges in small municipalities' (March 2013) available at [infrastructurene.ws](http://www.infrastructurene.ws) and service delivery, <http://www.infrastructurene.ws/2013/03/11/challenges-in-smaller-municipalities/> (accessed in June 2013).

operation, timely maintenance, refurbishment and/or upgrading, pit emptying services and/or insufficient water resources. The study further notes: “*The startling finding is that while access to sanitation is increasing (albeit at less than an optimal pace) from a functionality and adequacy point of view, as many as 26% (or about 3.2 million households) are at risk of service failure and/or are experiencing service delivery breakdowns. Add to this the 9% (or 1.4 million households) in formal settlements that have no services and (...) 64% of households in informal settlements making use of interim services and we get a picture of service delivery failure on a massive scale.*”

#### 4.8.2 **CSOs and community representatives participation in water sector policy development and implementation (JC7.3)**

During the evaluation period, there was a strong national commitment for CSOs and community representatives’ participation in the water sector. Legislation pertinent to the water sector provided a clear framework for ensuring that civil society is engaged in both the management of water services and water resources. Moreover, the key role that CSOs could play in the sector was recognised in several sector policy and strategy documents.

The MSB I final evaluation<sup>110</sup> observed considerable involvement of CSOs at local community level. GoSA programmes also succeeded in supporting and promoting pilot projects targeted at CSOs. Whilst never rolled out completely across the country (due to resource constraints), these projects demonstrated the value of involving CSOs in water resource management related issues as illustrated by the case described in the box below.<sup>111</sup>

##### Box 3 Case study on Citizens’ Voice (Water sector)

The "Raising Citizens' Voice in the Regulation of Water Services" was first initiated by the National Regulator within DWA and conducted in four Cape Town township areas as a pilot project. The basic concept was to empower citizens through a phased training process so that target communities could engage knowledgeably with water issues and hold local government to account. Following the capacity-building period, "user-platforms" (monthly meetings between the municipality and the community) were to be set up to institutionalise on-going engagement between communities and government around water issues.

Based on the success of the Cape Town pilot projects, the City of Cape Town took on "Citizens' Voice" as a fully-fledged Municipal Programme and began rolling it out to other areas. Additionally, DWA decided to fund further pilot projects in Ekurhuleni Metropolitan Municipality (Gauteng) and Msunduzi Local Municipality (KwaZulu Natal). At the same time, eThekweni Metropolitan Municipality was inspired to implement and self-fund its own version of Citizen's Voice.

The Citizen's Voice initiatives are in their essence intended to be public accountability mechanisms working for the public. The benefits, however, work both ways. In the areas where it has been successfully implemented, Citizen's Voice projects have resulted in reduced water losses, increased payment levels, and more active citizens within target communities. A key challenge in most areas has been taking the time to engage properly with local government - because without their buy-in, the platforms are unable to work as intended’.

(source: MSB III Final Evaluation report - section 6, p.270)

However, evidence shows that, overall, CSOs have not played the key role they were expected to play in water resource management during the evaluation period. As the MSB programme progressed the participation of CSOs decreased, particularly at both regional and local level. CSOs no longer attend water sector meetings nor do local authorities engage CSOs in any meaningful way to resolve water and sanitation issues.

Whilst the first two phases of MSB did not emphasise water resource management, the evidence from MSB II supports the fact that only few, if any, CSOs were playing a key role in water resource management. Specific mention was made in the final evaluation report of MSB II that CSOs were not being used in monitoring service provision, nor was there much evidence that of community/local labour being used on projects. Moreover, the evaluation found “*Inconsistent participation of CSOs in provincial forums (with little sector funding provided to facilitate access to these meetings)*”. In conclusion, the MSB II final evaluation reported that “*skills development/capacity building initiatives did not increase the number of CSOs actively engaged at local level to assist in delivery of services*” and that there had been “*too much focus on developing capacity and insufficient attention paid to what CSOs could do with their new found capacity (e.g. no resources for M&E, delivery, advocacy, promoting capacity participation)*”.<sup>112</sup>

<sup>110</sup> MSB I Final evaluation (2004) - p. 95.

<sup>111</sup> For other examples see also Klarenber, Geraldin & Masondo, Jabu (2005) ‘Masibambane Civil Society Support Programme: Good Practice of Civil Society Organisation Involvement in Water Services Delivery’.

<sup>112</sup> MSB II final evaluation (2007) - p.178

Regarding the number of Water User Associations (WUAs) in catchments, a large increase in the number of WUAs can be observed during the evaluation period, particularly during the latter half of the evaluation period. Literature supports the view that, in general, WUAs are currently operating in many regions and are effective in identifying local water resource issues.

But there is also evidence that many do not have the means to intervene to protect water resources if capital investments are required<sup>113</sup>. The future sustainability of the changes is threatened by the lack of funding for these newly established WUAs. Moreover, the integration of WUAs and wider participation remain a challenge. So far, efforts at the level of social transformation have not been sufficient to ensure the inclusiveness of, and participation by, new entrants into the process.

#### 4.8.3 Gender equality in the water and sanitation sector (JC7.4)

There is evidence of increased gender integration at institutional level and, in particular, there has been an increase in the number of women in sector management positions. At the project level, one of DWA's most visible achievements in gender mainstreaming efforts was the ability to ensure a 50% quota for participation by women in Village Water Committees according to interviews conducted in the Limpopo Province (with CSOs, WUAs and DWA provincial officials). Those interviewed reported that during MSB women attending meetings regularly, were participating actively, were playing a leadership role, and that a subtle shift in behaviour could be seen when men trusted the decisions being taken by women<sup>114</sup>. Employment data reported in the Consolidated Water Sector Reports (and the MSB Annual reports) regularly presented sex disaggregated data. The data demonstrates that the GoSA programme reportedly created jobs on a range of projects (such as Working for Water and Working on Fire) to actively promote employment opportunities for women and thus facilitating the participation of women in the sector.

However, the overall participation of women in the sector has remained limited. Interviews conducted in the Limpopo province found that, whilst newly formed WUAs and other relevant community structures still embrace efforts to promote gender equality, the same could not be said for local government. This view is supported by findings in MSB II Final evaluation, which noted, after visiting municipalities, that "*Gender as a cross-cutting issue very low on the agenda at local level*".

Finally, data on time spent fetching water every week collected via the General Household Survey indicate a persisting burden for women, esp. in poor provinces. However, literature in this area argues that measurements of the time taken to collect water can be seen to be unreliable or the interpretation of this data can be misleading. Common reasons why the perceptions may not change/or even got worse (even if things have actually improved) include: if piped services are unreliable, people overemphasise the challenges when the water is not available; the piped water pressure level (i.e. the pressure may fluctuate which gives the impression things have got worse, when in fact previously there was no water at all).<sup>115</sup>

#### 4.8.4 Identification of the determinant factors

##### Evaluation Question 7b: Which have been the main factors responsible for such achievements?

##### Identification of determinant factors related to access to basic water supply and sanitation services

An attempt was made in this evaluation to identify potential statistical relationships between the SBS supported GoSA programme (Masibambane) and the outcomes in terms of access to water and sanitation services. Two quantitative approaches have been used:

- In the first, we examine whether overall water-related expenditure at local government level and Masibambane expenditure are associated with changes in the outcome variables;

<sup>113</sup> Surplus People Project (2008) Water user Associations in the Olifants-Doorn Water Management Area, compiled by Gwendolyn Wellmann; J.S. Kemerink, L.E. Méndez, R. Ahlers, P. Wester, P. van der Zaag (2013). The question of inclusion and representation in rural South Africa: challenging the concept of Water User Associations as a vehicle for transformation. *Water Policy* 15, p. 243–257.

<sup>114</sup> The MSB I Final evaluation noted that "*there are reported research findings indicating improved relations between men and women as a result of serving on project steering committees. This includes decrease in cultural stereotypes around gender*".

<sup>115</sup> See *Estimation of Water Demand in Developing Countries: An Overview*. Céline Nauges Dale Whittington (2009), World Bank Res Obs (2010) 25 (2): 263-294. First published online: November 11, 2009. <http://wbro.oxfordjournals.org/content/25/2/263>

- In the second, we employ a difference-in-differences (DiD) analysis to examine whether there are any significant differences in the outcome variables between the provinces where the GoSA programmes were most intensively implemented (namely: Eastern Cape, KwaZulu-Natal and Limpopo provinces) and other provinces during the period of implementation.

The first approach shows that Masibambane expenditure is negatively correlated to access to water and sanitation, and this is not significant when Gauteng and the Western Cape provinces (the two better-off provinces) are excluded. One explanation for the negative relationship is that Masibambane expenditures are likely to be 'endogenous' (the programme has been implemented where the conditions were the worst).

The second approach extends the analysis to further investigate whether the provinces where the programme was most intensively implemented performed any differently to those where the programme was implemented less intensively. It shows that Masibambane is actually significantly correlated to the positive evolution in the outcome variable.<sup>116</sup> (see *Indicators 7.1.1* and *7.1.2*)

Although this analysis suggests that the programmes were associated with better outcomes, the estimates do not necessarily indicate a causal impact of the programmes on these outcomes. Some qualitative considerations can be developed to highlight such a causal link:

- Since the end of apartheid, with water becoming a strong political and financial priority, the sector has undergone major reforms, both in terms of the provision of water and sanitation services, but also in the management of water resources. All of which has substantially transformed the sector over the last two decades.
- During the period 2000-2011, Masibambane has focused on soft issues which have contributed to strengthen the on-going reform process (see also EQ5). Masibambane was mainly about strategic programmes complementing infrastructure development, in the hope of building a foundation for sustainability. In particular, the programme focussed on educating entirely new rural administrations about what water services entail and how to go about it. Hence, its focus on building capacities at local government level and promoting sector collaboration.
- Masibambane also funded much of the strategic planning of the sector (such as the Strategic Framework for Water Services and the National Water Resource Strategy), much of the research and development (as distributed by the Water Information Network of South Africa), and a number of innovative pilot programmes (such as the electronic Water Quality System) that DWA did in the regions and within the WSAs.

While broader GoSA efforts and funding mechanisms put in place (such as the Equitable Share and MIG) were key to profoundly influence the reduction of the infrastructure backlog, Masibambane contributed to accelerate the ongoing reform process. The MSB III Final Evaluation<sup>117</sup> describes well this contribution: "*Masibambane has provided a programme of sustained support and institution building which, since 2003, has brought together the 21 District WSAs to share their experiences and learn from each other. Together those DMs serve a third of the population - the poorest third - the third prioritized in current government policy. Support provided through Masibambane has been very important to these WSAs. This is where the value of the Masibambane approach has been so profound: in bringing together municipal roleplayers in workshops and regional forums to share information, municipalities learn about their roles and service options... Masibambane support has greatly assisted in accelerating the pace of infrastructure development to eradicate backlogs, with extensive support from DWA, DPLG/CoGTA/DCoG, DBSA and others helping municipalities to plan their capital development programmes and 'unlock' access to MIG, RBIG and ACIP funding and project manage implementation*".

In terms of improved water quality, during MSB III (2007-2010), it is noteworthy that DWA shifted decisively away from providing direct support to municipalities in this area, in favour of an emphasis on 'its own water services regulatory mandate'; the Blue Drop programme has been a major success of this initiative. The initiative not only moved the discussion away from simply monitoring the quality of drinking water but to actually ensuring systems and procedures were in place to effectively respond to the monitoring information. Thus, MSB has been actively involved in providing a more holistic approach to water quality, albeit one that is being undermined by poor maintenance or delayed maintenance, and plants operating at above their build capacities.

<sup>116</sup> The coefficient estimates for the DiD term are positive and significant (DiD=0.06 with a p-value<0.01).

<sup>117</sup> MSB III Final Evaluation (2012) - p.157-159.

However, important challenges still prevail in the sector. As highlighted above, important service delivery backlogs in terms of both water supply and sanitation can still be observed in several provinces and quality of water does remain a major concern.

In general, whilst access to water infrastructure has improved, the quality and quantity of the services have deteriorated; primarily operation and maintenance has failed to keep up with the installation of services. This is particularly visible in provinces such as Limpopo which was visited by the evaluation team in early 2013. As one interviewee noted *“municipalities were incentivised politically and by capital grants to focus on expanding coverage, and radically under-estimating what it takes to keep services working”*. The lack of capacities of certain key local stakeholders to assume new roles and responsibilities in service delivery has thus remained a major obstacle. In particular, in several areas, the system has expanded so rapidly that this could not be matched by a comparable expansion of capacities to sustain these developments. The 2012 DPME study on the “quality of sanitation in South Africa” also notes: *“The speed with which the bucket eradication programme was implemented did not allow municipalities sufficient time for proper feasibility assessments and project life cycle planning.”*

The Masibambane programme has contributed to address these issues over the period (see also EQ5). But, these challenges (not the least the strengthening of capacities at local level, an issue which can be observed in other sectors as well) are considerable and many were outside the ambit of the programme. Moreover, with the increase in the independence of municipalities, as a result of the rapid increases in the Equitable Share and MIG funding, the authority DWA had over local government has declined and thus reduced its ability to resolve these challenges.

### **Identification of determinant factors related to CSOs and community representatives participation in water sector**

Regarding CSO participation in the water sector, Masibambane did contribute to some success stories in this area. Yet, as highlighted above, participation has overall remained limited. There are three main reasons why there has been little observed change, namely:

- Confusion over the role of CSOs in the GoSA programme (MSB): From the outset (as noted in the final evaluation of MSB I) there has been confusion over the role of CSOs. The challenges that emerged in the implementation of the programme revolve largely around the nature and extent of civil society participation: *“The terms ‘meaningful involvement’ and ‘meaningful participation’ are used interchangeably”*<sup>118</sup>. Subsequent evaluations of *MSB II* and *MSB III* noted that this confusion remained. Coordination of CSOs within *MSB* was also poor. Evaluation reports, interviews and DWA’s own documents suggest that CSOs were not effectively coordinated by *MSB*, nor were CSOs effective in organizing themselves.
- ‘Training for the sake of training’: DWA and other state agencies did not manage to provide clear guidance on what role CSOs should play. Interviews with CSOs in Limpopo found that CSOs had repeatedly been offered capacity building training, but much of this training was seen to be *“generic, and of little practical use....and it certainly did not provide us with the means to effectively work in the sector”*.
- Financial resource not mobilised: the virtual collapse of the component of the programme focusing on CSO during the recent years, and the fact that the proposed funding for CSOs, as envisaged in the FAs for the three different phases of *MSB*, was never realized.

Regarding the increase in Water User Association (WUA) in catchments, there are two determinants of the observed changes, the first being the legislative imperative being enforced by DWA (namely the requirement to transform all Irrigation Boards into WUAs) and the second being the acceleration of the transformation process by DWA during *MSB III*.

The *MSB III* Final evaluation illustrates how the transformation process has been accelerated by this programme<sup>119</sup>. For instance, reference is made to the rapid progress that the Eastern Cape DWA team has made in transforming a number of irrigation schemes during *MSB III*. *MSB* funds were used directly to support the Eastern Cape programme, in particular via the provision of consultants to facilitate the social consultation (i.e. bringing local groups together to work out a common vision for their area) and via the provision of means to host meetings, facilitate disputes, etc.

<sup>118</sup> MSB I final evaluation (2004) - p.72.

<sup>119</sup> P.201 notes that in the 2010/2011 financial year, DWA has intensified its work on water management institutions (WMIs), including WUAs: *“This is evident as it is in the process of appointing service providers to support the establishment of CMAs and WUAs”*.

However, meaningful participation has remained problematic. This is often explained by the fact that new members of WUAs often have had limited exposure to water resource issues and lack the technical competencies.<sup>120</sup>

There are also concerns in terms of the financial viability of many WUAs. Whereas DWA has been effective in getting WUAs to emerge and has provided considerable capacity building support to WUAs, DWA has had no means to provide 'seed money' to WUAs. Many WUAs cannot become formal entities (i.e. they have no 'seed money' with which to open a bank account, rent an office etc.), leading to a vicious cycle – the WUA cannot raise its own money by billing users as the WUA is not formally constituted, but they cannot get constituted properly without some start-up funds. Moreover, National Treasury's strict application of the PFMA to WUAs (i.e. they are subject to the requirements of the PFMA) have created difficulties for many WUAs.

Overall, the sector does not have funding to sustain the small WUAs made up of 'resource poor farmers' all over the country. Interviews with DWA officials show that, now that MSB has ended, DWA has very limited means to help support and further strengthen existing WUAs and almost no means to build capacity/shape the setting up of new WUAs.

### **Identification of determinant factors related to Gender equality in the water and sanitation sector**

The gains made in terms of women participation in the water sector cannot be seen without taking the wider developments in the national legislative and policy framework and the broad efforts made by DWA into account. That said, Masibambane has actively supported and directly contributed to the evolution taking place in this area. The programme was important with respect to contributing to the increase documented here for a number of reasons, including:

- Supporting and facilitating the formulation of gender equality policies that promoted the importance of women in leadership positions;
- Supporting (through resources) the establishment of the Gender Unit within DWA;
- Championing gender equality efforts through the Water Services Sector Leadership Group (WSSLG);
- Recruiting women into key leadership positions in the programme, so that by the time of MSB III nearly all of the senior decision making positions were occupied by women;
- Supported (through resources) efforts to ensure every provincial DWA office had a gender co-ordinator;
- *"By Masibambane recognising the importance of mainstreaming gender in the water sector, the programme has elevated the significance of gender in the sector, especially with regards water services provision"* (MSB III Final Evaluation).
- At the project level, one of DWA's most visible achievements in gender mainstreaming efforts was the ability to ensure a 50% quota for participation by women in Village Water Committees according to interviews conducted in the Limpopo Province (with CSOs, WUAs and DWA provincial officials). Those interviewed reported that during MSB there was some evidence that women attending meetings regularly, were participating actively, were playing a leadership role, and that a subtle shift in behaviour could be seen when men trusted the decisions being taken by women<sup>121</sup>.

However, as highlighted above, efforts in terms of increasing participation of women in the sector have been hampered by the state of local government in South Africa, which is seen as largely dysfunctional.

Moreover, although data used to measure burden on women should be considered with care, the burden on women seems to have increased together with the deterioration of the quality and quantity of the services in the most vulnerable provinces (see above section related to JC7.2). In Limpopo, known as one of South Africa's poorest provinces with the highest proportion of rural dwellers, local stakeholders interviewed mentioned highlighted the fact that the province has a specific historical legacy, namely it is made of three ex-homeland administrations and always lacked certain key technical competences of some of the other provinces making the area more prone to failure in the water system. Moreover, due to poor water resources in much of the province, there is a widespread reliance on boreholes and groundwater, which generally means lots of discrete installations requiring regular

<sup>120</sup> This point was also raised in the MSB III MTR, p.45.

<sup>121</sup> The MSB I Final evaluation noted that *"there are reported research findings indicating improved relations between men and women as a result of serving on project steering committees. This includes decrease in cultural stereotypes around gender"*.

servicing (delivery of diesel, parts and so on) and vulnerable to breakdown (cable theft / copper theft, vandalism, mechanical failure and a dearth of electricians in rural areas). Thus, as services have deteriorated, this has increased the burden on women in certain areas.<sup>122</sup>

#### 4.8.5 Step 2 - Summary table - Water

The table below synthesises the factors determining changes observed at outcome and impact level. In particular, the table highlights the determining factors of economic and social growth, and the causal links between outputs of the Government strategy on the one hand, and outcomes and impacts of the Government strategy on the other hand. Inclusion of internal and external factors allows to better qualify the role of the induced outputs.

Table 12 Synthesis of factors determining changes observed at the outcome and impact levels (Step 2) - Water sector

GoSA Policies (induced output level in the IL) having contributed to	Influence →	Development Results	Influence ←	Other historical and/or policy interacting factors, and/or internal or external factors
<ul style="list-style-type: none"> <li>• Introduction of new sector strategies.</li> <li>• Transfer of water &amp; sanitation schemes to local government.</li> <li>• New approach to sector collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>• strong</li> <li>• strong</li> <li>• strong</li> </ul>	Increased access to water and sanitation although maintenance and operations has remained weak.	<ul style="list-style-type: none"> <li>• strong</li> <li>• strong</li> <li>• strong</li> </ul>	<ul style="list-style-type: none"> <li>• Contributing factor: Water has been a strong political and financial priority.</li> <li>• Contributing factor: funding mechanisms for local service delivery introduced over the past decades.</li> <li>• Limiting factor: Persistent weaknesses in capacities at municipal level.</li> </ul>
<ul style="list-style-type: none"> <li>• Masibambane Civil Society Strategic Framework.</li> <li>• Pilot initiatives to involve CSOs.</li> </ul>	<ul style="list-style-type: none"> <li>• absent to weak</li> <li>• weak</li> </ul>	Decreased participation of communities and CSOs	<ul style="list-style-type: none"> <li>• strong</li> <li>• weak</li> </ul>	<ul style="list-style-type: none"> <li>• Limiting factor: Persistent weaknesses in capacities at municipal level.</li> <li>• Contributing factor: clear national legislative and policy framework to CSOs engagements in the sector.</li> </ul>
<ul style="list-style-type: none"> <li>• Gender mainstreaming strategy and clear statements related to gender equality in sector policies.</li> <li>• Establishment of a Gender Unit within DWA.</li> </ul>	<ul style="list-style-type: none"> <li>• moderate</li> <li>• moderate</li> </ul>	Mixed results in terms of women participation in the sector	<ul style="list-style-type: none"> <li>• moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Contributing factor: Integration of gender in wider legislative and policy framework.</li> </ul>

<sup>122</sup> Although outside the scope of this indicator, poor service delivery has not only increased the burden on women, but it has sparked an ever growing number of public protests. Not only the ongoing 'bucket – toilet saga' in the Western Cape (<http://www.iol.co.za/news/crime-courts/nine-held-for-airport-faeces-dumping-1.1537654#.Uc0wiuvHQSQ>), but across the country. See also Tapela, Barbara (2012) 'Social water scarcity and water use', Report to the Water Research Commission, WRC Report No. 1940/1/11 who argues that "Inequitable access to water has since 2004 become juxtaposed with an exponential increase in social protests". Also, Alexander, P. 2010. Rebellion of the poor: South Africa's service delivery protests – a preliminary analysis. Review of African Political Economy 37(123):25–40; Habib, A. 2010. The state of the nation and its public service in contemporary South Africa: A critical reflection. Administratio Publica 18(3):2–24.

## 4.9 EQ8 (Step 2) - Governance (Access to justice & Legislative)

**Evaluation Question 8: To what extent, in the sub-sectors of access to justice and legislative, have the development outcomes targeted by the policies and programmes supported by SBS been or are being achieved? And which have been the determining factors of their achievement?**

### **Overall answer to the Evaluation Question**

Overall, in the two subsectors (Justice and Legislative), the outcomes as defined and targeted by DoJCD and SALS (and established in the SBS FA) have been achieved.

In the Justice Sector targets have even been surpassed before the agreed deadline. A network of paralegal and other services at community level has been made accessible for marginalised groups through an innovative support mechanism involving the Foundation for Human Rights. There is evidence that people use and appreciate such alternative services delivered by civil society in areas such as trauma counselling, alternative dispute resolution, community conflicts, discrimination in marginalised communities, cases treated of undocumented migrants and asylum seekers, etc. Sensitisation and awareness of a large number of citizens on constitutional rights have improved, although it remains difficult to assess the depth of such achievements. Finally, there are signs of a better democratic participation within some of the communities in which FHR has provided assistance.

The 'institutionalisation' of the Legislative Sector has been strengthened during the implementation of the LSPSP. There are cycles of joint strategy development and operational planning among national and provincial legislative stakeholders in key sector areas such as oversight, HR and legislative functions. Harmonisation and joint stock-taking has taken place in promoting participative democracy, with evidence of an increased capacity by Parliament and provincial legislatures to reach out to marginalised groups and communities. And though it is early days to make affirmative statements about the improvements in capabilities of members of Parliament and the provincial legislatures, data show that some 400 members of SALS have obtained certification from different South African universities, human resource systems are being strengthened, and collaborative mechanisms between various components of the Legislative Sector have been enhanced, which also contributed to a more effective engagement with other institutions such as the Auditor General's office and the Financial and Fiscal Commission. South Africa's legislative sector has further institutionalised and diversified its international outreach and cooperation with legislative bodies in the Southern African region, in Africa and throughout the world, thereby enhancing the potential for South-South cooperation. Still, these changes don't allow for further conclusions about the deeper outcomes in terms of SALS capacity of rigorous oversight over the Executive or its legislative functions.

The identification of the determining factors for the observed changes in the two sub-sectors can be supported by considerations on the political, institutional and socio-economic environment that create political incentives for key actors.

First, the factors that determine the achievements in the justice sector (improved access to justice for marginalised groups, enhanced rights awareness, and strengthened citizen and civil society capacities, including for grant management) were made possible through the innovative cooperation between DoJCD and specialised non-state actors, such as the Foundation for Human Rights and others. This approach also strengthened the sector policy to improve regular state-civil society relations in the justice sector and the Justice, Crime Prevention and Security Cluster. This in turn contributed to better informed policy processes, which is an essential contributing factor of participatory democracy.

Secondly, LSPSP has contributed to the already on-going efforts by key Legislative Sector stakeholders to *institutionalise* the sector. Formal 'rules of the game' have been adapted to emerging needs, systems have been harmonised, financial, managerial and HR functions have been strengthened, and LSPSP has contributed to stronger connectivity between Parliament and the nine Provincial Legislatures, and between the South African Parliament and international or external legislative bodies. It is, however, still too early to confidently state whether these achievements have already contributed to envisaged sector outcomes such as improved oversight, law-making, representation and strengthened democratic guidance.

To more fully appreciate the impact of both governance programmes, it is appropriate to contextualise them in the political-institutional environment. This environment was characterised by institutional strengthening in certain sectors (including justice and the legislative sectors), but also by the challenges of a young constitutional democracy with rising expectations and "*state-citizen relations that have to*

*improve to avoid instability*<sup>123</sup>. Both programmes have considerably contributed to enhance incentives and citizen demands on DoJCD, the Legislative Sector and other departments for improved service delivery (justice), participation (justice and LS) and gradual uptake of policy innovation (justice and LS).

**Evaluation Question 8a: To what extent the main development outcomes identified as SBS targets have been achieved?**

**4.9.1 Access to Justice and Constitutional Rights: improved access through new structures and tools (JC8.1)**

In the key performance areas that are targeted by DoJCD, all targets have been met or surpassed well before the finalisation of the SBS. This includes the number of new Community Advice Offices established, the number of new Equality Courts or the number of new cases diverted to Alternative Disputes Resolution Mechanisms ADRM).

Interestingly, case management by all courts dropped in the year 2010/11. Yet, this was compensated by the considerable increase of justice served by means of ADRM. Such mechanisms include diversions after enrolment, matters diverted in terms of the 'Child Justice Act', and informal mediations. (see also *indicator 8.1.1*)

When looking at beneficiaries' perception related to the above achievements, it is important to distinguish between two categories of beneficiaries. The first group are the direct (or intermediary) beneficiaries, i.e. the CSOs (including Community Based Organisations) that receive grants through FHR for delivering services in one or more of the three key performance areas of the Access to Justice programme: improved access to justice, greater awareness of constitutional rights and enhanced participatory democracy. The second group are the ultimate beneficiaries, citizens (or communities) who benefit from these intermediary actors (the CSOs or the grantees) or from the policy innovations that are being introduced and implemented by the departments with whom FHR cooperates in certain key performance areas.

All indicators monitored by the DoJCD in the programme are either process oriented or are quantitative outcome indicators. Examples of achievements measured by these indicators include establishment of Equality courts to total of 382 in 2012 (up from 220 in 2007), Community Advice Offices (46 in 2012, increase from 18 in 2011), and increasing numbers of cases diverted through alternative dispute resolution (10,600 cases in 2011/2012 against a target of 7,600).

FHR has produced additional diagnostics and sampled experiences from its work with poor and underserved communities. Studies, stories and evaluations of particular areas of its work provide useful additional information on both process and the various types of outcomes and responses from different stakeholders, including the target audience, i.e. the weak and the vulnerable or the underserved communities. The examples collected by FHR include stories of grantees and beneficiaries of counselling, such as Nonhlanhla Mfuzi, who had been seriously injured and managed to obtain a disability grant, or the experience of an unnamed woman, whose husband was shot and trauma counselling facilitated her emotional healing. FHR also presents the accounts of counsellors and trainers working within these programmes, such as the Khulumani Support Group, which seeks to educate and support widows, and is often faced with deep-rooted cultural and societal attitudes, which limit their achievements.

Overall, one can conclude that access to justice for marginalised groups has improved, and there are clear indications of enhanced potential for policy innovation at the sub-sector level.

**4.9.2 Access to Justice and Constitutional Rights: improved awareness (JC8.2)**

In this key result area of the DoJCD, one can distinguish two types of initiatives undertaken within the programme to improve the awareness on constitutional rights. There are those initiatives 'broadcasted' to broader categories of viewers and listeners, largely through the public broadcaster. Secondly, there are smaller scale projects initiated and implemented by a host of smaller CSOs and usually targeted to communities.

A partnership between the department and the public broadcaster resulted in an educational radio programme (Justice on the Airwaves), which reached a wide audience. The target for this KPI has been largely met. FHR undertook an audit on the existing initiatives and sensitisation material on constitutional rights awareness. It also produced a baseline survey on attitudes vis-à-vis and knowledge

<sup>123</sup> National Planning Commission (2012) - Institutions and governance diagnostic (p 16)

about core constitutional principles and provisions<sup>124</sup>. Over time, such baseline study may help assess changes in attitude or awareness about constitutional rights. No follow-up surveys have been undertaken so far for this purpose. It is possible to state that the intermediate outcome of establishing local broadcasting and public discussion capacities on constitutional rights has been achieved, but the results of the surveys will tell whether the actual awareness has significantly improved and the related behaviours have been affected.

Under the second small-grants component 169 CSOs had received grants for all sorts of outreach or sensitisation activities on constitutional rights, as well as the new 'Promotion of Equality and Prevention of Unfair Discrimination Act'. Other initiatives included public policy dialogues on various human rights issues, a research programme on refugee women and unaccompanied minors, dialogues on immigration rights with CSOs, and a workshop of donors and CSOs to discuss coordination on refugee issues<sup>125</sup>. The Orange Farm Human Rights Advice Centre illustrates well the range of initiatives that are developed by such community-based organisations. The advice centre combines sensitisation on constitutional rights with a social action portfolio stretching from environment, informal economy, social and cultural resilience, service delivery, child care, and advocacy through networking and civic activism. Through its work with specialised NGOs and academia and its work on 'people's stories' FHR tried and tries to gain better insight into the nature of change processes through (organised) citizens' engagement with public authorities, and the role that knowledge about rights plays. (see *Indicators 8.2.1 & 8.2.2*)

As in the case of broadcasting, while it is hard and too early (as the surveys planned have not yet produced enough information) to assess changes in perceptions, awareness levels and attitudes with the ultimate beneficiaries, and contribute possible detected changes to particular actions (such as specific media campaigns) or contextual variables, first findings of the FHR diagnostics indicate improved levels of awareness among certain target groups.

#### **4.9.3 Access to Justice and Constitutional Rights: capacities of key stakeholders have been further developed, and participatory democracy has enhanced (JC8.3)**

FHR has undertaken two diagnostics: one that helped clarify the perceived needs in the CSO sector<sup>126</sup>, and one post-training survey<sup>127</sup> that provided relevant findings of FHR's capacity training roll-out with sixteen project partners with whom FHR had service agreements for capacity strengthening of smaller CSOs. The difference in capacities between the various categories of CSOs also becomes clear throughout the vetting process of project proposals and CSOs that introduce them (Discussion Group, FHR 25 January 2013). A strong, recurrent characteristic with all the surveyed CSOs<sup>128</sup> was that despite numerous practical problems and a range of critical comments as to the pertinence of some of the capacity services provided, "*almost all participating organisations and individuals warmly embraced and greatly appreciated the opportunity to be part of these capacity building projects*" (McKinley, Post Training Survey: 6).

Multiple initiatives within the GoSA programme *Access to Justice* illustrate the areas in which participatory democracy has 'come alive' through a host of civil society actors, ranging from the very sophisticated (operating usually at multiple government levels) to the more localised community based organisations. One can appreciate the difficulties in monitoring and measuring outcomes in the area of 'participatory democracy' when one takes into consideration the highly diversified nature of civil society and the multitude of forms that such 'participation' can take (ranging from well-structured state-society exchanges in well-orchestrated forums to the other extreme of the 'hustle and bustle' of often unpredictable social activism in cities, townships and even rural areas, often around charged notions of injustice, inequality, and citizen discontent about the lack of responsiveness of public authorities, and the unequal or insufficient provision of public goods.

There is evidence of sophisticated CSOs, social movements, community-based organisations, and lobby groups that have combined different stratagems and action models, and have engaged at multiple

<sup>124</sup> *Foundation for Human Rights. Baseline Survey. Awareness, Attitudes and Access to Human Rights. August – September 2010*

<sup>125</sup> See the footnote above on the intermediate outcomes and the nature of the grantees CSOs

<sup>126</sup> McKinley, D.T. (2012) *Analysis and Research Support in Phase 2 of Implementation (2011-2012) – Capacity Building of CSOs.*

<sup>127</sup> McKinley, D.T. (2012) *Post-Training Survey: Capacity Building for CSOs*

<sup>128</sup> Twelve-thirteen individuals, drawn from a cross-section of those who attended one or more of the capacity building interventions were asked to fill in a questionnaire. A total of 163 questionnaires were completed and returned.

levels with state and other non-state actors, including media. Depending on the leadership, network and organisational capacity, such organisations may mobilise citizens as voters or consumers<sup>129</sup> thereby creating political incentives at different policy and political levels. FHR provided a range of support services: funding to grantees, capacity development, networking facilities, and the conduit for policy feedback loops to key departments on policy implementation challenges and experiences. Despite the tensions that such CSOs may have on the body politic, DoJCD has not been alienated in the process of engagement with FHR.

In other words, there is evidence that capacities of a number of civil society stakeholders has improved in various areas relating to community mobilisation and awareness raising (including practical issues of obtaining and managing grants and benefits), and that DoJCD has succeeded in enhancing 'participatory democracy' in the area of improving access to justice. In the process, this has resulted in more informed policy processes.

#### 4.9.4 Legislative Sector: Public participation and representation (JC8.4)

Through a range of public participation initiatives the Legislative Sector has engaged with marginalised and vulnerable citizens, incl. women's and youth parliaments and 'Taking Parliament to the People/People's Assembly' events. Moreover, citizens have access to all sittings of the House as well as standing and portfolio committee meetings. Petitions are also a recognised means for the public to register dissatisfaction with the implementation of legislation through legislatures. The application has been regulated through legislation or internal processes in all legislatures through a Petitions Framework. Legislatures conducted more public hearings, organised public education initiatives, made numerous laws and held open committee meetings at national and provincial levels. These initiatives are well documented (see *Indicators 8.4.1* and *8.4.2*), but it proved harder to assess how the public appreciated these efforts and what the effects were in terms of the intended outcomes.

Some concerns have been raised within and outside SALS that the impact on the quality of participation and representation may be less than optimal as these efforts may become ritualistic or event-oriented (I-841), and that others may not automatically deepen public participation. The Speakers' Forum has taken a central role in promoting a more strategic and coherent Public Participation Framework in response to such concerns, but also triggered by a few Constitutional Court rulings that declared legislation invalid because Parliament failed to take "reasonable" steps to enable public involvement. This judicial sanction has helped clarify the constitutional obligation to provide for specific forms of participation with respect to law-making processes. Furthermore, this legal imperative has given a strong impetus for the Speakers' Forum to take public participation in law-making processes more serious<sup>130</sup>.

The Speakers' Forum contracted two studies, one of which surveyed perceptions of Members and Officials of Parliament and Provincial Legislatures, and one sampled public perceptions or public participation at provincial level. The reports were so varied that it was not possible to obtain unfiltered citizens views on public participation in the provinces, but they confirm the concerns about the lack of preparation, management of information, transparency, and managerial discipline in ensuring that public participation becomes more than a "*mere exercise in consultation and information sharing*" (Public Participation Report: 33). The survey among members and officials confirms this reductionist interpretation of public participation as "*consultation*" rather than one of "*deliberation and power sharing*" (Public Participation Report: 28). The Legislative Sector was still discussing the findings of the studies and the implications of a future Public Participation Framework, but a Discussion Group between the evaluation team and members of SALS (see *Indicator 8.4.1*) demonstrated interest in more effective public participation.

On the basis of the available information it seems clear that effective public participation is a strong priority for the sector and that the *LSPSP* provides a key contribution to strengthen and monitor it, although it remains difficult to provide unambiguous evidence on whether the functions of participation and representation have actually improved.

<sup>129</sup> Both dimensions are likely to create tensions and risks for citizens and often also for public service providers involved. One of the most repeated external or contextual challenges raised by project partners in the McKinley post-training survey (see note 8) is the pervasive climate of fear and intimidation – whether from the private or public sectors and individuals) especially but not exclusively in activities related to human rights, to "voice" and to advocacy activities of rural and farm dwellers.

<sup>130</sup> Already in 2006, the *Birchwood Conference* brought together stakeholders from SALS, academia and civil society to find responses to the repeated constitutional challenges by civil society to public participation

#### 4.9.5 Legislative Sector: Oversight skills and roles of National and Provincial parliaments (JC8.5)

Measures have been taken to improve oversight skills of Parliament and provincial legislatures, and to ameliorate law-making roles. Yet, insufficient data or evidence could be collected to make reliable statements about actual improved outcomes on these highly politically sensitive functions of oversight over the Executive by the legislatures and deliberative and of participatory processes required for effective law-making.

Elements that help appreciate oversight skills and law-making roles include:

- In 2010 the Legislative Sector finalised an ‘Oversight Model for the Legislative Sector’, which provides guidelines for legislature oversight. Information workshops were conducted with the Members of Parliament and of the Provincial Legislatures on the oversight model. A total of 335 members attended the course on *Democratic Governance and Legislative Processes* (2010/11) and the chairpersons of the various Standing Committees completed an induction programme, which included oversight training.
- The Money Bills Amendment Procedure and Related Matters Act (2009) is an important oversight tool that was introduced to enable Parliament and the Provincial Legislatures to hold the Executive effectively accountable on budget planning and execution. As of 26 February 2013, a dedicated support office has been officially created within the LS, the Parliament Budget Review Office, and Members of the legislatures have been trained in the assessment of procedures to amend Money Bills and the compilation of quarterly reviews and recommendations. It is anticipated that such roles, new (research) functions of the Parliament Budget Review Office, strengthened capacities and the promotion by the National Treasury and the South African Local Government Association of the Municipal Accounts Committees may energize the oversight functions of the Legislatures at different levels of governance. Moreover, performance targets are now to be monitored on a quarterly basis (with departments being required to fill in quarterly targets and having to report against them).
- The introduction and shift since the 2011 Medium Term Expenditure Framework towards including a functional classification of the budget with the rest of the budget documentation “*is believed to have led to increased budget credibility, improved transparency and accountability as well as a stronger political oversight and efficiencies in allocations*” (SBS Tranche Payment Request 2012, p. 19). Government and departments are now expected to submit information with regards to donor funding (both financial and in-kind) as part of their annual reports, creating thus new incentives and possibilities for improved oversight by the legislatures.

In the context of this evaluation, views were solicited from a number of civil society actors, which echoed some of the key findings from the Independent Panel Assessment of Parliament (see also *Indicator 8.4.2*). CSO interviewees confirmed that parliament had taken measures to enable engagement with the public, but they also pointed to two types of persistent flaws:

- One relates to organisational matters such as transparency and problems of reliability and predictability in the agenda setting (for example last minute changes).
- A second type of hurdles is more systemic in that it relates to the institutional incentives that militate against an assertive oversight role by legislatures. Indeed, its members rely heavily on the endorsement of political parties in the context of an electoral system with closed lists and proportional representation. This places “*tremendous power with the leadership of all parties*”<sup>131</sup> and reduces incentives for accountability towards citizens.

Evidence of improved oversight and law-making roles of the legislatures is illustrated and documented through a few concrete cases. Some of these cases involve outside pressures and demands from civil society and citizens, rather than autonomous or sector generated improvements. Other cases – such as the strengthened roles for oversight over the Executive in budget matters – indicate the incentives created through a stronger institutionalisation of the legislative sector. This improved institutionalisation involves or includes, inter alia, an improved regulatory and legal framework and arrangements for oversight and strengthened relations with the Auditor General of South Africa.

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<sup>131</sup> Barkan, J.D., Mattes, R., Mozaffar, S., Smiddy, K. (2010), *The African Legislatures Project: First Findings*. CSSR Working Paper No 277

#### 4.9.6 Legislative Sector: Improved human and financial resource management (JC8.6)

The Legislative Sector has been financially and managerially strengthened through some of the realisations dealt with in JC 8.5 (see previous sub-section). and other achievements that include the development of a generic *Legislative Sector Performance Appraisal Framework* during 2010 (see *Indicator 8.6.1*), the implementation of a three pronged Capacity Building Plan for its members (with almost 400 members of Parliament and Provincial Legislatures receiving their tertiary certificates in May 2013), and a training schedule for staff members (based on an interim staff capacity building plan for the LS). A Sector Human Resources Management Strategic Framework was envisaged to be finalised during 2013. This will address the competency framework for job categories in in the sector as well as the orientation framework for Members of Parliament and the Provincial Legislatures.

Public finance management in the dynamic LS has improved in the previous years and reforms are still ongoing. The 2010/11 audits present a “*significantly improved*” financial management environment. There is a closer working relationship between LS and the Auditor General since the start of the 4<sup>th</sup> Parliament, resulting in assistance to the Speakers’ Forum to exercise close oversight over the administration of the legislatures. (see also *Indicator 8.6.1*).

The *Financial Management of Parliament Act* was enacted in April 2009, and aims to regulate the financial management of Parliament in a way that is consistent with the terms of the Constitution. The Provincial Legislatures proceeded to develop their own legislation in line with the norms, standards and regulations of the FMPA. But after the Constitutional Court challenged one of the *Provincial Legislature Bills*, the LS is now developing a draft amendment to the FMPA to incorporate all Provincial Legislatures into the national legislation before the deadline of 9 September 2013. In the interim, Provincial Legislatures operate under the current legislation relevant to them.

#### 4.9.7 Legislative Sector: Parliament and the Provincial Legislatures have strengthened their role for democratic guidance (JC8.7)

On the basis of the outputs monitored by the Legislative Sector or the parliamentary records (annual reports, etc.) it is hard to make an informed judgement on whether parliament has strengthened its ‘democratic mandate’ or to provide evidence of the degree in which it has improved on democratic guidance. In the context of this evaluation, evidence or examples of improved sector performance that hold the promise of strengthening the legislatures’ role for democratic guidance includes:

- Public participation: more systems have been put in place to facilitate such participation, and a number of manifestations of more strategic engagement with civil society actors. There is a positive appreciation of this potential by CSOs. New Public Participation Framework and model may further contribute to harmonisation of approaches and peer learning. The EUD’s Variable 2<sup>nd</sup> Tranche Payment Request judges that the “*strengthening of relations between the Legislative Sector and civil society*” is “*another positive development*”.
- Law-making: there is a stronger drive for Parliament to ensure that the minimum requirements to implement the constitutional principle for public participation in law-making is guaranteed, as the Constitutional Court has already ruled against legislation that failed to provide evidence of “reasonable” steps enabling public participation.
- Oversight function: as Commissioner for the Legislative Sector (Financial and Fiscal Commission) indicated, the potential of Parliament to provide more effective check and balance function in the budget oversight (with a ‘credible threat’) has been strengthened by a) the legal framework of the Money Bills Amendment Procedure and Related Matters Act (2009), b) the newly created research capacity of the Parliament Budget Review Office (February 2013), and c) the targeted capacity development programmes of Members of Parliament as the “*terminology and concepts around fiscal policy and public finance management underpinning the budget is often very technical and can be quite intimidating*”.<sup>132</sup>
- International outreach and cooperation: the international mandate of Parliament has been better implemented and new indicators and targets have been integrated in the LSPSP. Between EU and South Africa this has resulted in high profiled visit of a delegation of South Africa’s Parliament to the European Parliament and vice-versa.

The legislatures have been enabled to strengthen their information, consultation and analytical base, for example in the strategically important area of oversight over budget processes. It is much harder to

<sup>132</sup> Commissioner Ajam also provides such capacity training. Financial and Fiscal Commission (2012), *Budget Analysis for Effective Fiscal Oversight. A Training Workshop*.

make affirmative statements about improvements in strategic discussions on human rights and what has contributed to such improvements. The case of the constitutional right of citizens to information clearly demonstrates that the improvements to the *Protection of State Information Bill* as introduced in the new version were introduced after and because of pressures of the media, citizens, and the groundswell that was mobilised by specialised civil society organisations such as the Right2Know. (see also I-852)

#### 4.9.8 Identification of the determinant factors

##### Evaluation Question 8b: *Which have been the main factors responsible for such achievements?*

#### ***Politico-institutional context for the Access to Justice programme and LSPSP***

When identifying determining factors for the achievements dealt with under EQ8a, it helps to reflect on the politico-institutional environment in which the policy support programmes were implemented. Although the entry points for the two programmes are very different, both touch on the core constitutionally enshrined principles of citizen participation and participatory democracy. Both programmes also support policy innovation and piloting in a middle-income country that is a vibrant democracy with major economic, socio-political and institutional challenges.

The broader political and institutional environment in which these programmes were designed and implemented are well articulated in the *National Development Plan 2030*<sup>133</sup> and its supporting diagnostic studies. After broad and in-depth consultations by the *National Planning Commission*,<sup>134</sup> the GoSA accepted the NDP 2030. The diagnostic studies clearly acknowledge government failures: in many areas “*service delivery has fallen dramatically short of expectations (...) because people live in areas where the state fails to meet its constitutional obligation*” (NPC, Institution and governance diagnostics, p.3) and the NPC goes further and warns for the dangers of unaccountable and unresponsive government: “*In recent years, citizens have resorted to protest action, sometimes violent, to draw attention to their demands. Many communities are frustrated and feel their voice is not being heard through formal channels. There is an urgent need to create more constructive forms of engagement*” (idem, p.16).

Despite positive achievements linked to government realisations since 1994 in terms of extending public service delivery in areas ranging from housing, water, health, education, to social protection schemes, etc.<sup>135</sup>, inequality (as measured by the GINI coefficient) has gone up since 1994, unemployment rates remain high and major challenges persist in certain social sectors. There is a sense that in government’s responses to historic wrongs far too often “*equity trumped performance*”, referring to the political appeal of policies and practices that signal visible and often symbolic changes instead of those promising deep, institutional transformation with enhanced quality of service delivery and public service performance.

These combined dynamics have resulted in a “*growing number of protests across the country*” that increasingly turn violent (NPC, idem, p.16). To curb the danger of instability in *state-citizen relations* mere symbolic measures won’t suffice and purposeful engagement between state and citizens to strengthen accountability systems is needed rather than what are perceived by the public as “*meaningless exercises in participation through ward committees, public meetings and the like*”<sup>136</sup>.

#### ***Identification of the determining factors - Justice and Constitutional Rights***

Some of the outcomes achieved in the areas under consideration (in particular, see above findings related to JC8.1 to JC8.3) can be considered a relatively direct consequence of GoSA policies and measures under the *Access to Justice* programme. The programme managed to reach targets in all key results areas (see Indicators 8.1.1, 8.1.2, 8.2.2 and 8.3.1). Qualitative assessments carried out indicate that such results are closely related to government’s strong policy ownership in combination with effective partnership arrangements with FHR, which acted as a conduit for engaging a wide diversity of civil society organisations and provided grants. These grants contributed to enabling these

<sup>133</sup> National Planning Commission (2012), *The National Development Plan 2030. Our Future - Make it work*, The Presidency Republic of South Africa.

<sup>134</sup> See: diagnostic chapter “Institutions and governance diagnostic”, National Planning Commission (2012).

<sup>135</sup> Interview with senior staff at the Institute of Race Relations May 2013.

<sup>136</sup> The study the NPC refers to is: Tapscott, C. (2007). “The challenges of building participatory local government”, in: Thompson (ed) “Participatory Governance: Citizens and the State in South Africa”, Belville: University of the Western Cape.

organisations to provide services, to undertake sensitisation activities, or to engage public authorities, engagements and initiatives that would otherwise not have taken place in the same quantity or may not have taken place at all.

The DoJCD ensured its strategic and policy guidance and monitoring, and provided the financial resources. FHR added value by developing credible and effective ways of identifying and financing civil society service providers in underserved areas and communities, including CSOs that can strengthen capacities of grassroots or community based organisations. This helped widen the range of CSOs and the access to services in the key performance areas as targeted and financed by government.

But FHR, in collaboration with DoJCD, also acted as an enabler, incubator and facilitator for policy innovation and piloting. It did so in direct and indirect ways. FHR directly engaged with the department in regular and purposeful ways on policy implementation challenges and provided feedback to the realisation of the programme. It also contributed in indirect ways, in that it supported third party actors – other civil society organisations – that often combine service delivery and policy dialogue with a challenge function of public authorities at different levels. This way they may create political incentives for policy changes, improvements or implementation of policies that are already in place but not implemented yet.

The political and institutional context in which the *Access to Justice* programme came about and was implemented was conducive for the types of outcomes of this programme and its policies. There were, for example, the efforts by the President's Office to encourage greater coordination of government departments in support of 12 strategic priorities or outcomes. Two directly relate to DoJCD's areas of responsibility: outcome 3 ("*all people in South Africa are and feel safe*"), and part of outcome 12 ("*an empowered, fair and inclusive citizenship*"). A *Department for Performance and Monitoring and Evaluation* was created in the Presidency with the purpose of strengthening transparency and accessibility of information on objectives and implementation of developmental policies. Such transparency "*can help both political leaders and citizens identify where government is falling short of their expectations.*" (NPC, Institution and governance diagnostics: 14). These high level efforts have created institutional incentives that are likely to have strengthened departments such as DoJCD, which was entrusted with coordination and monitoring functions in departmental clusters and created further political legitimacy to engage purposefully and in structured ways with civil society.

'Participatory democracy' [called for in the Constitution of South Africa, section 70(b)] implies relations between state and society that are sufficiently institutionalised, which is not yet the case in such a young middle-income democracy with an extreme degree of inequality, and a combination of fairly developed modern institutions with persistent informal and traditional or neo-patrimonial 'rules of the game'. In this respect, the National Planning Commission points to the need to combine formal institutions (laws, written rules and regulations and the modern rule based state apparatus) with participatory approaches to accountability (idem: 20). This reflects high level endorsement and encouragement for citizen participation combined with state activism in order to remove hurdles on the way to a "*capable and developmental state*", creating probably the type of incentives that help strengthen the partnership relations and linkages between department and FHR/CSOs, and may have further stimulated the uptake of FHR inputs in departmental and 'Justice, Crime Prevention and Security' cluster policy processes.

### ***Identification of the determining factors - Legislative Sector***

President Mandela congratulated the First Parliament at its last session (26 March 1999). Yet Mandela's closing remarks before Parliament also contained a warning and extended an invitation to "re-examine our electoral system, so as to improve the nature of our relationship, as public representatives, with the voters"<sup>137</sup>. The politics of consensus-seeking, deliberations and negotiations and the cross-party work that marked the First Legislature have gradually given more way to the dynamics of dominant party politics. South Africa's party-list electoral system encourages Members of Parliament and the Provincial Legislatures to be accountable to their party rather than the electorate<sup>138</sup>. Furthermore, political parties have unconditional power to remove their members from Parliament. The Independent Panel has analysed the problems with accountability, with the links between public and Parliament, or with the broader participatory democracy agenda. It openly identified the political incentives inherent to South Africa's electoral system as an important explanatory factor for the lack of accountability and responsiveness to citizens (Independent Panel: 36).

<sup>137</sup> President Nelson Mandela, at the closure of the First Parliament, 26 March 1999 (quoted in: Independent Panel: 35)

<sup>138</sup> Calland (1999), "The First Five Years"

On the other hand, *LSPSP* has operated in this context and has been the condition for the legislatures to evolve over time and strengthen their capacities to respond to their constitutional role. Rules and regulations have been adapted, systems have improved and harmonised, key functions (including financial, managerial and HR functions) have been ameliorated, and capacities for public outreach and international cooperation have extended. These realisations, as supported or facilitated by a well embedded Legislative Sector Support<sup>139</sup>, enabled connectivity between Parliament and the nine Provincial Legislatures. There was a tendency for the different legislatures to emphasise their mandate as ‘independent institutions’ with the risk of fragmentation. This risk was reduced by initiatives to connect the legislatures, improve collaboration between and governance of the various SALS structures, and to streamline and harmonise processes underpinning sector development. This way, the potential was created for peer pressures and collaborative sector arrangements, a potential that could be tapped by other state checks and balance institutions such as the Auditor General and the Financial and Fiscal Commission, as well as a potential for more effective human resource development (see JC 8.6 and JC 8.7).

This institutionalisation process in the Legislative Sector has created or strengthened opportunities and incentives to improve outcomes in the key performance areas of oversight, law-making, participatory democracy and regional and international outreach. Other factors related to the political context, as mentioned above, may have worked in different directions.

So, while it is safe to assert that *LSPSP* has supported the on-going process of gradual institutionalisation of the Legislative Sector, it is too difficult to make statements with sufficient confidence about the direction this sector development process takes in terms of improved oversight and law-making functions. Clearly, one also has to look beyond the technical and managerial aspects of sector improvements, and inculcate political systemic dimensions (such as electoral system design) and the day-to-day political dynamics<sup>140</sup>.

#### 4.9.9 Step 2 - Summary table - Governance

The table below synthesises the factors determining changes observed at outcome and impact level. In particular, the table highlights the determining factors in both governance sectors, and the causal links between outputs of the Government strategy on the one hand, and outcomes and impacts of the Government strategy on the other hand. Inclusion of internal and external factors allows to better qualify the role of the induced outputs.

Table 13 Synthesis of factors determining changes observed at the outcome and impact levels (Step 2) - Governance sector

GoSA Policies (induced output level in the IL) having contributed to	Influence →	Development Results	← Influence	Other historical and/or policy interacting factors, and/or internal or external factors
<ul style="list-style-type: none"> <li>Strengthened policy<sup>141</sup> implementation for access to Justice and Constitutional Rights in the poorest areas, esp. via co-operation with CSO and testing of alternative service delivery provision.</li> </ul>	<ul style="list-style-type: none"> <li>strong</li> </ul>	<ul style="list-style-type: none"> <li>Improved access to justice through newly established structures and tools, including diversion through alternative dispute resolution.</li> <li>Improved access for marginalised groups.</li> </ul>	<ul style="list-style-type: none"> <li>Strong</li> <li>strong</li> <li>moderate</li> <li>strong</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>Long and strong tradition of Civil Society in human and constitutional rights</li> <li>High level political steer</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Under-resourced department in a context of extreme inequality, intense modernisation/globalisation and a strong persistence of traditional institutions</li> <li>Increased expectations and use</li> </ul>

<sup>139</sup> “The establishment of the LSS within Parliament is a unique phenomenon in which Parliament provides administrative support that services the entire Legislative Sector”. (Parliament of the RSA (2012) *The Annual Report 2011/12*)

<sup>140</sup> Or as the National Planning Commission’s diagnostic on institutions and governance states: “Improvements in parliamentary oversight are unlikely to be achieved through changes to formal structures. As Butler argues, “ultimately any executive is held to account not by careful institutional design but by the efforts of a country’s citizens using the full range of its political institutions and associations.” (Butler 2009).” (Institutions and governance diagnostic: 15). Butler A. (2009), *Contemporary South Africa*. Basingstoke: Palgrave Macmillan

<sup>141</sup> DoJCD Medium Term Strategic Frameworks – Programmes 2 (Court services) and 3 (State legal service) and Strategic Plan for years 2012-2017.

<b>GoSA Policies (induced output level in the IL) having contributed to</b>	<b>Influence</b> →	<b>Development Results</b>	<b>Influence</b> ←	<b>Other historical and/or policy interacting factors, and/or internal or external factors</b>
			<ul style="list-style-type: none"> <li>• moderate</li> </ul>	by citizens of courts and improved access to justice sector institutions <ul style="list-style-type: none"> <li>• A civil society sector under duress (increasing demands and reduced external funding)</li> </ul>
	<ul style="list-style-type: none"> <li>• moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Improved awareness and knowledge of constitutional rights.</li> </ul>	<ul style="list-style-type: none"> <li>• moderate</li> <li>• strong</li> <li>• strong</li> <li>• moderate</li> </ul>	<i>Contributing factors:</i> <ul style="list-style-type: none"> <li>• a strong and free press</li> <li>• a vibrant and layered human rights civil society and research community.</li> </ul> <i>Limiting factors:</i> <ul style="list-style-type: none"> <li>• Lack of access to communication and information technology, illiteracy, city/rural areas divide, the multitude of languages, high levels of poverty</li> <li>• Insufficient institutionalisation of relations between state and society</li> </ul>
	<ul style="list-style-type: none"> <li>• moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Capacities of key stakeholders were strengthened (especially CSOs) in promoting participatory democracy.</li> </ul>	<ul style="list-style-type: none"> <li>• strong</li> <li>• moderate</li> <li>• moderate</li> </ul>	<i>Contributing factors:</i> <ul style="list-style-type: none"> <li>• Strong and diversified playing field of civil society actors</li> <li>• Fairly open access to state actors in a young constitutional democracy</li> </ul> <i>Limiting factors:</i> <ul style="list-style-type: none"> <li>• Continued reduction in donor support for key civil society actors</li> </ul>
<ul style="list-style-type: none"> <li>• Institutionalisation of the sector and Strengthened policy</li> </ul>	<ul style="list-style-type: none"> <li>• strong</li> </ul>	<ul style="list-style-type: none"> <li>• Increased public participation in the Legislative Sector.</li> </ul>	<ul style="list-style-type: none"> <li>• moderate</li> </ul>	<i>Contributing factors:</i> <ul style="list-style-type: none"> <li>• Diversified and vibrant civil society</li> </ul>

<b>GoSA Policies (induced output level in the IL) having contributed to</b>	<b>Influence</b> →	<b>Development Results</b>	<b>Influence</b> ←	<b>Other historical and/or policy interacting factors, and/or internal or external factors</b>
		<ul style="list-style-type: none"> <li>• Stronger international links with African, EU and other Parliaments</li> </ul>		
	<ul style="list-style-type: none"> <li>• moderate / strong</li> </ul>	<ul style="list-style-type: none"> <li>• Improved oversight skills of National and Provincial parliaments<sup>142</sup>.</li> </ul>		
	<ul style="list-style-type: none"> <li>• moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Improved oversight skills and roles of Parliament and Provincial Legislatures.</li> <li>• Improved human and financial resource management in the Legislative sector.</li> <li>• No evidence yet on improved outcomes of the Legislative Sector's functions in terms of democratic guidance, representation, oversight and law-making.</li> </ul>		

<sup>142</sup> This and the following are considered as development outcomes, although at an intermediate level, as the Parliament is not a key actor of the society. Having a Parliament resourced and capable, with stronger links with the civil society and international democratic bodies, is good for the nation, although external conditions may not allow it to perform its mission at the highest level.

## 4.10 EQ9 (Step 2) - Other sectors

**Evaluation Question 9: *What hypotheses can be made on the extent to which, in the other supported sectors, the development outcomes pursued through the policies and programmes supported by SBS have been (or are being) achieved, and on the related determining factors?***

This EQ aims at completing the Step 2 assessment with an overview of the development outcomes achieved in the non-focal sectors and a hypothesis on their determinant. As the evaluation does not foresee any specific in-depth study for these sectors, the answer to the EQ is based on the information coming from Step 1 and other easily accessible literature. It just provides a table summarising key information for each of the non-focal sectors (see Table 14 below), which includes<sup>143</sup>:

- a summary of the outcomes achieved over the evaluation period; and
- the policies put in place by the government, including those supported by SBS, which supposedly have determined the outcomes in synergy with the other environmental factors mentioned in the last column.

Table 14 Summary table of Step 2 for the non-focal sectors

Sector	Outcomes	Policy Factors	Other factors
Health	<p>Although, the relevant period of implementation remains too short to observe outcomes related to supported policies, the following can be observed:</p> <ul style="list-style-type: none"> <li>• Very good outcomes in terms of access (coverage of attendance, vaccinations).</li> <li>• Since 2005, decrease in children mortality under 5 but neonatal mortality static.</li> <li>• Contrasted picture in terms of maternal health.</li> <li>• The 'tide has turned' against the HIV/AIDS epidemic.</li> <li>• Heavy burden of non-communicable diseases.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of an integrated district health system in co-operation with non-profit providers.</li> <li>• Recent re-engineering of PHC through ward-based PHC outreach teams, district-based clinical specialist team, new school health services.</li> <li>• More recently, involvement of general practitioners in DHS.</li> <li>• Wide programmes on prevention of mother-to-child transmission and, in recent years, vast campaign against HIV/AIDS.</li> </ul>	<ul style="list-style-type: none"> <li>• HIV/AIDS expansion and effects have been overlooked during the first post-apartheid decade.</li> <li>• Improvement in social determinants of health (housing, access to water and sanitation, etc.).</li> <li>• Persistent socioeconomic inequities.</li> </ul>
Education	<p>Although, the relevant period of implementation remains too short to observe outcomes related to supported policies, the following can be observed:</p> <ul style="list-style-type: none"> <li>• High levels of enrolment rates and, overall, slight improvements in access.</li> <li>• Improved access of women to tertiary education.</li> <li>• High level of teachers' absenteeism.</li> <li>• Low or no improvements in transition to secondary.</li> <li>• Low level of literacy and numeracy and low improvements in learning achievements.</li> </ul>	<ul style="list-style-type: none"> <li>• Outcome Based Education started in 1997 but dropped in 2010.</li> <li>• New policy framework at work, with a focus on improving teaching quality, incl. ECD and primary schooling.</li> </ul>	<ul style="list-style-type: none"> <li>• Complex, multi-linguistic educational environment.</li> <li>• Persistent socioeconomic inequities, incl. high level of violence in schools (esp. in poor areas).</li> </ul>

<sup>143</sup> This table is slightly different from the Step 2 tables elaborated for the focal sectors. Indeed, the outcomes (second column) and policy factors (third column) relate to the sectors as such and not only the outcomes targeted by SBS and the policies which are expected as induced outputs of SBS. The reason is that the content of the table does not 'summarise an evaluation exercise', but provides broad additional information to enhance the understanding of the whole picture.

<b>Urban Renewal</b>	<ul style="list-style-type: none"> <li>• Outcomes of the sectoral policies, in terms of social and economic development are uneven.</li> <li>• Improvements in living environments, basic and development infrastructure and job creation – fostered through the initiatives supported by SBS – have highlighted possible replicable lessons.</li> </ul>	<ul style="list-style-type: none"> <li>• URP: piloting an integrated inter-governmental approach in eight urban nodes (2001).</li> <li>• Neighbourhood Development Partnership Grant (2007).</li> <li>• Breaking New Ground, Department of Housing (2004).</li> <li>• On-going work to develop a National integrated urban development framework.</li> </ul>	<ul style="list-style-type: none"> <li>• Continuing strong urbanisation trend.</li> <li>• Increasingly critical sustainability pressures on the natural resource base and ecosystems supporting urban areas and high density rural settlements.</li> </ul>
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The summary table above intends to complement the picture of the evaluation by providing some hints about the results achieved in the non-focal sectors. It may help for the completion of Step 3 and to strengthen the conclusions and recommendations.

## 4.11 EQ10 (Step 2) - Impact

**Evaluation Question 10: To what extent have the outcomes achieved so far in the focal sectors been sustainable and represent a potential towards consolidated inclusive growth, poverty eradication and inequality reduction?**

The development results achieved in the focal sectors (employment, water and sanitation, access to justice and legislative) are very important, although they are characterised by a lot of lights and shades. The analysis has mainly regarded the outcome level, i.e. the short-medium term changes in the response of the targeted social and economic actors. To look at the impact level, i.e. the longer term changes and their consolidation into new living and behavioural standards, specific analyses should be done, which have not been foreseen in this evaluation. Here, some impact indicators, when available, have been taken into account (e.g. the effects of access to clean water and sanitation on diarrhoea incidence, or the child mortality in the EQ9 tables), but the analyses carried out even in the focal sectors have not allowed to focus on them.

Under this EQ, there is an attempt to highlight the sustainability of the outcomes and the solidity of the factors that have determined them. This should help better understand the potential impact of the policies carried out. Table 15 summarises the analyses carried out under the EQs 6, 7 and 8, of which EQ10 is a complement, and highlights the factors that may contribute to both the sustainability and the unsustainability of the positive outcomes achieved so far. The limits (or the failures) of such achievements are highlighted under the heading 'weaknesses'. The table does not contain further analyses compared to those developed under the EQs 6, 7 and 8, but just synthesises their implications in terms of sustainability. This may be used to strengthen the Step 3 synthesis and the evaluation's conclusions and recommendations.

Table 15 Overview of key sustainability aspects in the Step 2 focal sectors

Positive outcome	Weaknesses	Sustainability factors	Unsustainability factors
<u>Employment</u> has grown significantly and public and community work programmes have achieved good results.	Insufficient growth to absorb labour force.	Employment is a strong strategic priority and there are consolidated programmes to create employment (EPWP, CWP). A positive economic environment persists.	Political uncertainty on labour market and competitiveness.
The access to clean <u>water and sanitation</u> has dramatically improved in the poorer districts.	Failure of maintenance, weak participation and serious risks of deterioration of the achievements.	There is a strong and consolidated strategic and institutional framework.	Limited capacity of LG and involvement of CSOs.
Improved <u>access to Justice and Constitutional Rights</u> in the poorer areas: effective networks of intermediation among citizens and between citizens and government.	Not a specific weakness but need to further strengthen the institutionalisation of the partnership arrangements with civil society (for example through budgetary processes)	Policy strongly owned by current government and strong key civil society actors.	Risk of breaking the continuity of political and financial support.
Opportunities and systems to improve outcomes in legislative oversight, law-making, participatory democracy and international cooperation have been created: stronger public participation and improved capacity of the assemblies.	This has not demonstrably resulted in improved sector outcomes in these performance areas.	Sector strategy consolidated and owned by the Legislative Sector with certain pressures for sector consolidation through various state institutions and demand side pressures from non-state actors	A broader political institutional environment generating disincentives for improved responsiveness to citizens and sector outcomes

The considerations about the outcomes' sustainability should not look at a hypothetical absence or reduction of the many weaknesses identified so far and summarised in the table, in favour of the strengths ("positive outcomes"), but rather at the dynamic process that has characterised the period from the post-apartheid to the present situation. As summarised in the table, most of the sustainability and unsustainability factors are not linked to external factors or conjunctures, but are connected with deep policy processes entrenched in the post-apartheid history.

### 4.12 Step 3 - Summary

The comparison of the tables of Step 1 and Step 2 allows identifying the transitive relationships between SBS and the development results through the assessment of the significance of each of the chain of influence (SBS → Government policies & interventions; and Government policies & interventions → Outcomes & Impacts). This is done using the format presented in Table 16 below.

Table 16 Synthesis of BS contributions to government policies (Step 1) and their contribution to development results (Step 2)

Intensity and type of budget support's contribution to	GoSA policies (induced outputs in the IL) having contributed to		Development Results		Other policy or environmental factors
Employment & private sector					
<p><i>SWEEP</i></p> <ul style="list-style-type: none"> <li>Funds: Moderate</li> <li>Dialogue: Weak</li> <li>TA/CD: Weak to Moderate (financed through SBS)</li> </ul> <p><i>IPA</i></p> <ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Moderate</li> <li>TA/CD: Absent</li> </ul> <p><i>RCF</i></p> <ul style="list-style-type: none"> <li>Funds: Moderate to Strong</li> <li>Dialogue: Weak</li> <li>TA/CD: Moderate to Strong</li> </ul> <p><i>ECF</i></p> <ul style="list-style-type: none"> <li>Funds: Moderate</li> <li>Dialogue: Weak</li> <li>TA/CD: Weak to Moderate</li> </ul>	<ul style="list-style-type: none"> <li><i>diti</i> capacities strengthened.</li> <li>Employment and industrial development programmes (public works, etc.).</li> <li>Mainstreaming of innovation in the policy and budgeting process.</li> <li>Strategic framework for women empowerment.</li> <li>New business support service and legal/regulatory reforms to improve the business environment.</li> <li>Development of new lending products &amp; co-financing of risky projects (IDC).</li> </ul>	<ul style="list-style-type: none"> <li>Moderate</li> <li>Weak to moderate</li> <li>Weak</li> <li>Weak</li> </ul>	<ul style="list-style-type: none"> <li>Significant but insufficient job creation (growth in working aged population leading to persistently high unemployment rates, esp. among women and poor).</li> <li>Overall substantial increase in public &amp; private sector investment but only limited increase for SMMEs.</li> <li>Declining contribution of SMMEs to the economy.</li> <li>Decreased competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>CF: weak to moderate LF: strong</li> <li>CF: moderate to strong LF: moderate to strong</li> <li>CF: moderate to strong LF: moderate to strong</li> <li>LF: moderate to strong</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>High political priority attached to private sector and employment strategies.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Apartheid legacy;</li> <li>Changes in the historical drivers of the SA economy (decline of primary sector, less labour-intensive production in the service sector);</li> <li>Skills profile of labour market participants;</li> <li>Institutional and regulatory structure of the South African labour market;</li> <li>Insecurity and violence.</li> <li>Global financial crisis.</li> <li>Service delivery issues (e.g. municipal services or failures in power supply system).</li> <li>Other competitiveness policies</li> </ul>

Intensity and type of budget support's contribution to	GoSA policies (induced outputs in the IL) having contributed to		Development Results		Other policy or environmental factors
Water sector					
<ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Moderate to Strong (not on CSOs)</li> <li>TA/CD: Strong (financed through SBS)</li> </ul>	<ul style="list-style-type: none"> <li>Development of a new sector policy framework.</li> <li>Transfer of responsibilities to municipalities.</li> <li>Local government capacity strengthened though significant weaknesses have remained.</li> <li>Masibambane Civil Society Strategic Framework developed but mixed results in terms of involvement of CSOs and private sector in policy processes.</li> <li>Clear statements related to gender equality in sector policies, new gender mainstreaming strategy, and establishment of a Gender Unit within DWA.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate to strong</li> <li>Weak</li> <li>Moderate</li> </ul>	<ul style="list-style-type: none"> <li>Increased access to water and sanitation although maintenance and operations have remained weak.</li> <li>Decreased participation of communities and CSOs</li> <li>Mixed results in terms of women participation in the sector</li> </ul>	<ul style="list-style-type: none"> <li>CF: strong LF: strong</li> <li>LF: strong</li> <li>CF: moderate LF: moderate</li> </ul>	<p><i>Contributing factor:</i></p> <ul style="list-style-type: none"> <li>Water has been a strong political and financial priority.</li> <li>Funding mechanisms for local service delivery introduced over the past decades.</li> <li>Integration of gender in wider legislative and policy framework.</li> </ul> <p><i>Limiting factor:</i></p> <ul style="list-style-type: none"> <li>Persistent weaknesses in capacities at municipal level.</li> <li>Priority given to the public institutions and poor use of CSOs</li> </ul>
Governance sector					
<ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Moderate to Strong</li> <li>TA/CD: Weak</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened policy implementation and testing of alternative service delivery provision through an innovative strategic partnership with civil society.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate to strong</li> <li>Moderate</li> <li>Moderate to strong</li> </ul>	<ul style="list-style-type: none"> <li>Improved access to justice and constitutional rights especially for marginalised groups.</li> <li>Improved awareness and knowledge of constitutional rights.</li> <li>Capacities of key stakeholders were strengthened (especially CSOs) in promoting participatory democracy.</li> </ul>	<ul style="list-style-type: none"> <li>CF: Moderate LF: Strong</li> <li>CF: Moderate to strong LF: Moderate</li> <li>CF: Strong LF: Moderate</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>Strong experience of CS in human and constitutional rights with a diversified playing field of CSOs and free press.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Under-resourced department and backlogs in courts.</li> <li>High levels of poverty and inequality.</li> <li>Lack of access to information technology, illiteracy, large number of official and unofficial languages.</li> </ul>

Intensity and type of budget support's contribution to	GoSA policies (induced outputs in the IL) having contributed to		Development Results		Other policy or environmental factors
<ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Moderate to Strong</li> <li>TA/CD: Absent</li> </ul>	<ul style="list-style-type: none"> <li>Improved institutionalisation of the Legislative sector and strengthened policy implementation (Legislative Sector Policy and Strategic Framework).</li> </ul>	<ul style="list-style-type: none"> <li>Moderate to strong</li> <li>Strong</li> <li>Moderate</li> <li>Moderate to strong</li> <li>Moderate</li> </ul>	<ul style="list-style-type: none"> <li>Increased public participation in the Legislative sector.</li> <li>Stronger regional and international links</li> <li>Improved oversight skills and roles of Parliament and Provincial legislatures.</li> <li>Improved human and financial resource management in the Legislative sector.</li> <li>No strong evidence yet on improved outcomes of the Legislative Sector's functions in terms of democratic guidance, representation, oversight and law-making.</li> </ul>	<ul style="list-style-type: none"> <li>CF: moderate LF: moderate</li> <li>CF: weak LF: weak</li> <li>CF: moderate LF: moderate</li> <li>CF: weak to moderate LF: weak to moderate</li> <li>CF: moderate LF: weak</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>Sector ownership and commitment to capacity and human rights development and improved sector development.</li> <li>Incentives and demands for improved performance and accountability from other state institutions.</li> <li>Demand-side pressures from non-state actors within a young but vibrant constitutional democracy.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Low dynamics in the political context.</li> <li>The electoral system reduces the link with voters.</li> </ul>
<b>Health</b>					
<ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Moderate</li> <li>TA/CD: Moderate to strong (only very recent TA inputs and TDCA contribution on strategic models).</li> </ul>	<ul style="list-style-type: none"> <li>New original approach to service delivery in the primary health, including global reform of the Health Insurance and local networks of health agents (CSOs, practitioners).</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>The relevant period of implementation remains too short to observe potential results of supported policies. That said, the following can be observed: the 'tide has turned' against the HIV/AIDS epidemic and there are increased access outcomes (coverage of attendance, vaccinations), although the data on child and maternal mortality are not improving fast.</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>Strong leadership change in the DoH and change of government strategies.</li> <li>New ideas and models developed through various processes (e.g. interactions between top level management and high level international expertise).</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Persistent socioeconomic inequities</li> </ul>
<b>Education</b>					
<ul style="list-style-type: none"> <li>Funds: Strong</li> <li>Dialogue: Weak</li> <li>TA/CD: Absent</li> </ul>	<ul style="list-style-type: none"> <li>Improved policies in the primary education system, with a focus on strengthening the teaching quality and capacity of teachers.</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<ul style="list-style-type: none"> <li>The evaluation observation period is too short.</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>	<p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>Complex, multi-linguistic educational environment.</li> <li>Persistent socioeconomic inequities, incl. high level of violence in schools (esp. in poor areas).</li> </ul>

<i>Intensity and type of budget support's contribution to</i>	<i>GoSA policies (induced outputs in the IL) having contributed to</i>		<i>Development Results</i>		<i>Other policy or environmental factors</i>
Urban renewal					
<ul style="list-style-type: none"> <li>• Funds: Strong</li> <li>• Dialogue: Weak</li> <li>• TA/CD: weak (and only in one of the two programmes)</li> </ul>	<ul style="list-style-type: none"> <li>• Urban renewal programme: piloting an integrated inter-governmental approach in eight urban nodes</li> </ul>	<ul style="list-style-type: none"> <li>• Weak to moderate</li> </ul>	<ul style="list-style-type: none"> <li>• Uneven outcomes in terms of social and economic development. Improvements in living environments, basic and development infrastructure and job creation – fostered through these initiatives – have highlighted possible replicable lessons.</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate to strong</li> </ul>	<p><i>Contributing factors:</i></p> <ul style="list-style-type: none"> <li>• GoSA priority / Presidential Initiative to address problems in exclusion areas set up through apartheid spatial planning.</li> <li>• Adoption of the Municipal Systems Act &amp; Municipal Finance Management Act.</li> </ul> <p><i>Limiting factors:</i></p> <ul style="list-style-type: none"> <li>• Continuing strong urbanisation trend.</li> <li>• Increasingly critical sustainability pressures on the natural resource base and ecosystems supporting urban areas and high density rural settlements.</li> </ul>

The relationships illustrated in Table 16 may be briefly explained as follows:

1. Employment and private sector development:

- The availability of SBS funds has allowed GoSA to integrate its strategic framework (through SWEEEP), launch a new promising programme focusing on innovation for poverty reduction (IPA), test new financial products for co-financing risky projects (RCF) and strengthen its employment creation programmes (ECF). Beyond the funds, other SBS inputs have been deployed, namely:
  - dialogue in the case of IPA, with a number of implications – partly still to be developed – in terms of strategic exchange on Science & Technology, and systematisation and extension of lessons learned;
  - TA and capacity development inputs, based on exchange of know-how between SA and EU have been used in the RCF, through the EIB involvement.
- Such policies and programmes have produced results in terms of increased employment, mainly through enhancing public interventions, and have tested some successful approaches that might be appropriated by a dynamic private sector (namely SMMEs and rural enterprises). Unfortunately, the employment has not grown at the necessary rates, especially because of the persistence of some structural bottlenecks, such as: inadequate skills profiles, institutional and regulatory burden of the labour market, and difficult environment for SMMEs, especially at local level, etc.
- SBS has not affected such policy domains, despite the fact that potential areas of collaboration and exchanges of experience between EU and SA exist. EU recent history has addressed and still addresses similar kind of problems and a diversified set of solutions has been tested by EU member states.

2. Water:

- SBS funds and dialogue – based on previous experience of collaboration – have concurred at the right time to help the government design and implement a new institutional approach in the sector, with a focus on the poorer provinces. This has contributed to test a new sectoral strategic framework based on the transfer of responsibilities to the local governments and a new leading role of DWA. A lot of TA/CD activities have been financed as well through SBS. Over time, SBS has supported various phases of the programme, with a view to extend and consolidate its results. The level of dialogue in the further phases has fallen, while the funds have remained significant.
- The implementation of the programme, combined with significant public investment in infrastructure, has permitted to meet important results in terms of access to water and sanitation in the poorer provinces. Other objectives of the programme, such as the involvement of the CSOs, have been overlooked. With time, new problems have arisen, in particular the complexity of maintaining the infrastructure developed and ensuring efficient management. Such problems present the risk of offsetting the development results achieved.
- The impoverishment of the dialogue has hampered to address such bottlenecks between SA and EU and identify new shared solutions to be potentially supported.

3. Access to Justice:

- SBS funds and an effective dialogue built on solid past cooperation between EU, key civil society actors (including the Foundation for Human Rights) and DoJCD contributed to the design of an innovative approach that targeted extending service delivery to marginalised groups/citizens and improving human rights knowledge through a strategic partnership with the Foundation for Human Rights.
- The policy implementation and innovation has already produced significant results in terms of improved access to justice and enhanced awareness of constitutional rights for marginalised groups, as well as emerging arrangements for policy innovation through feed-back and anchorage or institutionalisation of civil society partnerships through the Justice, Crime Prevention, and Security Cluster.
- Even though this innovative approach of strategic partnership with civil society has not yet been fully institutionalised, these results and partnership trust are promising in that they may create further political buy-in for improving access to justice and constitutional rights, and reinforce institutional capacities for such state-non-state partnerships, and organisational capacities and partnership trust.

#### 4. Legislative Sector:

- Since the first democratic elections, the EU has become the most consistent and important supporter of the five South African Parliaments. Given the strong sector ownership, SBS – through the LSPSP – has contributed to the efforts of key stakeholders of the South African Legislative Sector to institutionalise their sector. The efforts at harmonising systems and procedures, strengthening key functions (financial, managerial, human resources, etc.), strengthening capacities such as research, public outreach and international cooperation have been stepped up during the LSPSP. These efforts coincided with - and reinforced - other state institutions' efforts (including AGSA, FFC, etc.) that strengthened accountability and performance pressures (including peer pressures) or collaborative arrangements between the autonomous Parliament and the nine Provincial Legislatures.
- This positive SBS contribution to the gradual institutionalisation process of the Legislative Sector has created or strengthened opportunities and incentives for improved sector outcomes in oversight and law-making functions, public participation and representation, or for '*deepening democracy*' in a highly politically sensitive area. Yet, other institutional and political dynamics are also strongly at play, which make pronouncements on envisaged sector outcomes in terms of improved oversight, representation and law-making functions unreliable.
- Finally, to fully appreciate the importance of efforts by SALS and the contributions of LSPSP to the envisaged sector outcomes and impact, the changes in the Legislative Sector and the induced and other outcomes need to be assessed against the unique socio-economic and institutional-political transformations and challenges of the post-apartheid constitutional democracy that South Africa has become.

#### 5. Health:

- A strong sectoral leadership in the DoH and the determination of the EU Delegation to embark through SBS in a complex sector have promoted a significant combination of intervention modalities to support the sectoral reform: SBS has provided the resource base, the TDCA Facility has supported high level exchanges of experience on the Health strategy matters, a specialised TA – financed through SBS – has provided specific international knowhow for the implementation of reform modules.
- Some preliminary outcomes of the sectoral reform are already encouraging.
- This experience seems to have experimented a successful mix of contents, where funds for innovation have been made available to a strong and reform-minded sectoral leadership, combined with strategic dialogue on alternative models and options and exchange of knowhow on implementation modules.

#### 6. Education:

- The SBS is supporting a number of important actions of the DBE & the DHET to improve the system in primary education. The support has enabled the DBE & the DHET to focus some key outcomes related to improving the teaching quality.
- It's too early to identify any development outcome of such an action.
- The SBS facilitates the ownership of the DBE & the DHET, although a facility-type modality could obtain comparable results. The programme does not include any strategic dialogue, although the DBE is in a process of deep strategic review.

#### 7. Urban Renewal:

- The SBS has helped launch important programmes aimed at enhancing local development in the exclusion areas set up through the apartheid spatial planning.
- In one of the two supported programmes (*eThekwin*), the outcomes were positive, while in the other (*URP Eastern Cape*) have been disappointing. The stability and capability of the public institutions involved have made the difference.
- The SBS did not include specific components to exchange experiences on territorial management and regional cohesion, areas where the EU could present significant knowhow and good practices.

## 5 Overall assessment

### Summary assessment

In the period 2000-2011, EU BS in SA represents a positive experience that should be continued and better integrated into the SA-EU Strategic Partnership. BS has been adapted to the context, by ensuring both GoSA ownership and strategic relevance of the EU support.

It has supported policy innovation, through enhancing specific innovative GoSA programmes often with the participation of CSOs, within wider priority sectors, with a focus on fighting poverty and inequality and supporting democracy.

The supported programmes have produced visible development results in water, justice, legislative, some segments of employment and rural poverty, and other areas, although their success has been limited when addressing some key structural bottlenecks that characterise the SA context and affect the policy making processes.

BS through its various financial and non-financial inputs has provided significant contributions in terms of enabling successful policy innovations, but has been only partially able – especially in the first period – to profit of the opportunities of the comprehensive EU-SA partnership, to expand policy dialogue and knowledge sharing between the partners on the relevant matters. This could have helped GoSA and EU to better support wider and more informed policy thinking in the areas addressed.

### Adaptation to the context

The context during the evaluation period (2000-2011) is characterised by the following main features:

1. a post-revolutionary political environment in South Africa, including:
  - o the consolidation of the post-apartheid state and related ownership; and
  - o the materialisation of complex political and policy challenges to address the structural bottlenecks of the SA society, namely the deep inequality in access to resources, public services and constitutional rights.
2. the establishment of a comprehensive partnership between SA and EU, based on an ambitious shared platform of values and strategic objectives, including a range of instruments and modalities still to be tested and developed and a specific mandate in the area of development cooperation, namely to respond to the key development challenges with a focus on partnership and knowledge sharing<sup>144</sup>.

The EU-SA cooperation has evolved from the experiences of the nineties, where the priority was to support the post-apartheid efforts in key areas and help obtain tangible results. The request of GoSA to strengthen South Africa's ownership and to increase alignment in policy support has brought most donors to review the intensity and modalities of their interventions, taking into account SA's upper-MIC features. Some donors have emphasised the work with CSOs, others the regional dimension<sup>145</sup>. The EU has decided to shift to budget support without neglecting other modalities as needed, in the early 2000s. By the mid-2000s, it has also developed an ambitious framework for strategic dialogue including on development cooperation under the TDCA and the SP.

Shifting to BS has been a coherent decision, probably the only option compatible with keeping ODA focused on the key strategic challenges addressed by the GoSA while responding to its request for stronger ownership and alignment. This choice has been criticised by various sides, using the argument of the low 'quantitative relevance' of budget support in a MIC. Indeed, this evaluation and others show that the BS modality may be very relevant in a MIC context<sup>146</sup>, when its policy relevance is high; this despite its low quantitative weight. In SA, the policy relevance of the programmes supported through this modality has been generally high: in most cases it has allowed an accelerated and exhaustive experimentation of important policies and approaches that otherwise would have suffered delays, fragmentation and even resistances.

<sup>144</sup> See references in the Regulation of 2000, CSP of 2003 and JAP of 2007.

<sup>145</sup> "Working with an emerging economy requires more intensive, quality interaction with key interlocutors to build and maintain presence, trust and a platform for policy dialogue that can replace more traditional project investment approaches. This ... could be further supported with flexible financial resources to gain more traction with partners". This is one of the "lessons learned" mentioned in DFID EV711, Evaluation Report on DFID's Southern Africa Country Programme (2004-2009) – page IX.

<sup>146</sup> See the Evaluation of Budget Support operations in Tunisia, AidCo-European Commission, 2009.

Introducing the strategic dialogue framework on development cooperation under the TDCA (drafted in 1999 and entered into force in 2004) and the SP with its related JAP (adopted in 2007) was also a coherent decision vis-à-vis the established partnership.

### **Supporting policy innovation and policy partnership (Step 1)**

EU SBS operations have supported policy experimentation and innovation through different contributions:

- In most cases, they have created a financial opportunity for the key policy actors (GoSA departments, decentralised and/or specialised public institutions) to develop their own policy processes, through risk taking initiatives and innovation, including – in several cases – the significant involvement of CSOs in the delivery of key services.
- In various cases (e.g. Justice, Legislative, Water, Health, S&T), the dialogue, building on previous joint experiences and exchanges of know-how, has helped shape and/or integrate innovative aspects within policy design and approaches.
- Only in conjunction with more recent SBS operations (*PrimCare / Health* and, partly, *IPA* in S&T and *LSPSPS* in the Legislative sector, but not *ECF* in the Employment sector or *PrimEd* in the Education sector), the dialogue has gone beyond the single policies and programmes supported and has paved the way to a wider exchange of policy experience profiting from - and feeding into - the existing partnership framework (TDCA and SP).

The SBS contribution to the policy processes may be summarised as follows:

- The creation of opportunities to enhance a South African owned process of policy innovation in the targeted sectors is the most original and successful contribution of SBS.
- The occasional and/or limited links established between such policy experimentation and the wider SA-EU strategic partnership framework, in view of building joint learning processes to feed the development action of both partners at different levels (in SA and EU, at regional level and worldwide), is still a weak point of the SBS implementation, although improvements are visible in the recent years.

### **The supported policies have produced development results (Step 2)**

In most instances, the policies supported through SBS have determined - directly and indirectly - significant development outcomes:

- The approach launched and tested through *MSB* in the water sector has been a determining factor of the success in increasing access to clean water and sanitation facilities in the poorest areas between 2000 and 2007.
- The GoSA programme Access to Justice and Constitutional Rights has produced important results through mobilising local networks of intermediation in the most marginalised areas, which have started responding to the democratic needs of the poor.
- Strengthened Legislative Assemblies relying on stronger people participation, access of the poor to advanced technologies, improved access to primary health facilities are all consolidated outcomes of the policies and programmes supported through SBS.

In other cases, results have been more limited. This is primarily due to key bottlenecks of the post-apartheid transition which the supported policies and programmes have only been marginally able to address. Among these the failure in infrastructure operation and maintenance and CSOs mobilisation in the water sector; the insufficient employment growth and strengthening of the SMMEs participation to economic activity; the inadequate skills development resulting in low level of employability of the labour force; etc.

Apart from the structural difficulty of the SA transition, much of the disappointing results highlighted can be linked to the complex political context and to the opposite social and economic interests at stake, which influence and hamper the policy-making process.

### **SBS has contributed to such results in different ways and at different levels (Step 3)**

SBS operations have contributed to some of the policies that have produced significant development results. In such a way they have contributed to the attainment of the targeted development results. The way in which their contribution has materialised differs from one programme to the next.

In the Water sector, SBS financial support has created a key opportunity to launch *MSB* in early 2000, integrated with an original mix of dialogue and exchange of experience during the design and the first implementation phases.

SBS funds, dialogue and capacity development have played a key role for the success of both the new Access to Justice and Constitutional Rights policy and the Health strategy to strengthen Primary Health Care.

In the S&T and Legislative sectors, the combination of funds with a wider partnership dimension with the EU has strengthened the successful supported programmes.

With respect to the policies that have led to the mentioned weak results, probably BS could not do much, considering the origin of their weaknesses, deeply entrenched in the key bottlenecks of the post-apartheid transition. This is, for instance, the case of: the inadequate skills profile and institutional set up of the labour market; the low capacity of the local governments; the difficulties to tackle the strong regional imbalances; the low competitiveness of the economy and a non-conducive environment for SMMEs; etc. EU cooperation cannot enter in such constraints, unless specific requests are formulated by the SA partners. The SBS operations which address such policy areas, however, could have helped promote an expansion of the relevant knowledge base through a stronger integration with the SP framework. This would have contributed to better informed policy thinking and debate and increased awareness of the policy alternatives at stake, benefitting both partners. As shown in the Health sector or in the Legislative one, some tools are already available in the framework of the SP, as for instance:

- exchanges of experience on EU and other countries worldwide policy models successfully experimented in the Health sector;
- other inter-institutional exchanges experimented in the inter-Parliamentary dialogue.

A wider use of such links and tools, however, would have implied a stronger integration between SBS programmes and the Strategic Partnership which provides the framework and the mandate to enhance the knowledge sharing processes between the partners. Such integration is still under way. Both the NT and the EUD are aware of the need for this stronger integration, although a common view on how to address it in operational terms is not yet established.

## 6 Conclusions

For analytical clarity, we have grouped the conclusions into four clusters:

- Cluster 1 - Development co-operation: priorities and modalities;
- Cluster 2 - Value added of the EU-SA development co-operation;
- Cluster 3 - Outcomes and impacts at sector level;
- Cluster 4 - Other key issues regarding the implementation of the SBS modality in South Africa.

The table below presents the main links between findings, conclusions and recommendations by highlighting for each conclusion: i) the EQ(s) on which it is based; and ii) the related recommendation(s).

Table 17 Major links between EQs, conclusions and recommendations

Conclusion	Based on EQs	Leads to Recom.
<b>Cluster 1 - Development cooperation: priorities and modalities</b>		
C1: EU-SA development co-operation has deep historical roots and reflects the government priorities and the key objectives of the EU-SA partnership	EQ1, EQ2, EQ5	R1, R8
C2: Budget Support has become the key modality of this co-operation and has significantly evolved over time	EQ1, EQ2, EQ3, EQ4, EQ5	R2
C3: Budget Support has been designed and implemented with significant flexibility	EQ1, EQ2, EQ5	R2
C4: Budget Support in South Africa has developed as a specific typology	EQ1, EQ2, EQ3, EQ4, EQ5	R2, R3, R4
C5: SBS has shown strong comparative advantages <i>vis-à-vis</i> other modalities and significant capacities of complementarity	EQ1, EQ2, EQ3, EQ4, EQ5	R2, R3
<b>Cluster 2 - Value added of the EU-SA development co-operation</b>		
C6: SBS funds have created strong opportunities to test policy and institutional processes through innovative and risk-taking initiatives	EQ3, EQ4, EQ5	R3, R7, R8, R12
C7: In the absence of a mutually agreed definition of policy dialogue, the dialogue has mostly focused on programme management issues and has only more recently expanded at the broader level of the Strategic Partnership to generate exchange of experiences and know-how	EQ1, EQ2, EQ5	R5, R7, R8, R12
C8: CB/CD inputs strongly relied on existing national capacities and mainly focused on managerial and technical issues. They were rarely used for exchange of experience and know-how between the parties, according to the TDCA/SP framework, although the few cases where this happened showed a considerable value added	EQ1, EQ2, EQ5	R5, R6, R7, R12
C9: The strategic dialogue and the knowledge sharing processes combined with SBS are limited by the absence of specific tools and procedures	EQ2, EQ5	R5, R6, R7
<b>Cluster 3 - Outcomes and impacts at sector level</b>		
C10: While GoSA employment creation programmes supported by SBS have yielded considerable achievements, these are, to a certain extent, offset by persistent structural bottlenecks	EQ4, EQ5, EQ6	R9
C11: SBS operations have supported the GoSA in the implementation of crucial reform processes in the water and sanitation sector leading to significant development results. More recently, the declining intensity and quality of the SA-EU dialogue in the sector has limited exchanges on potential solutions to address important persistent bottlenecks	EQ2, EQ5, EQ7	R9
C12: By building on existing policy partnerships in the Governance Sector, SBS has supported a successful DoJCD innovative programme to improve access to justice in the poor areas, and the institutionalisation of the Legislative Sector within crucial areas for South Africa's process toward a stable and inclusive constitutional democracy	EQ5, EQ8	R9
<b>Cluster 4 - Other key issues regarding the implementation of the SBS modality in South Africa</b>		
C13: SBS has contributed to policy experiences that have shown how CSOs are essential actors in reaching socially excluded groups	EQ5, EQ7, EQ8	R10
C14: SBS has endeavoured to extend its support to local institutions with different modalities and results	EQ5	R11
C15: The good quality of PFM acted as an enabling factor for SBS, rather than an SBS	EQ4	

<b>Conclusion</b>	<b>Based on EQs</b>	<b>Leads to Recom.</b>
objective; at the same time, SBS contributed to reinforce PFM systems, namely at sectoral level		
C16: With SBS funds, predictability of aid has markedly improved compared to other forms of aid. However, and despite the rather low proportion of SBS in the overall GoSA public expenditures, delays in payment of some tranches have had negative consequences on the implementation of specific SBS-supported programmes	EQ3, EQ4	R13

## 6.1 Cluster 1 - Development co-operation: priorities and modalities

### **Conclusion 1: EU-SA development co-operation has deep historical roots and reflects the government priorities and the key objectives of the EU-SA partnership.**

*This conclusion is based mainly on EQ1, EQ2 and EQ5*

Development co-operation between the EU and SA is built on a deep and solid history of relationships since the days of apartheid, which ensures reciprocal trust and commitment. During the apartheid, the ANC, the democratic movements and CSOs found the EU to be an important partner in their political and civil battles. Since the official abolition of apartheid, the co-operation has continued to focus on the main development challenges: employment and equitable growth, democracy and human rights, basic services to fight poverty and inequality. Over time, the co-operation has continued to develop, by strengthening government ownership through the introduction of BS and by expanding the scope of co-operation through the establishment of the TDCA and Strategic Partnership. The EU-SA development co-operation priorities have fully reflected the GoSA priorities as established in the post-apartheid economic strategies and the 2004-09 MTSF and 2009-14 MTSF.

### **Conclusion 2: Budget Support has become the key modality of this co-operation and has significantly evolved over time.**

*This conclusion is based mainly on EQ1, EQ2, EQ3, EQ4 and EQ5*

BS was introduced in the early 2000s, to respond to a strong demand from both EU and SA partners. It rapidly became the most important modality of the EU-SA development co-operation, covering 72% of the total EU portfolio over the period 2000-11 with peaks of more than 90% in recent years. GoSA saw in BS a way to increase its ownership of ODA. The EU, as stressed in the CSP (2003), saw in BS also a way to “strengthen policy dialogue” and the EU value added in development co-operation.

The first designs of SBS closely resembled the design of a standard ‘project’, and presented great variations from one SBS operation to another. After the first experiences in the period 2000-2003 and the development of key reference documents on the EU side (e.g. ‘2002 EU Guide to the programming and implementation of budget support in third countries’) and on the GoSA side (e.g. ‘2003 Policy Framework and Procedural Guidelines for the Management of ODA’), the design of SBS operations evolved towards a greater emphasis on mutual accountability on the results (KPIs). In recent years, the design has converged towards a standard format, with a duration of three or four years maximum and a similar tranche release structure (‘three fixed + two variable’ tranches) across sectors. In addition, some of the recent programmes attempt to expand the strategic dialogue, including a better integration with the opportunities provided by the SP (e.g. *PrimCare*).

### **Conclusion 3: Budget Support has been designed and implemented with significant flexibility.**

*This conclusion is based mainly on EQ1 and EQ5*

Flexibility in the approach adopted by the parties in the design of SBS operations reflects the efforts made to ensure relevance and alignment to GoSA needs and priorities. This is evident when looking at the different mix of inputs of SBS operations (which were generally determined by sector specific considerations) and at the number of riders (amendments were made in relation to 13 of the 16 SBS operations). While some of these riders were linked to over-ambitious targets and/or delays in implementation, in eight cases adjustments were made to the performance assessment matrix, with a view to enhance alignment to changing national institutional and policy frameworks.

Despite convergence in the format of SBS operations, significant differences across sectors remain and are particularly evident when looking at the mix of inputs of SBS operations. While, in most operations, no complementary component to support the participation of non-state actors was included in the SBS package (e.g. in *MSB III*, the responsibility for the inclusion of CSOs in the water and sanitation sector was entirely left to GoSA), some SBS operations include specific envelopes to directly support CSOs

(e.g. *Access to Justice*). Similarly, while responsibility for capacity building and capacity development (CB/CD) was entirely transferred to GoSA for most SBS operations, a few still include a strong CB/CD internal component (e.g. *PrimCare*) and/or combine SBS with specific CB/CD complementary programmes (see also conclusion 5).

The choices made in terms of mix of inputs were generally determined by specific aspects of the sectors' environment (e.g. active role played by certain sector actors, proneness of the line department to CSO participation, existing space for exchange of know-how, etc.), rather than by attempts to challenge the existing context.

#### **Conclusion 4: Budget Support in South Africa has developed as a specific typology.**

*This conclusion is based mainly on EQ1, EQ2, EQ3, EQ4 and EQ5*

The specific features of BS in SA allow focusing on policy innovations deeply owned by the Government with the support of CSOs, to which the EU partner may contribute providing funds to ease policy experimentation, and also help expanding the knowledge base, through an enhanced exchange of policy experiences and knowhow. The latter contribution particularly regards the experience of the second half of the period, through the integration with the TDCA and SP.

The specific focus of BS on well identifiable themes and policy challenges (specific experimental policy programmes) responds to a basic requirement of GoSA on external aid management but does not imply the traceability of funds. The Performance Assessment Frameworks of the programmes do not include 'intrusive' references to the use of the resources but rely on the use of general and sectoral process / outcome indicators as disbursement triggers. Such specific focus, however, allows BS to enhance its value added, despite its relatively small financial weight compared to the overall SA discretionary spending. Indeed, the financial resources mobilised are able to create real opportunities for the relevant government departments and their CSOs partners. In addition, the focus of BS enhances the development of a strategic dialogue and knowledge sharing initiatives as the dialogue and exchange would otherwise become very general or overambitious and would thus lose their relevance.

In most cases, the sustainability of the supported actions has been ensured both through a significant participation of the GoSA in the financing, and through the mainstreaming into the budget of successful pilots (e.g. IPA, Access to Justice, MSB, RCF, LSPSP, etc.). Mainstreaming has taken place thanks to specific mechanisms and procedures embedded within the GoSA budget preparation process.

#### **Conclusion 5: SBS has shown strong comparative advantages *vis-à-vis* other modalities and significant capacities of complementarity.**

*This conclusion is based on EQ4 and EQ5.*

SBS has shown a strong comparative advantage toward alternative delivery modalities – namely, in the following areas:

- ownership and reinforcing government internal processes;
- flexibility and diversification in the use of resources;
- appropriateness to address complex policy experimentation in institutional sensitive environments.

SBS has enhanced the opportunities to launch innovative/new policies originating from within the relevant institutions, opportunities that could otherwise have been missed. In addition, the comparison with previous or potential projects demonstrates that the level of ownership – and, hence, the adaptation, co-ordination and alignment – ensured by BS would not be attainable through alternative, more traditional instruments. Only in few cases, a project or a 'facility' could have obtained comparable results.

In addition, in some cases, SBS has provided the opportunity for positive combinations with projects or facilities, namely to enhance capacity development, as for example: the contribution of the TDCA Facility to *PrimCare* in the Health Sector, and the support project to a number of NGOs to complement the *Access to Justice* programme.

## **6.2 Cluster 2 - Value added of the EU-SA development co-operation**

This cluster focuses on the value added of the EU-SA development co-operation. The Strategic Partnership stresses that "*in view of the special circumstances in South Africa, the real value added by ODA is not only the finance itself, but what comes from it – namely, best practice, innovation, risk-taking, pilot programmes, systems development, capacity building and, above all, skills and knowledge*" (JAP, 2007, page 5).

**Conclusion 6: SBS funds have created strong opportunities to test policy and institutional processes through innovative and risk-taking initiatives.**

*This conclusion is based mainly on EQ3, EQ4 and EQ5.*

The creation of financial opportunities to enhance a nationally-owned process of policy innovation in the targeted sectors is the most original and successful contribution of SBS.

Overall, the financial weight of SBS funds is relatively low when compared to GoSA additional allocations across sectors for the whole period considered. It represents an average of 1%. However, it is estimated, that within targeted sectors, funds transferred have increased GoSA's fiscal space through the provision of more significant additional resources. SBS funds represented approximately 8% and 7% respectively of the additional funds made available within the private sector development/employment sector and the governance sector in the period 2000-2011. Through the provision of these additional resources, SBS operations have enabled line departments to finance innovative policies and programmes that had not yet found an allocation in the national budget.

More specifically - and in line with the mandated function for development aid as defined by GoSA's ODA guidelines - SBS has, in most cases, successfully supported policy innovation and piloting, including:

- the testing of innovative models for service delivery in the health sector (e.g. outreach teams and mobile clinics),
- the piloting of innovative institutional and policy frameworks (e.g. in the Water Sector) and of new forms of area-based governance and management (e.g. in the Urban Renewal Sector),
- the launching of new mechanisms to deepen and broaden engagement with civil society actors (e.g. in the Justice and Water Sectors),
- the launching, testing and subsequent mainstreaming of pilot initiatives and mechanisms (e.g. in the Water Sector, in the area of Science and Technology, and in the private sector in relation to the funding windows for SMEs provided through the IDC).

In all cases, SBS has been instrumental in facilitating access by the departments to funds for innovative programmes, conceived within the departments and owned by the relevant institutions - a result that could not have been achieved through the use of alternative aid modalities.

**Conclusion 7: In the absence of a mutually agreed definition of policy dialogue, the dialogue has mostly focused on programme management issues and has only more recently expanded at the broader level of the Strategic Partnership to generate exchange of experiences and know-how.**

*This conclusion is based mainly on EQ1, EQ2 and EQ5.*

As knowledge sharing should be a key feature of the EU value added, policy dialogue is particularly important. Despite this and despite the multiple references to policy dialogue in the EU-SA strategic and programming documents since 2000, the evaluation has highlighted the absence of a codified and shared definition of policy dialogue. A specific definitional framework was therefore agreed upon in this evaluation based on: i) the specific policy dialogue directly linked to BS operations, as a basic component of the SBS package; ii) the dialogue opportunities provided by the strategic partnership to exchange experiences and know-how on strategic development issues of common interest; iii) the combination of both (see also section 4.2 "EQ2 (Step 1) - Policy Dialogue, TA and H&A", p.19).

At SBS operation level, policy dialogue has helped to identify the specific sector policy support programmes, to define the performance assessment framework of the FAs, and to assess the achievement of targets set for the KPIs. This operation-level policy dialogue has been particularly important and has expanded to strategic themes providing a strong contribution to successful SBS in the Governance Sector and partly in the Water Sector, where it built on long experience of collaboration and trust between GoSA and the EU.

However, in most cases, the operation-level policy dialogue has remained focused on ensuring an appropriate management of the supported programmes. The potential of the broader opportunities offered by the elaborated dialogue framework of the EU-SA TDC and Strategic Partnership was not exploited, especially before 2008, because of the lack of a clear and shared view by the parties on how to address and combine them in the BS framework, also in light of the lack of procedures and expertise. As of 2008, following the JAP, these opportunities have started to be better used (e.g. PrimCare, IPA, LSPSP) with significant results, and SBS effects have been strengthened. It should be acknowledged however that such new practice has not yet filled up the gaps of the pre-2008 period.

**Conclusion 8: Capacity Building and Capacity Development inputs strongly relied on existing national capacities and mainly focused on managerial and technical issues. They were rarely used for exchange of experience and know-how between the parties, according to the TDCA/SP framework, although the few cases where this happened showed a considerable value added.**

*This conclusion is based mainly on EQ1, EQ2 and EQ5.*

Capacity Building and Capacity Development (CB/CD) features are included in all SBS operations but two: Innovation for Poverty Alleviation (2009) and Primary Education Sector Policy Support Programme (2010). In most SBS operations, the content or focus of the CB/CD inputs and the ways in which it is integrated within the SBS operations strongly varies, leading to conclude that they depend on – and respond to – sector / context specific characteristics, rather than to temporal evolutions and broader lessons learned.

In most cases CB/CD has been:

- aimed at facilitating the implementation of the SBS supported programmes and at strengthening the capacities of the institution(s) and sector actors involved;
- managed independently by GoSA and provided by national experts at various levels (scientific, managerial, technical) or exceptionally delegated to relevant NSAs (e.g. *Access to Justice*, *PrimCare*);
- included either as a condition in the performance assessment framework or just mentioned as an expected result without condition.

Only rarely have CB measures been embedded within the SBS operations as one of the key SBS components (e.g. *RCF I & II*, *URP Eastern Cape* and *PrimCare*), and only in the case of *RCF* and *PrimCare* was CB/CD provided to exchange specific know-how based on EU or worldwide practices, with the support of international partners (respectively, EIB and advisory services managed by DFID). In the Health Sector, complementary Technical Assistance also favoured the establishment of a link with what has been called the broader strategic dialogue. It bridged the gap between programme-level and strategic-level dialogue and allowed for comparison of experiences and policy models in specific areas (e.g. Health Insurance, Regulatory Health), through the use of the opportunities provided by the SP (namely, the TDCA Dialogue Facility).

**Conclusion 9: The strategic dialogue and the knowledge sharing processes combined with SBS are limited by the absence of specific tools and procedures.**

*This conclusion is based mainly on EQ2 and EQ5.*

Even if the SBS parties would agree to expand the level of dialogue and address relevant knowledge sharing initiatives, they would be hampered by the lack of skills, procedures and tools. The most suitable tool to address such level of exchange is presently the TDCA Dialogue Facility, but this has still a relatively limited scope and is under the Strategic Partnership. The development cooperation partners in the EUD and NT do not have a direct access to it. Furthermore, the programme managers in the EUD and NT do not have easy access to specialised expertise. On the EU side, access to the sectoral DGs of the European Commission and to the sectoral institutions of the EU member states is not facilitated by agreed procedures.

### 6.3 Cluster 3 - Outcomes and impacts at sector level

**Conclusion 10: While GoSA employment creation programmes supported by SBS have yielded considerable achievements, these are, to a certain extent, offset by persistent structural bottlenecks.**

*This conclusion is based mainly on EQ4, EQ5 & EQ6.*

Despite the high political priority placed on private sector and employment strategies, which have led to the creation of two million new jobs over the period and to the significant growth registered in the rate of investments, the official unemployment rate has declined only marginally and remains high at approximately 25%.

SBS funds have contributed helping GoSA to:

- address complementary areas in the main sector policy framework (through *SWEEEP*);
- launch a new and promising programme focusing on innovation for poverty reduction (*IPA*);
- test new lending products to address market failures in the financing of SMMEs and/or risky projects (*RCF*); and

- strengthen its employment creation programmes (*ECF*).

Beyond the funds, other SBS inputs have been deployed as follows:

- dialogue in the case of *IPA*, with a number of implications – partly still to be developed – in terms of strategic exchange on Science & Technology, and systematisation and extension of lessons learned;
- CB/CD inputs, based on exchange of know-how between SA and EU have been used in the *RCF*, through the EIB involvement.

GoSA policies and programmes supported through SBS have only partially tackled some of the bottlenecks that constrain economic growth. Jobs have been created (primarily through enhanced public interventions), skills enhanced, new lending products developed, and some innovative approaches that might be appropriated by a dynamic private sector (namely SMMEs and rural enterprises) have been tested with success. Despite this, the persistence of some structural bottlenecks – including inadequate skills profiles, institutional and regulatory framework of the labour market, difficult environment for SMMEs – is a factor, aggravated by the financial crisis, which affects the decline in country's competitiveness, the overall limited economic growth, and in particular to the declining contribution of SMMEs to the South African economy.

SBS has not addressed such policy domains, not even through expanding the dialogue component to general strategic areas, such as the understanding and comparison of worldwide alternative policy experiences to enhance employment (labour market, VET and SMMEs support policies). It is felt that, especially in the case of the recent *ECF*, an opportunity could be missed, considering that the relevant areas of collaboration and exchange of experiences between EU and SA potentially exist (SP dialogue).

**Conclusion 11: SBS operations have supported the GoSA in the implementation of crucial reform processes in the water and sanitation sector leading to significant development results. More recently, the declining intensity and quality of the SA-EU dialogue in the sector has limited exchanges on potential solutions to address important persisting bottlenecks.**

*This conclusion is based mainly on EQ2, EQ5 & EQ7.*

Over the last decade, important reforms took place in the Water Sector. Guided by the development of two new sector policies – the Strategic Framework for Water Services (SFWS) in 2003, and the Water for Growth and Development Framework (WfGD) in 2009 – these reforms took into account important transformation processes in terms of local governance and evolution in the national financial framework.

SBS funds and dialogue – based on previous experience of collaboration – have combined at the right time to help the government design and implement a new institutional approach in the sector, with a focus on the poorest provinces and the recognition of the progress made in the establishment of democratic local governments. SBS-supported initiatives have contributed to testing a new sectoral strategic framework based on the transfer of responsibilities to the local government level and a new leading role of DWA. This process was accompanied by several CB/CD activities, also financed through SBS. SBS has supported the various phases of the GoSA programme over a decade, extending and consolidating the results gained in previous phases.

The implementation of the SBS-supported GoSA programme, combined with significant public investment in infrastructure, has allowed the achievement of important results in terms of access to water and sanitation in the poorer provinces.

However, other objectives of the programme - such as the involvement of CSOs - have been overlooked. Over time, new challenges have also arisen in the sector, such as: the weakness of a shared vision at sector level, due to the multiplication of the local responsibilities; the complexity of maintaining the infrastructure developed and ensuring efficient management of water and sanitation services. The new challenges are likely to offset the development results achieved during the important reform process of the last decade.

While the EU funds remained significant, the level of dialogue has fallen in recent years. The impoverishment of the dialogue has hampered the possibility for GoSA and the EU to exchange ideas on ways to address the new bottlenecks and potentially to identify solutions that could be supported by the EU.

**Conclusion 12: By building on existing policy partnerships in the Governance Sector, SBS has supported a successful DoJCD innovative programme to improve access to justice in the poor areas, and the institutionalisation of the Legislative Sector within crucial areas for South Africa's process toward a stable and inclusive constitutional democracy.**

*This conclusion is based mainly on EQ5 & EQ8.*

Over the years, the EU has established a firm partnership with state institutions in the justice and legislative sectors and with a variety of strategically important non-state actors in multiple sectors, which has allowed the EU and its government partners (DoJCD and SALS/LSS) to implement two SBS relevant and effective operations. The dialogue and financial inputs of these two operations, building on the existing policy commitments in the two governance sectors, helped shape and support two important government programmes.

In the case of the Justice Sector, this involved innovative approaches of DoJCD to strategic partnerships with key civil society actors to extend access to justice, sensitise on constitutional rights, and create policy feedback mechanisms for new cycles of policy innovation. In the implementation process, a network of intermediate service delivery actors has been enabled in the poorest areas, justice services have been expanded to marginalised groups, and more citizens are aware of their constitutional rights. In addition, the '*state-civil society partnership approach*' has in the course of this process gained in relevance as DoJCD obtained stronger roles within the Justice, Conflict Prevention and Security cluster - which convenes different departments and the President's office. This was also reflected in the upgrading of the unit within DoJCD steering this state-civil society partnership.

In the case of the legislative sector, the pitfalls of fragmenting Parliament and the nine Provincial Legislatures have been avoided, and the *LSPSP* was viewed positively for its contributions to the institutionalisation of the Legislative Sector. Consistent dialogue, combined with appropriate financial support, strengthened key stakeholders and sector actors in their efforts aimed at harmonising sector systems and procedures, at strengthening key functions (e.g. financial, managerial, human resources, etc.), and at developing capacities in vital areas such as research, public outreach and international co-operation. Linkages with other state institutions and statutory bodies (such as the Auditor General of South Africa, the Financial and Fiscal Commission, the Presidency, etc.), as well as targeted demand-side pressures from civil society, further influence and shape this transformation process and may contribute to improved sector performance. However, it is necessary to take into account the huge challenges facing the young and insufficiently institutionalised Legislative Sector, as well as the political disincentives that result from the party-list electoral system on members of the Legislative Sector. Even in a more institutionalised sector, these factors might work against rhetorically agreed outcomes, such as the exercise of effective checks and balance functions over the executive, energetic representation of citizens/constituencies, or quality law-making practices based on deliberations and public participation. Some components of the SBS specifically contribute to mitigate these risks, namely the inter-parliamentary dialogue which is supported with the EU and other parliaments - although the limits of external leverage have to be acknowledged.

#### 6.4 Cluster 4 - Other key issues on the implementation of the SBS modality

**Conclusion 13: SBS has contributed to policy experiences that have shown how CSOs are essential actors in reaching socially excluded groups.**

*This conclusion is based mainly on EQ5, EQ7 & EQ8.*

Some SBS operations have supported GoSA programmes with a significant involvement of non-state actors, using various modalities:

- In *Access to Justice*, the CSOs are in charge of the whole service delivery action under the leadership of the DoJCD, which finances, plans and monitors their action. In addition the EU directly finances a complementary project through some specialised NGOs. The GoSA-CSO partnership is the core of the *Access to Justice* programme. Its success provides an important lesson in view of similar institutional arrangements at national, regional and international level.
- In *Masibambane* (Water and Sanitation Sector), CSOs are identified as key partners of the local governments for programme implementation, but their actual involvement has been overlooked. This is probably a reason to explain the problems identified in relation to the sustainability of the achievements (poor maintenance).
- In *PrimCare* (Health Sector), CSOs are key service deliverers and represent a substantial component of the innovative intervention model put in place. Although it may be too early for a comprehensive judgement, the intervention seems successful.

In all three cases mentioned, SBS has contributed to policy experiences that have shown how CSOs are essential actors in reaching the most marginalised groups, and built local networks for sustainable service delivery with them. In the case of Water, there has been a negative lesson learned, as a result of CSO involvement being overlooked.

The use of SBS instead of alternative modalities, has allowed GoSA to test out the partnership with CSOs as its own policy and build on its own experience. In one case, EU-funded actions complementary to SBS have been put in place, with success (*Access to Justice*).

**Conclusion 14: SBS has endeavoured to extend its support to local institutions with different modalities and results.**

*This conclusion is based mainly on EQ5.*

SBS has endeavoured to support both national Government institutions with their CSOs partners and Local Governments with local level CSOs. Local partners have been supported in most sectors, namely in Water, Governance, Health and decentralised Urban Development, either through specific BS components or through complementary GoSA actions. In the Water Sector, *MSB I* supported the implementation of a comprehensive pilot experience whereby lessons learnt from working with local government (LG) contributed to the development of the Strategic Framework for Water Services, which took into account LG transformation and to the strengthening of Water Service Authorities and Water Service Providers to establish their water governance functions. In the Justice sector, the targeted engagement strategy with civil society has also created a demand-side pressure on public authorities at all levels for openness, while, in the Legislative sector, SBS has supported the strengthening of linkages between the National Parliament and Provincial Legislatures. In the Health sector, SBS-supported programmes have contributed to the successful experimentation of new initiatives and ways of delivering services at local level, including support to the development of human resources at various levels of the sector institutional environment. In *eThekweni*, the local authorities have been effectively supported through an innovative urban management approach, which has not worked for different reasons in the case of *URP Eastern Cape*.

There are few cases (e.g. the Financial Management Improvement Programme, the very peculiar support to independent national NGOs in the *Access to Justice* or the particular arrangement to ensure CB/CD support by NGOs in *PrimCare*), where BS has been complemented through specific EU-funded CB/CD initiatives in favour of Local authorities.

In all cases but one, support to Local authorities has been run under the responsibility of national institutions. In the case of Urban Development, instead, BS has supported programmes run by Local Governments. Here also, however, it's not a proper case of BS to local institutions, as the resources have been provided to test a new national approach to local development, under the guidance of national institutions.

**Conclusion 15: The good quality of PFM acted as an enabling factor for SBS, rather than an SBS objective; at the same time, SBS contributed to reinforce PFM systems, namely at sectoral level.**

*This conclusion is based mainly on EQ4.*

Overall, the EU is by far the biggest contributor to the RDP Fund – that is, the modality established by the GoSA to manage ODA that donors agree to put under government control. Although yearly ratios fluctuate, the shift of the EU towards an increased use of the SBS modality is reflected in a growing average of EU funds disbursed through this channel (from a low of 46% in 2000 to highs well above 60% for the great majority of the following years). In contrast, this share has been much lower for the total aid received by South Africa in the same period (about 20%).

All RDP funds are budgeted for and reported on by GoSA in a fairly comprehensive and transparent manner, and it can be concluded that SBS has thus contributed to increasing the amount of aid integrated in the budgeting process and aligned to the government systems (SBS is in fact '*on plan*', '*on budget*', '*on-Treasury*', '*on account*', '*on procurement*', '*on report*' and '*on audit*'). This is not always the case with regard to other donor funds that are managed by the donors and not necessarily reported on (by donors), giving rise to what has been termed the 'invisibility' of aid in South African processes.

Contrary to evaluations carried out in other countries (e.g. Mali, Tunisia, Zambia), this evaluation concludes that SBS operations have not provided important contributions to the substantial PFM reforms introduced in South Africa after the end of the apartheid, although these have been supported since the late 1990s by the EU through the implementation of successive Financial Management Improvement Programmes. The significant success of South Africa in achieving the objectives of improved fiscal sustainability, alignment of spending with national priorities, improved accountability and

increased levels of transparency and participation are primarily linked to the strong drive and efforts put in place by GoSA. In some cases, SBS operations did indeed include one or more conditions related to improvements in PFM, and links between SBS operations and PFM improvements at sector level can be drawn in the Legislative, Justice and Water Sectors. However, no complementary CB/CD was provided to this end (with the exception of the Water Sector), and nor were improvements in overall PFM explicitly included as expected key results of the SBS operations.

**Conclusion 16: With SBS funds, predictability of aid has markedly improved compared to other forms of aid. However, and despite the rather low proportion of SBS in the overall GoSA public expenditures, delays in payment of some tranches have had negative consequences on the implementation of specific SBS-supported programmes.**

*This conclusion is based mainly on EQ3 and EQ4.*

Over time, predictability of commitments of EU-SBS funds over a multi-year framework has increased and is significantly higher than that recorded for other forms of aid. Specifically:

- Timeliness in the submission of SBS forecasts is high.
- Rates of disbursement are close to 100% and, on average, 95% of the total volume of SBS forecasted amounts has been disbursed within the planned fiscal year.

Despite this, and despite the fact that SBS funds represent a very small share of GoSA additional expenditure, the significant delays encountered in the payment of specific tranches have had important consequences on the implementation of some SBS supported programmes and even on the sustainability of the development actions. Indeed, the specific way in which GoSA uses budget support funds (the transfers to line departments that are expected to be covered by SBS take place only if SBS funds have been actually received on the RDP Fund account) emphasises the consequences of disbursement delays in relation to budget implementation and project financing. The delays, however, are often the combined result of multiple causes. Among these: delays in the submission of payment files by the Line Departments to the NT and/or from the NT to the EUD; delays in actual payment/processing of request by the EU; lack of compliance with established conditions for payment or differing views on the achievement of predefined targets; and delays in the transfer of funds from the RDP Fund to line department accounts.

Delays in tranche payments related to the *MSB III* SBS operation (Water Sector) were reflected in delays in payments to participating CSOs, leading in some cases to unsustainable financial difficulties. These delays have undermined trust and relationships between CSOs and other MSB Water Sector stakeholders, and proved to be a fatal blow for CSO participation in the programme.

Repeated delays in the crediting of funds to the Municipalities' accounts, in the case of the *URP Eastern Cape*, did not allow their integration in the annual IDP/Budget process, leading to a lack of commitment, low spending, and further delays.

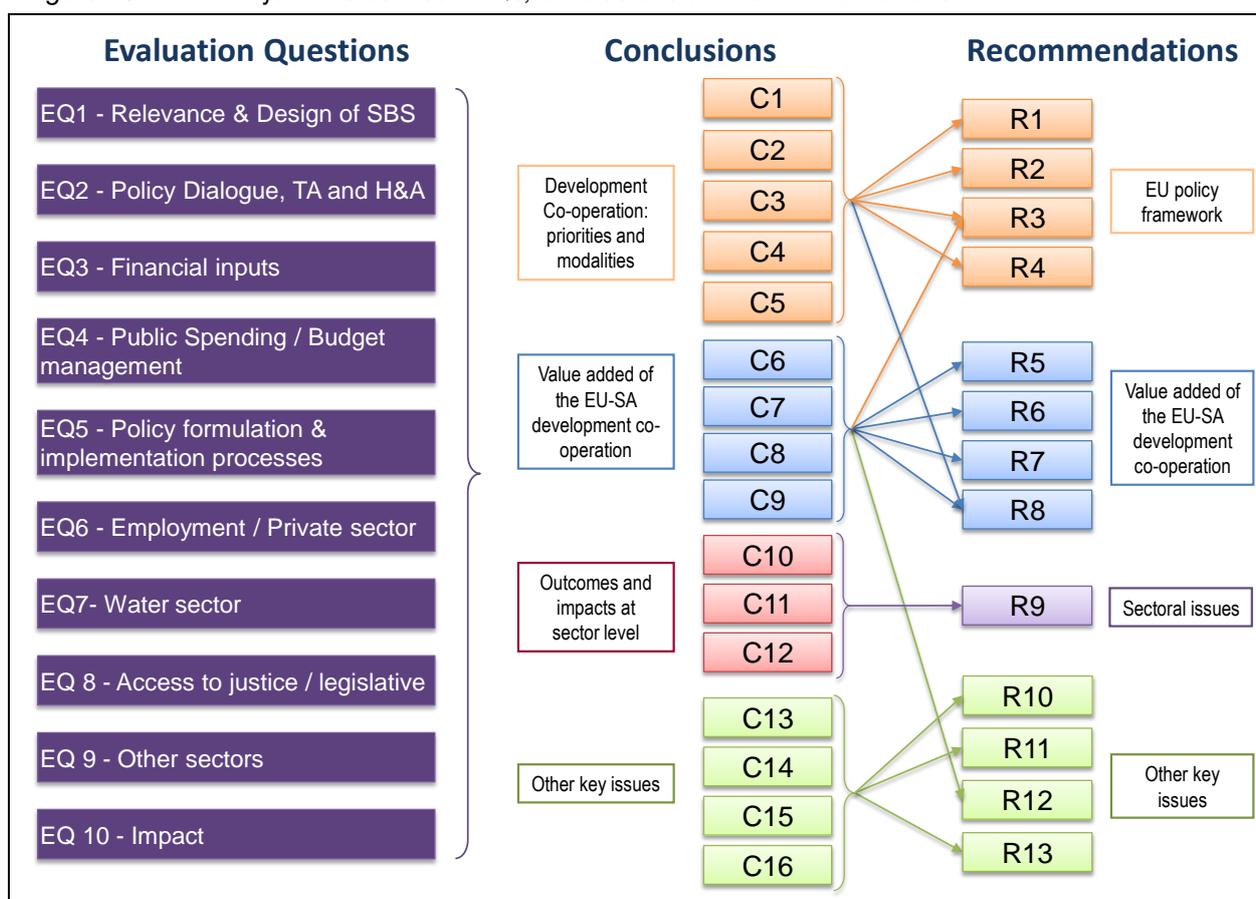
## 7 Recommendations

The following key recommendations emerge from the conclusions. Like the conclusions in the preceding section, the recommendations are also presented in clusters, namely:

Recommendations 1 to 4	Development co-operation: priorities and modalities
Recommendations 5 to 8	Value added of the EU-SA development co-operation
Recommendations 9	Sectoral issues
Recommendations 10 to 13	Other key issues

The linkages between EQs (findings), conclusions and recommendations are illustrated in the following figure.

Figure 15 Major links between EQs, conclusions and recommendations



## 7.1 Cluster 1 - Development co-operation: priorities and modalities

### Recommendation 1: Priorities.

**Development co-operation should continue to be recognised as a key element of the EU-SA partnership and remain focussed on national developmental needs; at the same time, approaches should be developed and relevant experience and possible lessons identified for replication at regional and international level.**

*This recommendation is mainly based on:*

- Conclusion 1.

*This recommendation is mainly addressed to:*

- NT, EEAS/DEVCO, EUD.

It is recommended that development co-operation should be kept focused on national developmental needs, – namely, building a prosperous and inclusive democracy<sup>147</sup> – as these will remain for decades a key challenge for government and civil society in South Africa:

- The South Africa National Development Plan presents a variety of key challenges on which thematic and sectoral partnerships should be built, with deep roots at country level<sup>148</sup> and involving a wide range of key national stakeholders (GoSA departments, CSOs, Local governments, social actors, etc.). A shift toward a more international ground, if combined with a reduction of the national focus, would exclude a large number of SA actors by narrowing the partnership to limited groups, such as foreign policy actors, bodies/ agencies with international experience and academia.
- The success in building a prosperous and inclusive democracy is a condition for South Africa to play a leading role at regional and international level. Therefore, supporting South Africa's efforts to identify winning approaches and models for national development is the best way to preserve and reinforce its stabilisation and development role in Africa and worldwide.
- Sustainable and equitable development in South Africa and in the region is an area of strong tradition and almost complete coincidence of interests between EU and SA, beyond any generic ideological distinction. In other important matters regarding trade, international settlements, etc. there are diversities and divergences, as the two partners belong to different geopolitical groupings. Keeping and deepening the base of convergence on national and regional development would benefit the partnership also in the other areas.
- Finally, keeping the focus on national development will allow to preserve and reinforce the present emphasis on policy processes and innovations of the public institutions (central and decentralised governments, Parliaments, other specialised ones) with their civil society partners. Often, policy support projects are based outside the government institutions, while the SBS have given opportunities to creative and innovative public bodies to test the ideas that were generated through their own experience, with the NT ensuring the link between their proposals and the national priorities. This has been an important value added of the SBS that should be kept in the future.

### Recommendation 2: Budget support modality.

**Budget support should be maintained as the key financing modality, to guarantee government ownership and strong links with the stakeholders involved in policy making and implementation. At the same time, enhanced dialogue and CB/CD components should be strengthened also through complementary actions to better reflect the value added of the SA-EU co-operation.**

*This recommendation is mainly based on:*

- Conclusions 2, 3, 4 and 5.

*This recommendation is mainly addressed to:*

- NT, EEAS/DEVCO, EUD.

Budget support should remain the key financing modality of the development co-operation, with the integration of expanded strategic dialogue and new capacity development components including

<sup>147</sup> “Sustained growth and reduced inequality”, “greater opportunities for all”, “national consensus”, “a capable state”... National Development Plan / Vision 2030, pages 2, 90, and others.

<sup>148</sup> It has been said that the development cooperation between SA, as a MIC, and EU has three main dimensions: national, regional and international (Siân Herbert - ODI - The future of EU aid in middle-income countries: the case of South Africa, 2013). According to this study, a more ‘traditional approach’ would emphasise the national argument, while the stakeholders seem to stress the opportunities of focusing on the international argument. Such new focus would pave the way to a more strategic cooperation seeking for synergies and joint action at international level.

through enhanced complementary actions.

Strengthening the link with the actual policy processes will facilitate the complementarity of BS with other modalities of development cooperation, including specific capacity development initiatives and exchanges. This applies to both existing projects and facilities (e.g. PSPPD, TDCA Dialogue Facility), and to new initiatives that might be launched in the future. Such initiatives, without a relation to BS and the actual supported policy processes, would easily become rather academic and isolated exercises. At the same time, the complementarity with BS may reinforce their concreteness and continuity and help the partners identify new themes and approaches to inform policy research and debate on development matters in the respective countries and eventually inspire joint action at regional/international level.

### Recommendation 3: Future budget support.

**BS operations should continue to support creative and innovative public institutions with an established tradition of co-operation with the EU, one of the key success factors to date, and should possibly involve new development partners.**

*This recommendation is mainly based on:*

- Conclusions 4, 5 and 6.

*This recommendation is mainly addressed to:*

- NT, DEVCO/EEAS and EUD.

The implementation and management of future BS operations should draw on the lessons of past and on-going SBS with a view to build on the strengths and minimise the weaknesses. In particular, the formulation, implementation and management of future BS operations should ensure that:

- the most positive features of the SBS experience are not lost, namely that BS remains an opportunity for creative and innovative public institutions and their partners in the civil society with an established tradition of co-operation with EU;
- strategic dialogue in combination with sectoral policy support is expanded and strengthened, including through the set-up of complementary envelopes to finance specific CD initiatives aimed at facilitating the exchange of high-level know-how on policy experimentation.

In the shorter-term, linkages with existing facilities and structures (e.g. the TDCA-Facility and the PSPPD) should be strengthened, namely:

- support for capacity development to engage in strategic policy dialogue and leading to increased institutional capacity provided in the framework of the Dialogue Facility should be better linked to planned and on-going BS operations; and
- research and evaluations on policy interventions which address poverty and inequality, promoted by the PSPPD should be used also to feed the strategic policy dialogue and identify areas of particular interest for future BS support.

The successful experience so far should help expand the collaboration to other development partners. In this respect, the EU should seek stronger complementarity and harmonisation of developmental actions including joint financing both with regards to EU member states and to other development partners.

### Recommendation 4: Budget support specific typology.

**The specific typology of SBS in SA should be considered as an option for cooperation with MICs, in specific cases.**

*This recommendation is mainly based on:*

- Conclusion 4.

*This recommendation is mainly addressed to:*

- DEVCO.

The specific typology of SBS tested and fine-tuned in SA should be viewed as an option for cooperation also with other MICs, as it ensures complete government ownership of the policies and programmes supported whilst – at the same time - it allows ample space for expanding the knowledge sharing processes between the partners.

This typology seems particularly suited to those middle-income countries like SA, with which the EU has a strong partnership but has not established any association agreement, which would allow more in depth political and policy debate on the domestic policies interested by the partnership.

BS would be used to support specific policies and programmes owned by the recipient Government with a focus on shared policy objectives and innovative / risk-taking components:

- the strong Government ownership and the relatively minimal financial weight of BS on the

- overall discretionary expenditure would minimise any negative tied-aid effect; while
- the focus on key thematic areas and programmes, within broader sector policies, would allow to better exploit the value added of the EU cooperation, and would enable significant qualitative contributions in terms of knowledge sharing to expand the knowledge base of both partners.

In such countries, governments may decide to utilise the BS funds for specific programmes and actions where, at the same time, performance indicators and policy dialogue cover sector wide performance and, as in the SA case, ‘intrusive’ references to the use of resources and the traceability of funds are excluded<sup>149</sup>.

The sustainability of the supported actions should be ensured through a primary role of the recipient governments in the provision of the relevant financial and technical resources and the mainstreaming of experimentations, if successful, as happens in the case of South Africa.

## 7.2 Cluster 2 - Value Added of the EU-SA development co-operation

### Recommendation 5: Policy dialogue.

**‘Programme-level’ policy dialogue should be combined with a broader ‘strategic dialogue’ according to the Strategic Partnership, based on peer-to-peer exchange of knowledge on key development issues.**

*This recommendation is mainly based on:*

- Conclusions 7, 8 and 9.

*This recommendation is mainly addressed to:*

- NT, Line Departments, DEVCO/EEAS and EUD.

According to the Budget Support Guidelines (EC-DEVCO, 2012), policy dialogue includes two distinct features:

- First, *“it provides a framework to take stock of the respective commitments and to assess progress on both sides”*.
- Second, *“it can be used as a forward-looking tool”*.

In South Africa, the second feature should be better developed and integrated with the first one. Such a ‘forward-looking’ or strategic approach should fit the dialogue framework promoted by the TDCA and the Strategic Partnership and be intended as: *“exchanging experiences and information on the worldwide best practices, models and approaches regarding the policies supported, so that the partners can learn from each other and eventually strengthen the respective knowledge base and capacity”*<sup>150</sup>. Such dialogue should support a true knowledge sharing process between the partners on the relevant development matters.

Any interpretation of this dimension of dialogue as an attempt to influence the design and implementation of development policies in SA should be avoided. Policy dialogue should rather strive to broaden the scope of the co-operation on individual programmes and provide:

- the South African side – namely the government departments and their policy partners – with elements to better position their experience in the context of international practices and thinking; and
- the EU – including Member States – with the opportunity to strengthen their knowledge on development, based on an open exchange and comparison between their own experience and that of South Africa.

When considering a policy support programme (PSP – either an ongoing or a future one), the two parties should ask themselves how their partnership may contribute to expand the respective knowledge base around the issues at stake. With the help of the existing resources (e.g. TDCA facility) and possibly new tools, knowledge sharing initiatives should be conceived, launched and followed up to complement the PSP all along its implementation.

In addition, new forms of co-operation could arise from this exchange, such as sectoral partnerships (e.g. inter-institutional twinning, at national or local level, etc.) and / or joint actions and programmes at national, regional and international levels. New expertise and tools should be developed for that, as recommended below.

<sup>149</sup> See also ‘Specificities of budget support in South Africa’ section 2.3 of Annex 3 in Volume III.

<sup>150</sup> See also footnote 33.

### Recommendation 6: Capacity development.

**Continue mobilising expertise for institutional strengthening and Capacity Building / Capacity Development (CB/CD), but expand CB/CD initiatives to support advanced policy exchange and knowledge sharing, according to the Strategic Partnership.**

*This recommendation is mainly based on:*

- Conclusions 8 and 9.

*This recommendation is mainly addressed to:*

- NT, DEVCO/EEAS, EUD, Programmes' stakeholders.

The use of expertise, under various forms, to strengthen the institutions involved in the implementation of the SBS supported programmes has shown to be effective and deeply owned by the SA side. Therefore, it should be continued.

However, when designing BS operations, the CB/CD component should be expanded to include initiatives that allow the advanced policy exchanges and knowledge sharing processes mentioned in Recommendation 5. Such 'extended CB/CD' is possible, either by including within the BS package additional specific CB/CD components to respond to such need, or through the establishment of *ad hoc* complementary CB/CD actions be they financed by the EU or by other development partners.

Such components and/or complementary actions may include, for instance: (i) workshops on relevant intervention models tested worldwide; (ii) inter-institutional meetings and specific co-operation between SA and peer institutions from EU and/or other countries; (iii) study tours from SA to visit relevant peer institutions; (iv) accompanying studies and related analyses; etc.

The subjects addressed by such 'extended CB/CD' are to be related to the policies and programmes supported by BS, but should not directly affect their implementation. For instance: when supporting national primary health care policies, an enhanced understanding of the health insurance models tested worldwide may help, as shown in practice; when supporting employment policies, a better understanding of the labour market reforms undertaken in other relevant countries may help; when supporting the participative maintenance of the social infrastructure (e.g. water), increased knowledge of how this has been addressed elsewhere may help; etc.

When planning a BS operation, specific knowledge sharing initiatives should be identified and the related resources allocated, or the contribution of complementary programmes (namely the TDCA Dialogue Facility) required. In all the cases, however, the TDCA Dialogue Facility should include a specific component to support 'extended CB/CD' in the development cooperation programmes, namely BS.

In an adapted form, this recommendation is replicable in other partner countries receiving EU BS.

### Recommendation 7: New exchange tools.

**Create tools in the framework of the Strategic Partnership and the existing dialogue architecture to foster enhanced forms of knowledge sharing.**

*This recommendation is mainly based on:*

- Conclusions 6, 7, 8 and 9.

*This recommendation is mainly addressed to:*

- EUD, NT and DEVCO/EEAS.

The development of strategic dialogue and the integration of what has been called above 'extended CB/CD' (for knowledge sharing) with budget support, either as a component or a complement, requires a better use of the complex dialogue structure established by the TDCA and the Strategic Partnership and the set-up of specific tools:

- Instruments such as the TDCA Dialogue Facility could be used for this purpose provided that specific mandates, scopes and organisational arrangements are established to respond in a flexible and timely way to the demands arising from the design and implementation of the BS operations.
- The twinning (especially twinning light) tool should be made available to South Africa, allowing for short- and medium-term inter-institutional partnerships between SA and EU institutions, which can originate from initial exchanges of experience in the framework of thematic meetings.
- Specific facilities might be created. It would be difficult to imagine a specialised sector facility, given the range of themes addressed. A specific facility should be multi-sectoral, and should be able to tap into the expertise of the EU and the Member States (including public sector expertise), but also of other MICs. A specialised section of the existing TDCA Dialogue facility

would fit the purpose.

- Horizontal programmes (like the regional ones in Latin America or Asia, for social cohesion, private enterprises, etc.) should be considered as well.

At the same time, lessons learnt from SBS operations at policy level should inform the agenda of the dialogue fora and feed wider policy thinking and dialogue for national and international learning thereby opening up new areas of dialogue.

In an adapted form, this recommendation is replicable in other partner countries receiving EU BS.

Finally, some of such tools (exchange facilities and specialised networks) are relatively common in other geographic areas, but not in Africa. The partnership with SA may be an important starting base to build such tools in view of using them in the EU-SA exchange and gradually extend their use to the other Sub-Saharan African countries.

### Recommendation 8: Regional and international level.

**Extend lessons from development co-operation at national level to regional and international level.**

*This recommendation is mainly based on:*

- Conclusions 1, 6, 7 and 8.

*This recommendation is mainly addressed to:*

- NT, EEAS/ DEVCO and EUD.

As stressed in Recommendation 1, the co-operation on national development issues is a base to expand on the regional and international dimension of the SA-EU partnership.

SA and EU are global players, with strong common interests particularly in the development area. According to the Strategic Partnership, SA and EU commit themselves to “*struggle against poverty and under-development, racism and xenophobia*” to closer co-operation in “*science and technology, innovation for development*”. EU supports “*South Africa’s commitment to the African Agenda, including the African Union and NEPAD. Both partners are also committed to ensuring that the interests of developing and emerging countries are addressed. Both partners agree that the Strategic Partnership will be supportive of regional integration in SADC and the proposed Joint EU-Africa Strategy*” (JAP, 2007).

Integrating policy exchanges on international experience within bilateral budget support operations would help strengthen the national approaches and build references that can be used at regional and international level. This would feed the partnership for international development, which is identified as a key area by the SA-EU Strategic Partnership.

Regional and international initiatives may be launched or supported as an extension of the development partnership within the country. This is particularly evident in the area of Innovation for Poverty Alleviation, but the same may apply to Health, Water and other sectors being at the centre of the SA-EU national cooperation programme. In many cases, the ‘extended CD’ components that should complement or be integrated within the BS packages (as recommended above) may/should be expanded to include regional and international partners.

## 7.3 Cluster 3 - Sectoral issues

### Recommendation 9: Sectoral priorities.

**Keep the sectoral and thematic focus for BS operations, according to the SA demand, but open up dialogue and expand knowledge sharing to address relevant strategic themes.**

*This recommendation is mainly based on:*

- Conclusions 10, 11 and 12.

*This recommendation is mainly addressed to:*

- NT, EUD, relevant SA stakeholders.

The specific modalities to link BS operations to particular policy programmes have been considered appropriate and should be maintained in the future (Recommendations 2, 3 and 4). While this does not allow to recommend possible future sectoral priorities, which will depend upon the government demand, in the framework of the general priorities agreed upon between the partners; it is possible, however, to highlight, in the sectors covered so far, the areas that might or should be addressed by specific policy dialogue, CB/CD initiatives and other knowledge sharing support to fill the gaps that have been identified in the evaluation:

- In the Employment Sector, the institutional framework of the labour market and the skills profile of the labour force, as well as the SMMEs support policies are areas in which the EU Member States – from the oldest to the newest ones – have a rich and diversified experience

<p>which might be jointly addressed to build significant development lessons. Other complementary initiatives could be considered, such as institutional twinning.</p> <ul style="list-style-type: none"> <li>• In the area of S&amp;T, a regional / continental network including African and EU specialised institutions could be promoted to exchange relevant experiences and assist implementation in different countries.</li> <li>• In the Water Sector, opening up a dialogue on possible CSOs involvement in social infrastructure maintenance, including examples from other development countries, could help addressing the policy implications of the obstacles met so far and possibly open the way to further co-operation, such as complementary CB/CD initiatives.</li> <li>• In the Governance Sector, both supported programmes through their positive experience could feed a fruitful dialogue on the lessons learned, with possible extension at national, regional and continental level.</li> <li>• In the Health Sector, the integration between the SBS operation and the knowledge sharing initiatives at the level of the TDCA Facility on the health insurance models and other strategic themes should continue.</li> <li>• There are also other areas where a strategic exchange, not necessarily linked to an ongoing BS operation, could see the ground for further action, as on the theme of inequality. A joint forum (instead of one-off initiatives) on fighting inequality could address different themes, ranging from the EU experience with the regional cohesion policies to the recent policy experience in other high inequality countries, such as Brazil, etc.</li> </ul>
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#### 7.4 Cluster 4 - Other key issues for development co-operation

<p><b>Recommendation 10: Civil society.</b>  <b>Further expand the involvement of civil society actors.</b></p>	
<p><i>This recommendation is mainly based on:</i></p> <ul style="list-style-type: none"> <li>• Conclusion 13.</li> </ul>	<p><i>This recommendation is mainly addressed to:</i></p> <ul style="list-style-type: none"> <li>• NT, DEVCO/EEAS, EUD and CSOs.</li> </ul>
<p>According to Conclusion 11, the involvement of CSOs allows to ensure an inclusive approach to service delivery as well as an adequate level of advocacy and watch-dogging vis-à-vis the government action. Therefore it is recommended that:</p> <ul style="list-style-type: none"> <li>• in terms of service delivery, experience gained in the Health and Justice sectors should be used to identify areas in other sectors where such a participative approach could be adopted successfully, e.g. in the Water sector;</li> <li>• in terms of watch-dogging, complementary initiatives should be supported, in the governance sector – as already happens in the Justice sector – and in other areas where this may be appropriate.</li> </ul> <p>In addition, the attention to civil society should be also extended to new actors, such as Trade Unions, judges, press, representatives of the entrepreneurs, to favour their participation in high level dialogue and exchange of experiences, namely with their peers in the EU, through the different opportunities provided by the SP. Through the TDCA Dialogue Facility and/or other tools (e.g. twinning), specific initiatives involving SA and EU partners could be supported in order to facilitate the establishment of stronger relationships between peer actors of the civil society.</p>	

<p><b>Recommendation 11: Local institutions.</b>  <b>Integrate BS with complementary CB/CD support to Local Authorities to ensure their full participation in development actions.</b></p>	
<p><i>This recommendation is mainly based on:</i></p> <ul style="list-style-type: none"> <li>• Conclusion 14.</li> </ul>	<p><i>This recommendation is mainly addressed to:</i></p> <ul style="list-style-type: none"> <li>• NT, EUD and CSOs.</li> </ul>
<p>When the dialogue identifies the need to provide specific support to local actors to enhance their participation in the supported programmes, complementary CB/CD actions should be put in place, either through specific SBS components / arrangements, or through separate support funded by the EU or by other development partners. The second approach should be preferred when specific gaps are identified that may be overcome through intensive, short-term CB/CD support provided either at provincial or municipal level. The first one should be preferred when longer term institutional and policy relations between national and provincial/local level institutions need to be addressed.</p> <p>In any case, considering the persistent weakness of municipal authorities, especially in poorer areas,</p>	

as well as their focus on implementation and lack of mandate on policy formulation and testing, it is not recommended to implement BS at the municipal level, unless it is a limited and closely monitored trial undertaken in the framework of the piloting of centrally driven innovative policies. A different case is represented by the provinces, where BS support may be considered, provided adequate CB/CD support is ensured.

### Recommendation 12: Other EU actors.

#### Increase access to - and involvement of - the whole range of EU institutional actors.

*This recommendation is mainly based on:*

- Conclusions 6, 7 and 8.

*This recommendation is mainly addressed to:*

- EUDs, EEAS, DEVCO, other DGs.

To feed the knowledge sharing processes that have been identified as the main outcomes of the SA-EU development cooperation (JAP 2007), it is necessary to draw on the EU experience in the different sectors and on that of different EU member states. This means that not only specific tools must be available (see Cluster 2), but access to relevant information and resources must be ensured.

In most sectors, SA is interested in the EU and EU member states experience and accumulated know-how, and ways to ensure easy access to such experience and know-how need to be favoured. Those EU institutions which are supposed to own and catalyse a synthesis of this experience and know-how, such as the EU sectoral DGs, should be mobilised – under the coordination of DG DEVCO/EEAS - to facilitate such access and, when needed, provide information and help to approach relevant member states.

In order to enable EUDs to access and involve EU DGs such as DG EMPL (Employment, Social Affairs and Inclusion), DG REGIO (Regional Policy), DG SANCO (Health and Consumers), DG RTD (Research and Innovation) and others, as well as on the experience of the EU member states and the EU worldwide partners, specific modalities and tools must be established, namely organisational and logistic arrangements should be ensured at country level, through existing and/or new facilities.

In an adapted form, this recommendation is also applicable to the cooperation with other partner countries.

### Recommendation 13: Predictability.

#### Enhance predictability of the flow of budget support funds.

*This recommendation is mainly based on:*

- Conclusion 16.

*This recommendation is mainly addressed to:*

- NT, DEVCO, EUD.

Considering the effects of the disbursement delays on the operations of the GoSA programmes supported by BS, specific agreements and arrangements should be established to avoid this typical project-type bottleneck.

On the EU side, a few arrangements should be adopted to reduce the actual delays in disbursement, such as the reduction in the number and simplification of KPIs used as disbursement triggers, so as to facilitate the disbursement assessments and negotiations.

On the SA side, improvements should regard the submission of payment files by the Line Departments to the NT and/or from the NT to the EUD. According to the SA stakeholders, however, the persistence of the present SA rule of establishing a direct dependency between BS disbursement and the budget of the GoSA supported programme would continue creating problems during implementation, with possible negative consequences on the sustainability of the action. That said, this rule is not a matter of discussion between SA and EU and this is why the present recommendation cannot enter into detailed proposals, apart from encouraging the adoption of any practical solution to the evident bottlenecks created.