7. CONTENT AND FORMS OF ODA

This Chapter looks at the three principal forms of ODA to SA: Technical Assistance (TA), Grants and Concessionary Loan Finance. We begin this discussion with a consideration of the issue of knowledge banking, which is basis of most forms of TA, and potentially represents the most valuable contribution of ODA to the country.

7.1. Knowledge banking

Three factors force the issue of knowledge banking to the fore of the discussion on the value of ODA to SA:

- Without exception, all the DCR II component studies remarked on the transfer of knowledge to SA as being one of the main benefits derived from ODA.
- Most of the major donors[37] now place this form of ODA at the heart of their approach to SA. Most see this as direct support or capacity building to assist the processes of policy formulation, resource management and strategic planning.
- Symptomatic of the view articulated by other multi-lateral and bilateral aid agencies, the World Bank sees knowledge capital as the single most important determinant of a country's development process[38].

These findings, trends and assumptions compel us to ask a number of fundamental questions from the vantage point of ensuring SA ownership of development processes:

- Do we take as 'given' the assumption that knowledge banking is essential for SA at this point of its history as it seeks to tackle issues of: poverty elimination; equitable redistribution of wealth, services and opportunity; and economic growth?
- What kind of knowledge is it that SA needs that is so critical to its own vision of development?

[37] WB/GTZ/DFID are explicitly committed to knowledge transfers although they may not all call it knowledge banking. Other donors increasingly are engaged in what we would see as knowledge transfers although these continued to be described as TA at the higher end of the skills spectrum.

[38] See the World Bank's 1999 Annual Report, 'Knowledge for Development'. Closer to home and reflecting this perspective, the World Bank's current Country Assistance Strategy for SA is entitled 'Building a Knowledge Partnership'.

- From where should it get this knowledge? Only from the 'North' or 'West'? What of 'South-South links' and learning from the 'East'?

- How does SA ensure that knowledge transfers are positive and accord with its own vision of development, is contextually and technically appropriate in terms of content value, and never a potentially insidious Trojan horse?

- Who decides what is needed?

- What do particular donors have that is so special?

- Why hasn't this knowledge got to SA organically by other means, e.g. via commercial, academic or professional transfers that occur ordinarily and dynamically in the open networks which characterise these domains?

These questions are not particularly original or challenging. They feature often in discussions within the country, and surfaced at various points in the DCR II research process: within Government, in IDC, in field interviews with respondents from different spheres of government and civil society, in the DCR II consultancy teams and in the stakeholder workshops.

They are indicative of two paradoxical conditions in the country: the confidence and determination amongst South Africans to fully own and direct ODA; and the sense of unease that the notion of knowledge banking has not been interrogated as rigorously as it should be.

Our view is that the 'unpacking' of the assumptions, claims, content and processes of knowledge banking should be done systematically, as an integral aspect of consciously defining a new paradigm that confirms SA ownership and management of ODA.

We reiterate and expand here some of the steps that should be taken to make this happen.

Where is SA going? What does SA want?

DoF needs to formally stamp its intellectual authority on the overarching development paradigm within which these knowledge transfers take place. We have remarked earlier of the need for SA to explicitly define an MTEF based ODA framework annually.

This framework needs to be developed intentionally and critically, and delineated politically and administratively. It should form the basis of derivative, corollary frameworks for sectoral level planning in relation to ODA. The case for ODA and justification for particular kinds of TA and knowledge banking should take place within these frameworks.

Where is the best source of what SA wants?

Even when ODA is seen as a virtually free international Research and Development (R&D) facility, offering valuable intellectual and material resources, it needs to be dealt with wisely. The largely historically based, commonsensical and intuitive processes by which DoF / IDC makes decisions on the nature of ODA that is sought from donors as part of a framework agreement, should be formalised and supported by methodical rigour.

We suggest deliberate processes to determine the comparative advantages of sourcing intellectual capital from particular countries. In other words, undertaking a 'reverse Country Development Framework' and applying a similar analytic logic to donor resource bases as is applied by donors to the needs of recipients. (We note that there are cases when government departments actively choose to acquire knowledge capital on the open commercial market rather than be hostage to the conditionalities that come with 'free' ODA. Is there an implicit general message here that is worthy of application to ODA?)

The responsibility for conducting these analyses should be vested in a strengthened IDC, as part of the directorate's widened set of 'Management of ODA' and 'Information Management' functions. SA's attempt to establish fundamental hegemony over the deeper processes that impact on its development need not be seen as a purist act. It can be presented as an invitation to enter into a progressive partnership, to donors who lay claim to principles of decentralised development cooperation.

Would such donors be willing to see a proportion of the ODA monies that go into the RDP Fund, say 2%, used by IDC to commission activities to improve the information base on the basis of which decisions are taken, such as conducting comparative advantage studies on ODA sources and independent 'reverse' CDFs[39]?

Interrogating the nature of ODA

Are some forms of ODA more difficult to manage in terms of ensuring SA ownership over the content of knowledge transferred? Do some *types* or *forms of ODA* offer better value in terms of the development process in SA? Are some forms of ODA more sustainable, effective and more appropriate in the South African context?

What types of ODA, and what processes for managing ODA skew the donor-recipient power differential in favour of donors, in terms of the management of meaning, control over resources and behavioural interactions between the two parties?

These questions were not addressed directly in the DCR II, but suggested themselves as being worthy of deeper consideration as we probed issues relating to effective SA ownership of ODA and impact of ODA. The component studies focused primarily on the *content of ODA activities* and how well or badly such activities were *processed* or *managed.* In the next section we offer some pointers to initiate a debate on the fundamental questions around the nature of ODA.

[39] We take for granted here that should such an arrangement be devised the ODA element would be supplementary to the Government's own financial and resource commitment to underwrite and drive this pivotal intelligence facility.

7.2. Forms of ODA support

DCR II reflects broad, general patterns of ODA to SA. Neither the global quantitative analysis described in Chapter 5 nor qualitative analyses in the component studies reveal an accurate disaggregated picture of the proportional division between TA (foreign and local) and non-TA (externally sourced or SA) elements of an ODA grant. This information is lacking despite being of wide interest, if not concern, particularly to those stakeholders who want to probe the patterns of flow-back of ODA to donor countries, in terms of the purchase of professional services and other project-related costs.

The process of building this detailed picture needs to begin with an agreed typology of ODA, an obvious pre-requisite if SA is to track, monitor and evaluate the effects of various forms of ODA on a dynamic basis. A good place to start would be to use the categories evident in the component studies[40].

The bulk of resources for development in SA comes from the government's own budget, a condition that has strongly influenced the form of ODA to SA. ODA essentially provides *complementary support* in these keys areas:

- ♦ Development and transformation of governance, institutional and policy frameworks, strategic planning;
- ♦ Government-led essentially pro-poor social development programmes aimed as improving and accelerating the delivery of assets and services to disadvantaged communities;
- ♦ Testing of pilots and innovative models of good practice, to foster more effective, efficient and equitable development processes within the country, and regionally;
- ♦ Promoting higher economic growth, increased employment and business development (in the small business sector in particular);
- ♦ Enhancing environmental management and environmental sustainability, while taking into account the needs of disadvantaged communities.

The DCR II component studies reveal that there are only three forms[41] of ODA visible in donor assistance to the SA government: TA, grant support, and loans. While no data is available on the precise distribution of aid between TA, grants and loans, two features are visible:

[40] The OECD DAC system, which provided the basis for the taxonomy used in DCR II to ascertain the flow of ODA to sectors of destination, does not offer an equivalent, strict typology to differentiate outflows of ODA, so SA will need to develop its own classification system for this purpose.

[41] Note that the UNDP's DCAS typology used in other, more donor-dependent, developing countries reflects very different UNDP focus: Food Aid, Emergency and Relief Assistance and Technical Cooperation linked to investment emerge as important categories of aid. These have minimal application in the South African context.

Firstly, TA consistently emerges as the dominant form of ODA, with all donors reporting some TA element in their ODA returns; and all government departments and agencies confirming that they receive TA. However, no further distinction is available, say for example in terms of foreign versus local TA, or tied TA versus non-tied TA.

Secondly, there are only two reported cases of social development project loans: US$46m (World Bank) to DTI for SMME support and 3,09b Yen (Japan) to DWAF for dam construction. The bulk of ODA loan commitments and loan disbursement have not gone to government, but to the parastatal sector. We discuss this issue further later in this report. (Section 7.7)

TA appears as the dominant form of ODA to government, with one particularly notable example. The Department of Labour's (DoL) Labour Market Skills Development Programme (LMSDP) is the largest EU TA programme of its kind in the world.

In the tables and commentary below we summarise our main findings on these issues. We begin by delineating the three main forms of ODA to Government viz. Technical Assistance, Grant Funding and Concessional Loans.

One of the key features of all three forms of ODA discussed here is the principle of tied-ODA. By this we mean ODA tied to procuring goods and services from a source specified by the donor, as a precondition and / or integral element of the overall ODA package. In the case of bilaterals this 'flow-back' link is almost without exception with the country of origin of the ODA.

Table 6: **Forms of ODA**

	Description	**Occurrence**	**Recipient Perceptions**
Technical Assistance	The provision of resources aimed at the transfer of technical and managerial skills and know-how or of technology for the purpose of building up national capacity to undertake development activities.	The dominant form of ODA, occurring widely. Used by donors in-house for ODA management purposes as well as conventional technical assistance to recipients of ODA. Takes a variety of forms.	Government departments tend to accept TA as a form of support, but express a variety of serious problems with its practical application. See table below
Grant funding	Provision of financial support covering specified or non-specified development activities and/or capital costs.	Occurs widely, usually in combination with TA. The majority of donors provide some level of grant funding.	Broadly welcomed, subject to recipient determination of the focus of support (the 'what') Government departments have expressed a variety of problems with the mode of implementation of grant support (the 'how'). See below.
Concessional Loan Finance	Two forms of concessional loans are visible: Project Loans taken up directly by government for projects of a social development nature; & Concessionary Finance ODA-Based Loans taken up by parastatals and the private sector. These are secured and guaranteed by government within the framework of SA – Donor agreement, for use by the borrower or for on lending within SA in designated development sectors.	Project Loans: Since 1994, only two such government loans have been put in place: US$46m (World Bank) to DTI for SMME support and 3,09b Yen (Japan) to DWAF for dam construction. Concessionary Loan facilities offered in the first instance to government and in the absence of acceptance by government, subsequently taken up by leading o Parastatals and the Private Sector. Among the leading borrowers: Development Bank of Southern Africa (DBSA), Telkom, Eskom, Industrial Development Corporation, First National Bank, Nedcor.	Widespread reluctance within government to accept loan finance. (In some cases suspicion and cynicism about loan financing in general).

Given the prominence of TA in all ODA relationships between SA and foreign partners, we now consider the four principal mechanisms used to channel TA: TA placement, Inter-Institutional Relationships, Study tours, and Twinning Arrangements.

There is one significant point that needs to be highlighted at the outset of this discussion on TA. The imposition of tied-ODA virtually as a norm in this area provoked a response from recipients from all spheres of Government and other local stakeholders keen to open the debate on the form, nature, content and source of TA. Essentially, this debate can be reduced to two dimensions: the processes of engagement of TA and the content of TA in terms of quality and appropriateness to the project. A number of donors have responded by addressing the first dimension of this debate by assembling local panels of TA as substitutes for foreign TA.

In many cases the selection, training and briefing of these professional resources, is often controlled by, or at the very least influenced by the donors. Remuneration, and the likelihood of further work, also remains silently in the hands of the resource administrators of these panels.

In our view the central issue at the heart of this debate, the struggle over the management of meaning (and to a lesser extent where TA financial resources eventually complete their journey), has now moved to a deeper more subtle level. The panels may be local, but in some cases the dominant influence, built into the TA engagement process upstream, may still be in the hands of donors, albeit in a less visible form. The silent shadow of tied-TA, the set of values that come with knowledge capital, and the direction taken by development processes, therefore potentially remains extant, albeit more discreetly.

In Table 7 below we look more closely at the various forms of TA. Notably, all these forms of TA are often explicitly tied to securing professional and technical services from the donor country, if not exclusively then at least in part, an indication of the abiding pertinence of this issue, and the need for watchfulness on the part of SA stakeholders if the ‘management of meaning’ is to remain largely with SA.

Table 7: Types of TA

Forms of TA	Description	Occurrence	Recipient Perceptions
TA Placement **(tied and non-tied)**	Consultancy support, short or long term placement of a technical expert in a recipient institution (days to years).	Widespread. TA's sourced locally and internationally, and in the case of bilateral agencies, foreign expertise usually sought by donor from within their own country. Covers range of specialist technical and management input: research; policy development; M & E: project management; departmental restructuring & OD; training; materials development; feasibility studies; etc.	Has met with some resistance. Responses vary from highly critical to appreciation of relevant and successful inputs. Generally those aspects of TA that fall outside of the recipient's control tend to give rise to dissatisfaction on the SA side.
Inter-institutional relationships	Recipient institutions in SA matched with institutions in the donor country, to facilitate information exchange, skills transfer and networking. Exchanges can extend from short visits (days) to longer (up to three months) Increasingly augmented by internet communication.	Popular amongst Scandinavian donors, Also AUSaid, Netherlands, CIDA and DFID. Commonly found in departments with historical and long-term relationships with above-mentioned donors.	Generally (but not always) finds favour with institutional partners, especially (and not surprisingly) if the relationship has matured successfully with time. Partners determine content, pace and process of cooperation.
Study Tours	Brief, intensive exposure of recipient group to international experience around a defined set of issues. May lead to long-term inter-institutional support.	Used by a number of donors when considered appropriate and integral to broader technical assistance programme eg. By Ausaid, Netherlands, World Bank and Scandinavian donors.	Usually elicits positive response from recipients. Generates new ideas quickly; promotes peer education, but can also produce meaningless 'development tourism'.
Twinning Arrangements	A form of inter-institutional support involving a strategy for technical cooperation and means of transferring knowledge between institutions, particularly at local government level.	Found throughout the country at provincial and local government levels.	Civic links have grown fast, organically and opportunistically, often without the aid of donors. Issue not explicitly researched in DCR II so perceptions and benefits unclear. However, there is a prevalent view among lay citizens both here and in donor countries that these arrangements merely lead to junkets.

7.3. ODA Technical Assistance: The two-edged sword

TA constitutes part of the larger knowledge-based activities or *knowledge banking* approach increasingly championed by ODA. Knowledge banking is an enormously powerful ODA instrument, as is reflected in the component studies. TA, especially when it is manifest in the form of international expertise, naturally involves the transfer of foreign methodologies and policy approaches that influence the indigenous development frameworks, sometimes substantially and other times latently. There are some observers who argue that far from being surprising or surreptitious, this is the very raison d'être of donor-led knowledge transfer. We quote from the Gender component study:

"Policy-making manipulates prevailing assumptions and 'regimes of truth' (using a range of technologies which includes research) to legitimise and blanket the terrains in which policy decisions – and non-decisions – are made. Producing and disseminating knowledge are now linchpins of the aid industry. The World Bank has not for nothing resolved to convert itself from being chiefly a bank to being chiefly a centre of knowledge production' (Sogge, 1999:73)"

The World Bank is not alone in this endeavour. Arguably it is, or at least this is how it sees itself internationally, the agency at the head of a pack, which includes most of the top ten donors to SA. (See Chapter 5)

The key point of note here is that ODA in the form of TA needs to be managed particularly closely. This is not an argument for arrogance or isolation – it is simply a call for striking deals mindfully.

Below we summarise the benefits and risks associated with TA as described by SA stakeholders and donors in the course of the DCR II component studies.

Table 8: Benefits and risks of TA

Potential Benefits of TA	Potential Risks of TA
Capacity building • Access relevant R & D, best practice models and top quality professional expertise globally, at below market cost TA also add ‘intellectual capital’, beyond monetary value, in other development processes in organisation • Development of internal capacity of the recipient organisation • Quick fixes, immediate filling of skills gap • TA usually accompanied by supplementary resources (project related equipment) which can enhance productivity • Often also augmented with a grant element, helpful in financing pilots, additional programme activities and innovative initiatives. ***Impetus for key issues*** Enhanced status, resources and legitimacy to issues.[42] ***Enhanced accountability and performance*** • Better accountability systems introduced to meet donor requirements	***Invisible Influence, over-valued aid*** • Recipient organisation loses control and ownership over ‘management of meaning’ • Silent flow back of funds to donor country in the case of foreign TA ***Unsustainable Dependency*** • Resource abundance not sustained beyond presence of TA • Dependency on external resource persons, who fail to transfer skills/capacities to local personnel during their contract period. • Insufficient planning to cover long-term resource implications after the TA leaves • TA s take line functions that should be assumed by dept personnel • Depts have insufficient capacity to fully utilise & absorb TA’s ***Square pegs in round holes*** • TAs recruited for their specialist technical/ managerial skills, but often lack ability to integrate cross cutting themes of institutional importance e.g. race sensitive capacity building, mainstreaming of gender and environmental issues. • TA s unable to adjust to organisational culture and conditions • Cause of tensions and power struggles ***Unclear accountability, unrealistic timeframes and increased demands*** • Dual lines of accountability to government department and donor agency • Increased demands on local institution to meet accountability and protocol requirements of donor agency • ODA Project cycle management language and imperatives imposed on government system (e.g. logframes)

[42] In SA, if & when this does occur, then it is likely to be a case of enhanced status *because* of supplementary ODA resources. We were unable to find examples of the explicit use of TA primarily (or even substantially) for the purposes of lending legitimacy to an issue, so if this does take place, it happens in subtle ways.

• Enhanced performance in project due to interest from many quarters[43] ***International goodwill*** • Means of concretising cooperation between countries and promoting goodwill	• Project timeframes dictated by donor calendar ***Skewed power differential & competing flags*** • Donor behaviour does not accord with rhetoric, with influence over TA and associated grant aid often retained by donor, subtly if not explicitly • Need for individual donors to showcase own contribution • SA (and region) often has equivalent skills locally but selection criteria & informal bias prevent South Africans and other Africans from being considered

43 Described as ‘the Hawthorne effect” in Organisation Development literature.

7.4. Local ownership of TA

Without doubt the single most remarked upon theme pertaining to TA emerging from the sector studies was question of local ownership and control over the TA process as a whole. This was the case even when respondents generously acknowledged the value of TA.

Government officials from all spheres and departments highlighted two key issues in this respect:

- The lack of explicit and systematic control by recipient agencies over the TA process as a whole;
- The tendency for aid agencies to support foreign, rather than local TA s generated most concern. The DCR II studies reflect a fairly common belief within government that it is both possible and desirable to recruit South African experts to fill TA contract posts.

The DCR II studies showed that even when recipients are able to shape the overall content and purpose of a TA initiative (e.g. drawing up of ToRS) they have less influential in determining the details of *how* such interventions should take place. The selection of consultants, whether local or foreign, and the attitudinal 'steer' given to TA, may largely still be determined by the purse string holder, the donor agency. Power it seems is seldom willingly and fully given away.

In view of the level of local stakeholder interest in this issue, an additional sectoral study, Labour Skills, was added to the DCR II components study list expressly to examine the efforts of the Department of Labour (DoL) to gain explicit control over wide and complex range of TA programmes. We have summarised the key features of this enterprise in Chapter 6.

Apart from the DoL's measured efforts to manage and control the TA process, the general record of government in this regard is variable. Given the significance of TA as a form of ODA, it is important that government departments take a methodical approach to managing and minimising the risks associated with the TA.

Box I below highlights the issues that should guide such an approach. It draws on the findings in the component studies encapsulated in Table III.

Our view is that these ideas need to be institutionalised within the government departments who are recipients of ODA, either directly themselves, or through a systematic process of dissemination led by IDC as part of its post-DCR II programme of enhancing 'SA Management of ODA'.

7.5. Key principles for the management of TA

SA Policy Paradigms – SA Intellectual Authority: It is critical that the vision and values of the conceptual framework underlying a development initiative are first defined by SA stakeholders before seeking TA. Intellectual leadership and policy management must rest clearly with SA side.

SA Ownership of content and process of TA: Terms of Reference, project direction, output expectations and deliverables specified by SA side. Ensure wide local stakeholder ownership of TA package to prevent dysfunctional tensions. Institutionalise mechanisms to promote skills transfer before exit of TA resources. Check for, and minimise flow-back of resources to donor country.

SA led recruitment process: Transparent, open recruitment process led by SA side and based on criteria related to local needs, practical experience, cultural adaptability, teaching / mentoring / communication ability. Allow for possibility to seek local TA expertise as a preferable option, or to recruit widely for right international candidate. The latter to include the possibility of recruitment from other developing countries.

SA centred institutional arrangements: Mainstream accountability and reporting arrangements and minimise claims by donor agency to establish own input – output timeframes, control over disbursement of grant element, and independent M & E review processes. Establish conditions for optimum contribution by TA, and institutionalisation of new ideas within local structures. Agree conditions to curtail or replace TA should that become necessary.

7.6. Grants

Despite explicit policy and operational commitments by all the major donors to work in a collaborative, client-centred manner, the struggle over the control of ODA runs as a constant thread through all aspects of the donor / recipient relationship. It is particularly visible in the area of grants and loans, where the tussle over the use of funding, and the processes for accounting for this funding, is more exposed.

At the heart of this struggle are two core issues: the effective use of the money, and accountability systems. Beneath these issues are two basic assumptions that dictate the clash of expectations and behaviour. Whose money is it once ODA enters the SA milieu? What does spending it ‘well’ mean?

We found that the tension between recipients and donors is caricatured in the following polarity:

- Recipients push for greater flexibility and control over funds, preferring loosely framed budget support to allow maximum responsiveness to changing needs. Recipients want the freedom to focus on emerging, urgent and immediate needs and gaps, and the sovereignty to make decisions taking into account the big picture, which is often made up of a messy mixture of administrative, operational and political colours.

- Donors tend to prefer neatly defined, ring-fenced funding of projects under conditions that permit clear financial and resource accountability, and which ideally, enable them to directly link success with ODA support; in other words, funding activities that can be easily monitored, evaluated and accounted for, and to which a flag can be attached if successful. Further, there is often pressure from donors for funding to be tied to the imposition of their own funding regimes, accounting calendars, donor orientated budgeting and planning systems, which require visible outputs and outcomes in line with pre-determined plans based on methodologies such as logframes.

The table below captures some of the main observations and findings relating to this subject emerging from the component studies.

Table 9: Types of grant support

Form of Grant Aid	Description	Occurrence	Recipient Perspectives
Project support	ODA for a specified set of project inputs and activities. May or may not be flexibly allocated within project boundaries, depending on donor policy. Often projects have single donor, rather than multi-donor support. More often than not, combined with TA.	Widespread occurrence in the 94-99 period. Often relates to a piloting function where the project is geared towards lesson learning as a guide to broader replication. Visible in virtually all government departments	Strong views both for & against. Useful for piloting & innovation, but often imposes parallel accountability & implementation arrangements on recipient organisation.
Programme support	ODA grant aid for programme support at sectoral or provincial / regional levels. Often involves more than one donor.	Increasingly widely found throughout government. Dependent upon strong leadership from government side e.g. DWAF and DoL.	Preferred approach in departments that are working towards a clearly defined over-arching programme of their own. Not all donors willing to engage in broad long-term commitment with a government partner.
Core funding to NGOs and Civil Society Organisations	ODA to cover general overheads and activity specific operational expenditure. May be provided alongside support for particular project / programme areas.	Usually given to NGOs and campaigning / Rights orientated Civil Society organisations. This form of ODA has decreased steadily since 1994.	Preferred form of ODA. Allows organisation greater control over expenditure. May be used to support advocacy work (as opposed to service deliver) & those activities not supported by government. Withdrawal of core funding leaves organisations very susceptible to collapse.
Budget support	General budget support to a government department, additional to or part of budgetary allocation from Govt. Can be justified as way of supporting a broad range of asset and service delivery programmes.	No evidence of this in SA, though common in the region. Unlikely to occur in SA because budget support will never be a significant and dominant proportion of the budget of a SA department. Most donors prefer to engage in clearly identifiable or ring-fenced activities.	No examples identified in the component studies.

There is an abiding danger that the debate on ODA is often unnecessarily reduced to simplistic lines of argument. A case in point is the discussion on project versus programme support.

The position presented by some national stakeholders is that project based ODA is essentially divisive and demanding. It entails establishing separate donor-orientated frameworks, budgets and timeframes for implementation, monitoing and evaluation and project management facilities. The view is that, ideally, all ODA should be mainstreamed within government-led programmes. Some donors are seen as being guilty of 'doing project deals' entrepreneurially and directly with willing stakeholders, particularly at the provincial level.

Our sense from the component studies is that there is a danger of losing the special value of ODA if the principle of 'mainstreaming' is interpreted too narrowly. Innovation, piloting and experimentation are elements of a healthy, well-resourced and balanced mainstreamed budget. The problem is that departments, particularly at the provincial level and in provinces subject to the greatest service delivery pressures, often do not have the budgetary surplus, and assured material and human resources, to undertake innovative R & D work. In a typical case, we found that the recurrent expenditure of a provincial department consumed 96% of the allocation received from central government. In these circumstances, ODA-sourced project support is invaluable not just in terms of testing and stimulating innovative methods of service delivery, but in actually undertaking infrastructure development and meeting prevailing service needs.

The contradiction visible here is not peculiar to ODA. It is inherent in the emerging model of decentralised development that SA has embraced. The tension between national direction and cohesion, and different spheres and levels of government acting independently in response to the challenges and opportunities they confront, is being played out in many arenas. In the case of ODA, the way through this paradox is probably by reference to the principle of SA ownership. The ideal position is obviously '*project-based ODA on innovative pilots within a mainstreamed programmatic approach*'. The minimalist position should be '*project-based work, but on SA terms, at the very least, determined by local institutional partners and not donor driven, with systems and processes mainstreamed as soon as possible'.*

This may not be ideal, but it accommodates the concerns of provinces averse to losing ODA that can provide useful R & D capital.

7.7. Loans

Since 1994 donor agencies have provided concessional finance and other forms of credit to government, parastatals and the private sector that can be divided into two categories of ODA based loans:

- Project loans taken up directly by government departments to finance departmental expenditure;
- Borrowing by parastatals and the private sector in line with government's established development priorities.

We begin by looking at loans taken government departments and then comment briefly on the ODA loans to parastatals.

7.7.1. ODA Project Loans

Table 10: Forms of ODA loans taken up directly by government

Forms of Concessional Loan	**Recipients**	**Description**	**Example**	**SA govt. perspective**
Project Loan (Tied)	Government Department (via Department of Finance)	Must use services from donor country or as specified by donor agency. Usually no interest incurred.	DWAF	Do not always get specifications required*
Project Loan (Untied)	Government Department (via Department of Finance)	Untied procurement (open tender)	DTI	Tends to be more favourably considered*

*** Comment :** The debate on tied vs. untied loans is not as simple as caricatured here. There is recognition in government that cheap tied loans can sometimes be better than expensive untied ones.

Critical governing condition

Under the Public Finance Management Act, only the Minister of Finance can take up project loans on behalf of the national government. Provincial or local governments may not borrow from foreign sources. All loans are subject to Ministry of Finance and Cabinet approval.

ODA project loans, otherwise known as concessional project loans, ostensibly provide an opportunity for the recipient to borrow at rates and on terms more favourable than those provided by commercially available loan agreements.

These loans are used to fund the budget deficit and do not add to the expenditure envelope of the MTEF. Hence project loans do not increase the expenditure envelope of the relevant department, i.e. the ultimate ODA sector of destination

In the six-year period reviewed by DCR II only the two above-mentioned ODA project loan agreements have been signed with government (DTI and DWAF). This is obviously too small a sample to use as a basis for considered comment, but is, in itself, an unambiguous statement of the government's reluctance to embrace this form of ODA.

There has been no shortage of loan offers from foreign governments. In fact, the SA government has been under considerable pressure to enter into such agreements. We found two basic reasons for the reluctance to take up foreign loans. The first is principled, the second pragmatic.

Firstly and fundamentally, our perception is that SA has wisely taken the view that it does not need to give up its freedom, and mortgage its future to embrace potentially debilitating debt dressed up as development aid. As a principle this is unquestionably valid, and has led to commendable systems and processes being put into place within DoF to critically assess all project loan finance.

Secondly, there are a number of practical reasons for scepticism about the value of entering into project loan agreements that essentially provide project-linked finance, rather than general budget support or discretionary credit. Such loans are not only restrictive in nature, but also impose a considerable administrative burden on the SA recipient agency in terms of reporting requirements.

Further, and understandably, there is widespread suspicion in government that loan financing is geared to benefit donor countries through:

- Creating commercial opportunities for companies from donor countries;
- Tying South Africa's Rand economy to a foreign currency, and be used by the donor country as a subject of the donor's intent to internationalise its own currency;
- Providing the donor country with a de facto economic and foreign policy instrument that could be used to influence the nature of economic policy and development priorities in SA.

There is one other major practical problem associated with loan finance. This relates to integrating loan-linked resources into SA- based development plans. Lead times for loan finance can be as long as three years. Loan-derived resources, including TA, therefore have to be planned for, and factored into, a government agency's or department's sectoral planning and prioritisation, well ahead of disbursement.

Given that, in practice, SA government departments plan on an annual basis, the conflict between SA-led plans and loan finance based resourcing, which is up to three years down-stream, is self-evident. This translates into circumstances where a department only effectively has access to loan facilities and project linked TA two to three years after project conceptualisation. Even if this form of ODA was viewed only from the perspective of 'appropriate fit with prevailing conditions' this form of assistance does not make sense given the pace of change in the SA environment (note the extent of transformation reflected in the component studies in the period '94-'99).

However, the case for ODA project loans continues to be made by donors, both multilateral and bilateral, often accompanied by the prediction that, in time, this has to become the dominant form of ODA to SA, as donors reduce and withdraw their current, largely grant-based support.

Advocates of this position highlight these positive aspects of concessionary loan finance:

- ***Cheaper hard currency***. Concessional loans reduce government's other, more expensive, borrowing requirements. Such 'hard' currency loans provide access to capital at below market prices. The argument presented is that assuming the Rand continues to devalue steadily against the US $, at least at the rate it has done over the last 10 years, these loans present a highly competitive rate for borrowing foreign currency (a minimum of 2%-3% below commercial rates)

- ***Cost conscious project management***. Loan-based development finance forces the necessary practice of cost-benefit project management into the project cycle, a discipline not as common as it should be in government programmes.

- ***Supplementary 'no-cost' benefits.*** Grant finance and TA often accompany concessional loans. Lead donors such as the World Bank pride themselves as offering access to high quality, international knowledge capital alongside the loan package. The grant and TA elements are projected as offering added value at no cost.

What value? Whose values? These questions echo the discussion at the start of this Chapter, and at the beginning of this section on loans. The need to ensure that these questions are located at the heart of the discussion on ODA loans has been recognised by government.

In 1997, the DoF established the Assets and Liability Management Branch (A&LM) with a view to screening, controlling and improving the conditions under which ODA loans are secured by government departments and agencies. The primary function of the A&LM is to safeguard SA interests, and to ensure that borrowing accords with the government's financial policy framework. Loan repayments must be seen as justifiable and sustainable, from both an economic and political perspective.

Significantly, no social development project-loan agreements have been agreed since the establishment of the A & LM, although a number of ODA loans have been agreed for parastatals, with government consent.

Only two social development orientated project-loans were secured in the DCR II review period. Both these loans were set up prior to the establishment of the DoF's A&LM. In the case of the DWAF loan, the Water and Sanitation Study reflects the discontent felt within the department over its lack of control and understanding in negotiating the loan terms. These problems have now been addressed through the A&LM, confirming the government's view, and the central message of this report, that the principle of SA ownership needs to be contextually interpreted and steadfastly protected, politically and institutionally.

7.7.2 ODA loans to parastatals and the private sector

In the period reviewed by DCR II (1994-1999) SA established loan facilities with a number of multilateral and bilateral international development finance institutions, including the African Development Bank (AfDB), the European Investment Bank (EIB), The French Treasury and French Development Agency (AFD), The German Development Bank (KfW), the Japanese Bank for International Cooperation (JBIC) and the World Bank (WB). Most of these agreements were put in place swiftly after the first democratic elections in 1994.

Notwithstanding the government's reluctance to take up the concessionary credit on offer and translate these loan facilities directly into government loans, as the commitment figures detailed in Chapter 5 show, nearly 30% of the ODA offered by the five leading donors to SA is described as 'loan finance to SA' by these donors. The commitment figures on the basis of which this relatively high percentage is arrived at comprise largely of the concessionary loan finance made available by donors and, in some cases, may even include export guarantees[44].

Note however, that this DCR II report does not contain disbursement figures. Further research is required to get a fuller picture of the conversion rate of commitments to disbursements, within the framework of a more detailed typology of the various forms of loan finance on offer.

In the absence of hard quantitative data on actual loan take-up we focus our attention on the key features of this form of ODA, highlight findings and principles of relevance to the central thesis of this DCR i.e. the imperative to ensure SA ownership and control of all forms of ODA, and finally identify issues that need to be addressed in this regard points.

[44] We say this on the basis of our experience of collecting commitment figures for grants and TA, according to a predefined set of categories and sectors of destination. (See discussion in Chapter 5). In the absence of clear and commonly agreed definitions, donors are liable to aggregate and assign different types of 'aid' into a broad ODA category which accord with their internal reporting system, but which may not seem valid from a recipient perspective.

Table 11: ODA loans to parastatals and the private sector

Recipients	**Description**	**Occurrence**	**SA Government Approach**
Borrowing mostly by the major SA parastatals, and to a limited extent by the private sector (commercial banks e.g. FNB and Nedcor for on-lending purposes) in designated development sectors. Most loans taken up by leading parastatals, e.g. DBSA, Eskom, Telkom and Industrial Development Corporation	Below commercial interest loans, can be tied or untied, with or without TA and grant elements. Interest rates (calculated as landed cost / foreign exchange) of the major lenders AFD, EIB, AfDB and IBRD range from 3.50% to 7.57%. All loans mediated and subject to approval by DoF.	Mostly used for infrastructure e.g. electrical power transmission (by Eskom) and road infrastructure (Roads Authority). Also used for downstream on lending by parastatals to single function authorities and service providers, e.g. Water Board and metropolitan local government.	Obviously, seek most competitive rates and pro SA conditions. Ideal scenario: lowest possible interest rate; Rand denominated loan; untied (absence of conditions to procure related goods and professional services / TA from donor country), and no-requirement of government guarantee. Preferred option always Rand based financing. Seek to reduce dependency of parastatals on government transfers and guarantees, and encourage them to borrow, and donors to lend, on the strength of parastatals own balance sheets.

Critical governing conditions

- *Borrowing by SA parastatals has to occur in accordance with Public Finance Management Act as well as statutes governing particular institutional sectors.*
- *Subject to conclusion of government to government agreement.*

Essentially, our findings can be clustered into two broad areas:

- The need for a coherent national priority list of projects to guide the process of accessing loans.

- The need to build on the loan evaluation processes and systems developed so far, in order to enable a more rigorous quantitative and qualitative assessment of the loans acquired to date, and develop an institutional memory which holds the competitive advantages of different loan providers.

We look at these two broad themes in turn.

The absence of loan term plans and planning processes to guide loan acquisition decisions

Firstly, and perhaps the most interesting point to emerge from our general consideration of the issue of loans is that there is no government priority list of development projects on the basis of which the DoF can either seek or approve loan finance, whether project loans or loans to parastatals. Put simply, there is no long term (3-5 year) national development plan; no overarching list of rationally prioritised MTEF projects based on integrated and sectoral development planning on the basis of which DoF could make informed judgements and exercise decisive leadership in terms of the utilisation of this form of ODA.

In many instances, this process begins with a lender selling ‘projects’ (or at the very least presenting the possibility) to a local stakeholder rather than the SA government proactively choosing to seek loan assistance from a particular source for a specific project. In the current arrangements, when a potential transaction begins to develop, the decision-making process moves from A&LM (and sometimes the IDC) to the Minister of Finance, and then to Cabinet.

In the absence of a definitive national development plan and institutionalised systems for assessing the competitive advantages of different lenders, what occurs is essentially a case-by-case approach. The consequence is an elongated, repetitive and highly resource intensify, process which is short-term, opportunistic (if not arbitrary), and arguably weighted in favour of donors.

There is one other distinct but related issue that needs highlighting here, which owes its existence to two factors: the absence of a long-term national development plan and the lack of an institutional mechanism to appraise the ultimate cost of to government of borrowing by subordinate spheres of government or surrogate service providers.

Under the prevailing legislation (the Public Finance Management Act) only the Minister of Finance can borrow on behalf of the government. National departments have no powers and no incentive to enter into loan agreements, the latter because loan finance does not increase their expenditure envelope. Provinces are legally forbidden to enter this domain too.

Consequently, much of the available loan finance is taken up by parastatals and commercial banks for the purposes of on lending to local authorities, in particular large metropolitan authorities, and service agencies (e.g. the Water Board), which serve the natural constituencies of departments and provinces.

Effectively, the result is that subordinate organs of government, in particular local government structures, subsequently borrow essentially these same funds locally at a higher rate than that originally negotiated by government with the primary (foreign) lender, ironically on behalf of the parastatal, (the eventual secondary lender).

We have here a situation where government, and the end user of services, pay more to cover the cost of an ODA concessionary loan that government has either arranged or guaranteed, with the surplus going to an parastatal or commercial intermediary introduced into the equation by government itself. The financial cost to government of this perverse sequence is worthy of further analysis, and the need for institutional changes to address this anomaly should be self-evident.

Assessing alignment and the comparative advantages of different loan providers

There are two fundamental issues that need to be kept in focus in the discussion of this form of ODA, as with all ODA:

- Alignment to government development priorities;
- The value and competitive advantage to SA of sourcing ODA-loans from a particular source.

Firstly, concerning the fundamental issue of the purpose and impact of ODA sourced loan finance, it is clear from our examination of DoF literature on this subject, that despite the fact that most of these loans are taken up by parastatals, government is determined to see full alignment of the utilisation of this form of ODA with its own development priorities and procedures, with little or no lender interference.

We see this as a creditable stance, rightfully in line with the overall objectives of SA control over ODA. However, we suggest that DoF goes beyond current guidelines and undertakes qualitative assessment studies, similar to the sectoral and thematic component studies that feature in this report, focusing on the major loans taken up by parastatals. These evaluation studies should seek to ascertain stakeholder perceptions and the alignment of investment with government priorities.

Secondly, we note that the various providers of ODA concessionary finance offer different ‘loan packages’, based on a range of dimensions:

- The terms and conditions of the loan, in particular currency denomination, interest rate, grace and repayment periods;
- Complementary measures in the form of grants and / or technical assistance;
- Lender specific conditionalities regarding project preparation, implementation, reporting, monitoring and evaluation, and loan administration;
- Time frames.

This DCR did not include a quantitative or qualitative critique of the comparative attractiveness, from a SA perspective, of the various forms and packages of loan assistance on offer. This process of appraisal has however, been launched internally, with the A&LM branch in the DoF undertaking an evaluation of existing available sources of loan finance.

It now needs to be broadened, deepened and institutionalised with the establishment of a comprehensive database, detailing and assessing the terms and conditions of all concessional loan facilities, and organised in manner that enables government to assess the relative merits of various loan providers.

7.8 Concluding remarks

It is difficult to extrapolate on the basis of DCR II research as to which forms of ODA are likely to become dominant in future. While some donors feel that ODA loan financing will increase in absolute and proportionate monetary value in relation to grant funding, we were not able to discern any meaningful trends. What is not in dispute is the general intuitive perception both among recipients and donors that 'knowledge banking' through TA is likely to remain at least as significant, and probably gain in importance, as a form of ODA both in terms of monetary value and impact on South Africa's development trajectory.

We return to the issue of South Africa ownership and the management of ODA in this emerging paradigm. In the 'hard' arena of loan finance, the A&LM has quickly established its role in safeguarding the country's interests with respect to overseeing concessionary loans. We have suggested a range of measures to take this work forward and acknowledge that most of our recommendations are likely to be under consideration within DoF already.

Coverage of the 'soft' and less tangible issues relating to ODA understandably pose a more difficult challenge. Ensuring SA ownership and control over the use and diffusion of imported knowledge capital, and the impact of these TA based intellectual resources on SA paradigms of development, will never be easy.

Ironically, as the quality of knowledge sought and acquired by SA becomes more sophisticated, it will require sharper intellectual capacity within government to define SA's own knowledge needs, and the parameters within which TA should operate. It will also necessitate strong, clear intellectual leadership across the board, in different spheres and levels of government, to properly manage imported knowledge transfers.

The inevitable drift towards knowledge banking amplifies both the gains and the risks associated with opening SA minds and paradigms to knowledge-processing TA. It heightens the need for visionary political oversight over ODA and the formalisation of institutional mechanisms to protect SA interests. Given the decentralised nature of development in SA, it points to the importance of inculcating the principles of SA ownership throughout the government system.

Given IDC's pivotal position in the governance framework for ODA, a strengthened, contemporary role for the organisation is essential in this respect. Government needs to charge IDC with the responsibility of anticipating the implications of managing knowledge transfers on SA terms, extending the A&LM model into a domain that is more porous and potent. This is likely to involve the formulation of principles, processes and tools to manage knowledge banking with a deeper understanding of the issues raised in this chapter, and the embedding of these ideas across government.

Recommendations

- The need for SA to stamp its intellectual authority on the overarching development paradigm within which these knowledge transfers take place and for the Department of Finance, through IDC, to mediate this process across all spheres of government.

- A 'reverse Country Development Framework' should be undertaken, with a similar analytic logic applied to donor resource bases as is applied by donors to the needs of recipients.

- The capacity of government departments should be strengthened to enable them to manage ODA more effectively from a SA perspective. This should minimise the risks associated with all forms of ODA, ensuring control over, for example, conceptual frameworks, Terms of Reference and outputs, institutional arrangements relating to funding mechanisms, and recruitment processes. See recommendations in Chapter 9 relating to training and capacity building.

- IDC should be given a strengthened role in, for example, carrying out analyses of donor resources, disseminating ideas to government departments, and anticipating the implications of managing knowledge transfers.

- Government and donors should consider the possibility of allocating a proportion of ODA monies that go into the RDP fund, say 2%, for the purposes of information management and research to enable government to make more informed decisions on the source and nature of ODA.