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9. MANAGEMENT OF ODA AND INSTITUTIONAL ARRANGEMENTS⁵⁵

This Chapter is divided into four parts:

Part 1 presents a contextual and historical overview and a basic critique of the processes of alignment, and the conversion of pledges and commitments into programme and project agreements. Essentially Part I seeks to identify the underlying principles that have, and should, provide the basis for the way government manages ODA. Our view is that these trends and underlying principles point the way to the design of a new SA-led, SA-centred management of ODA paradigm.

Part 2 looks at the national coordination mechanisms responsible for mediating and managing the relationship between SA stakeholders and donors. Our primary focus is on the central and critical role played by the Department of Finance's International Development Cooperation (IDC) Directorate. We consider the role and structure of this unit in some detail, and seek to generate a debate on a possible new structural model for the unit. Our analysis is directed by the fundamental question of how IDC would be organised if its core concerns were to actively develop and drive a rigorously conceptualised and explicitly SA-led, SA-centred vision of ODA.

Part 3 focuses on Implementation Agencies (IAs). We consider the conditions that inhibit optimal performance by the national and provincial stakeholders responsible for implementing ODA-supported programmes and projects, and suggest changes to move towards efficiency and, more importantly, effectiveness from a SA perspective.

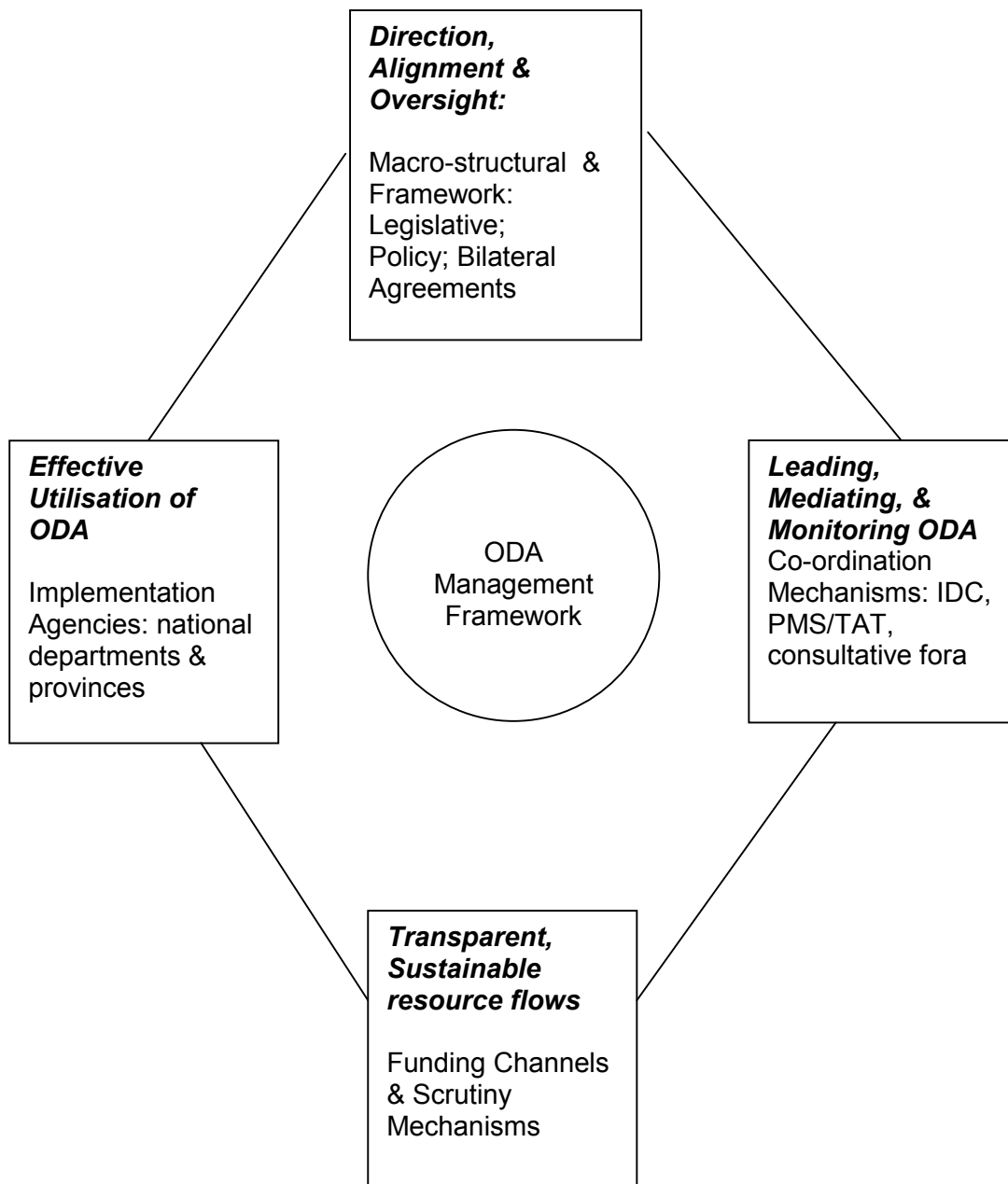
Part 4 examines the funding channels, financial management and scrutiny mechanisms relating to ODA. Our main concern here is to critique the present ODA-dedicated systems with a view to suggesting ways of speeding up the flow of ODA funds from donors to sectors of destination, but within a framework that should, ideally, be an integral part of government's own administrative machinery, so as to minimise duplication, and ensure sustainability.

Essentially, this Chapter builds on the argument presented throughout this report, that SA needs to authoritatively lead the process of managing ODA, consciously and discerningly dictating the nature, source, form and content of ODA in order to ensure that ODA makes a significant contribution to the country's development, does not divert the development process and at the very least, does not wastefully and ironically consume SA's own resources in the process of managing ODA.

⁵⁵ This Chapter is based on material contained in the report entitled 'The Management of ODA' produced by Gary Moonsammy and Simeka Consulting, as part of their dedicated brief within the overall scope of DCR II.

We take the view that the emerging new ODA-management paradigm is not only an obvious extension of the managerial and institutional changes that have taken place in this arena so far, but essential both in terms of addressing the current, operational issues raised in DCR II, and in the visionary sense of doing justice to SA's place in the world and the type of relationship the country wants with donors.

Figure 10: Elements of the ODA management framework



9.1. Part 1: Contextual and historical overview

We begin by outlining historical and current arrangements, note the changes that have taken place over the review period 1994-99, and identify the latent principles that have informed the changes so far that point the way to the definition of a new SA Management of ODA paradigm.

9.1.1. Legislative, policy and historical context

Legislative context

While there are numerous pieces of legislation with a bearing on the management of ODA, there no single overarching Act that seeks to broadly govern and direct conduct in relation to ODA. Table 15 below highlights seven relevant legislative instruments⁵⁶:

Table 15: Legislative instruments pertaining to ODA

ODA management issue	Relevant legislative instrument
Parliamentary approval for bilateral agreements	Interim Constitution Act 200 of 1993. Current Constitution Act 108 of 1996.
Flow of ODA resources financial	RDP Fund Act 7 of 1994 RDP Fund Amendment Act 79 of 1998
Financial reporting and accountability	Public Finances Management Act 1 of 1999 Public Finances Management Amendment Act 29 of 1999
Exemptions from Value Added Tax	Value Added Tax Act No 89 of 1991 Taxation Laws Amendment Act of 2000 (Gazette 21390, dated 19 July 2000)
Exemption for duties; provisions for rebates	Original Act is Customs and Excise Act, 1964.(and amended numerous times since)

⁵⁶ This is not claimed to be an exhaustive list. We have highlighted the main pieces of legislation, each of which has a varying degree of relevance to various aspects of the management of ODA.

Table 15: Legislative instruments pertaining to ODA (continued)

<i>ODA management issue</i>	<i>Relevant legislative instrument</i>
Assessing exception from personal taxes for ODA TAs	Income Tax Act 58 of 1962 This Act has been amended by over 50 Acts since then, the latest being the Taxation Laws Amendment Act 32 of 1999
Work Permits for Tas	Aliens Control Act 96 of 1991 Aliens Control Amendment Act 3 of 1993

Policy environment governing ODA

As we have stated in other chapters in this report, there is no comprehensive and unequivocally ODA-focused policy framework to inform the channelling of ODA. Further, despite the fact that poverty alleviation is the most common *raison d'être* for ODA, there is no explicit poverty elimination policy framework delineated by government to direct ODA. Initially the RDP, and now GEAR, provide broad points of reference.

One of the most striking messages coming out of DCR II is that while ODA has generally consistently followed the government's two broad policy frameworks, first the RDP and latterly GEAR, the lack of a sharply focused policy framework expressly designed to direct ODA, and the absence of an inter-sectoral national development plan⁵⁷, has meant that ODA has not always gone to the areas of greatest need or those that might have emerged as priority sectors through a more deliberate and conscious planning process.

Essentially, the SA government does not plan in a way that seeks to optimise both the mobilisation and utilisation of ODA. In our view this has meant that the country has not been able to derive maximum benefit from the inward investment of ODA.

The task of translating GEAR and its derivative, the planning and budgeting framework of the MTEF, into government priorities that should be pursued by donors occurs within the ambit of bilateral negotiations and programme agreements.

⁵⁷ We mean here a national development plan to direct investment into social and physical infrastructure. See Chapter 7 for further discussion on this issue in relation to acquisition of concessionary loan finance to fund infrastructure development.

This view resonates with one of the broad findings of the Presidential Review Commission, which reported that the planning function in government is not undertaken consistently and as well as it should be. The situation is equally weak in both the spheres of government (i.e. national and provincial) that had the most contact with ODA in the period of review of DCR II. We summarise our findings in this regard in Table 16 below.

Table 16: Government and donor policy frameworks and development plans for the alignment of ODA

National	<ul style="list-style-type: none"> • Initially the RDP, now GEAR, expressed through the MTEF. • No explicitly ODA-focused MTEF-derived planning framework to guide and direct the flows of ODA • No explicit poverty elimination or poverty alleviation plan to guide ODA flows to pro-poor strategic priorities • No National Development Plan • National approach to ODA largely the result of an aggregation of departmental plans. Little evidence of planning between departments and across the different spheres of government to determine a truly sectoral or national-provincial view on ODA. • No evidence yet that the clusters that have been established in the President's Office have generated inter-departmental cluster / sector based planning, that could form the basis of engagement with donors for sector-wide ODA support.
Provincial	<p>Though most provinces have provincial growth and development strategies in place, none of the provinces interviewed had developed provincial plans with regard to ODA utilisation. Further, the involvement of local government in planning processes has been very limited.</p>
Donors	<p>Not all donors have a transparent, explicitly SA-focused ODA plan, though an increasing number are moving towards 'Country Strategy Papers' (CSP) which take into account government's broad policy objectives. Many donors undertake CSP drafting processes that involve some form of consultation with local stakeholders. A number of donors have not produced any strategy papers or memorandums of understanding regarding the focus of their support to SA.</p>

Finally, moving from policy to administrative instruments that are required to underpin government conceptual frameworks, we note that there is no

formalised, codified set of procedures to cover the management of ODA. This is true of the government's general approach to ODA, as well as of specific implementing agencies⁵⁸. While the IDC has developed, and uses a set of policies and procedures to coordinate and manage ODA, these have never been gazetted or formally endorsed by administrative dictate.

Historical context: the central role of the DoF and IDC

The present coordination role of the IDC in DoF emerges from two historical threads: the central managerial and operational role played by the former RDP Office in the Presidents Office; and the central inter-departmental coordination role played by the International Development Co-ordination Committee (IDCC), a central co-ordination structure set up by a cabinet memorandum soon after the 1994 general election.

These two bodies were established primarily to secure and manage ODA, with the former responsible primarily for ODA management issues and the latter (IDCC) functioning as an oversight body and de facto inter-departmental coordination mechanism.

From the outset, DoF played a central role in the IDCC. It chaired the IDCC whose members included Department of Foreign Affairs, the RDP Office in the Office of the President, the Department of State Expenditure, the Department of Trade of Industry, Central Economic Advisory Services and the South African Reserve Bank.

Each of the members of IDCC had a designated role⁵⁹, designed to ensure that key government departments worked collaboratively to meet a range of objectives aimed at maximising the complementary value of ODA and the effective utilisation of ODA entering the country. The initial guidelines for the IDCC confirm the government's implicit early intent to place the core principles of SA ownership and control at the heart of the ODA management paradigm and in its formal engagement with donors:

- ◆ Planning and financial management of ODA would be centrally co-ordinated, with implementation decentralised horizontally to sectoral departments responsible for delivering particular RDP programmes.
- ◆ The IDCC was encouraged to develop partnerships with donors, and asked to take responsibility for defining the procedures for the mobilisation of ODA, and for the processes for programme and project identification and implementation.

⁵⁸ A number of national line departments (e.g. Departments of Water Affairs and Forestry, Justice, Education, Land Affairs) have produced policy documents relating to ODA management. Some of these have been formally adopted as official government policy positions (e.g. Department of Labour) while others are in the process of having these endorsed. A number of line departments still do not have any policy documents in place. None of the provinces interviewed had formal policies and procedures regarding ODA.

⁵⁹ For example, DoF had, as part of its responsibility, the mobilising of concessional loans while the RDP Office was charged with mobilising grants and technical assistance.

- ◆ The IDCC's co-ordination role should be based on actively gathering and sharing information on ODA across all relevant departments and spheres of government.

In reality, the processes of managing ODA proved more complex and difficult than anticipated. At its simplest, the historical picture can be caricatured into this scene: donors and departments striving to strike quick deals in the face of urgent needs and the heady enthusiasm that marked the immediate post '94 period; versus the formal requirement that these agreements and aid flows had to be negotiated through a central(ist) RDP office. The presence of the latter, and the role assigned to it, was possibly the single most contentious factor in the original ODA management framework.

In our view, two important lessons emerged from this period that have influenced subsequent institutional changes and organisational behaviour, and which need to be kept in mind as we move forward:

- ◆ The general frustration among departments (and to an extent donors) to work through seemingly superfluous layers of bureaucracy;
- ◆ The understandable resistance on the part of strong national departments responsible for service delivery to be managerially accountable to another line department.

The government's response to these conditions covered three broad areas:

- ◆ ***Simplify the structural arrangements.*** The RDP office (indeed, the RDP Ministry) was closed, the IDCC quietly discontinued, and the key coordination functions of these bodies moved to a new Chief Directorate, International Development Cooperation located in the DoF. This neatly simplified the structural arrangements by moving the main functions of the RDP and IDCC to the national department responsible for interpreting the MTEF, and officially responsible for managing financial aid flows. Arguably, bureaucracy had been reduced without losing a central, authoritative hub to the ODA management framework.

We look at the changing role of the IDC and other coordination mechanisms in Part 2 of this Chapter.

- ◆ ***Improve efficiency of ODA resource and information flows.*** The main development in this regard focused on speeding up aid flows from donors to departments and projects, through the enactment of the RDP Fund Amendment Act in 1998. The DCR II's review period saw other processes being refined, too, in the pursuit of greater efficiency, among others: data collection and information management, and taxation pertaining to ODA (VAT).

We look further at issues relating to information management in Part 2, and consider funding flow mechanisms in Part 4 of this Chapter

- ◆ ***Direct, align and mainstream ODA by reference to the MTEF.*** The introduction of the MTEF in 1998 – towards the end of the DCR II's period

of review – brought into the development planning arena a budgetary instrument designed to explicitly and transparently link planning and budgeting, thereby providing a sharper picture of the framework within which government departments should plan for the implementation of government policies. It now became possible to ask donors to further align their ODA by reference to national and departmental objectives as encapsulated in the MTEF. However, as we have stated in 1.2 above, as yet no attempts have been made to refine the MTEF into a more ODA specific framework to provide a sharper frame of reference to direct ODA.

Conclusion: towards a South African management of ODA paradigm - SA leadership, effective alignment, and increased efficiency.

A number of significant trends and design principles are evident in the overview presented so far, and give an indication of the underlying logic of Government thinking and the conceptual foundations of an emerging ODA management paradigm. We identify these in Table 17 below with a view to using these ideas to critique the ODA management processes in use at the moment, and to purposefully develop a 'SA Management of ODA' framework later in this Chapter:

Table 17: Improving the management of ODA - critical design principles

	Structural	Efficiency of ODA flows	Alignment
Trends and Principles	<ul style="list-style-type: none"> · Strengthen role, involvement and responsibility of SA stakeholders within ODA management framework · Strengthen role of DoF and seek to integrate ODA management with the budgeting and planning systems of government. · Define structural arrangements that reconcile the strong centre vs. decentralisation paradox at the heart of dynamic government 	<ul style="list-style-type: none"> · Improve speed and efficiency of flow of ODA resources · Improve information management systems – collection, dissemination and coordination of information across government. · Facilitate greater transparency and accountability to track ODA 	<ul style="list-style-type: none"> · Increasing South African conceptual ownership and control of ODA · Improve alignment of ODA with MTEF · Maximise the potential of ODA to add strategic value to South Africa's development agenda
Implications	Consolidate DoF's structural position at the apex of the management of ODA. Exercise leadership more visibly. Further formalise structural arrangements pertaining to the centrality of DoF and in particular IDC's role vis-à-vis the management of ODA	Consolidate the development of comprehensive dynamic information management systems; seek to integrate and harmonise ODA management processes with government systems for channelling funds, M & E and accountability	Locate ODA in SA-led conceptual frameworks for development; Interpret MTEF for ODA specific purposes, ideally with clear pro-poor, poverty focused strategy; proactively chose types and forms of ODA on the basis of international comparative advantage

Overview of the flow of ODA: from pledges and commitments to programme / project implementation

This sequence is characterised by three distinct phases⁶⁰.

- Phase 1:** Converting donor pledges and commitments into overall framework agreements between the donor country and SA⁶¹
- Phase 2:** Translating conceptual proposals to specific sector based programmes / project agreements
- Phase 3:** Programme / project implementation.

We now look at these three phases in turn, delineating the main elements of each phase, the roles played by different structures and individuals, and the processes involved within each phase.

We begin with a schematic presentation of Phase 1, describing a general picture of the manner in which pledges and commitments are converted into bilateral framework agreements. The actual sequence and arrangements often vary from donor to donor. Our view is that these variations should be minimised as far as possible. IDC and donors should seek to move towards standard, transparent formalised processes. One way of achieving this would be to showcase good practice at the proposed annual donor conference.

Phase 1: Converting pledges and commitments into a bilateral framework agreement between SA and donor agency (see figure below)

This process is largely the outcome of discussions between the IDC, lead departments (likely implementing agencies) and donors. The sequencing of events is informed by the timing of pre-defined annual consultations or special consultative and planning sessions between the SA and the donor.

- ◆ **Donors** make commitments that outline the goal and purpose of their support, its extent and duration, the forms that it may take, and geographical and sectoral areas of focus and conditionalities. Donors participate in the overall planning of the support, together with the South African government.
- ◆ **IDC:** assesses commitments to ensure that they are broadly aligned to SA development needs and policies; checks clauses, rules, regulations related to proposed agreement, and attached donor conditionalities;

⁶⁰ This process is described in greater depth in IDC's *Draft Policy Framework and Procedural Guidelines for ODA Management*.

⁶¹ Framework agreements are now in place between SA and all the main donors operating in this country. Thus the interfaces between government and donors with regard to ODA focus largely on phases 2 and 3.

facilitates formalisation of framework agreements and overall ODA programming arising from agreement.

- ◆ **IA** (i.e. the relevant department or sectoral coordinating body responsible for programme implementation) comments on the framework agreement and participates in the programming process.

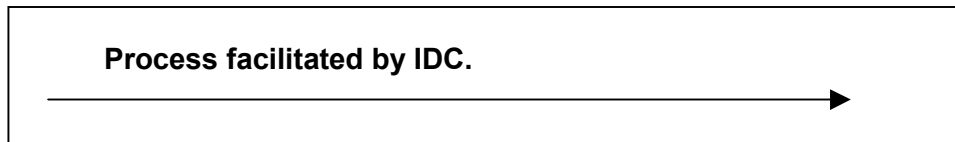
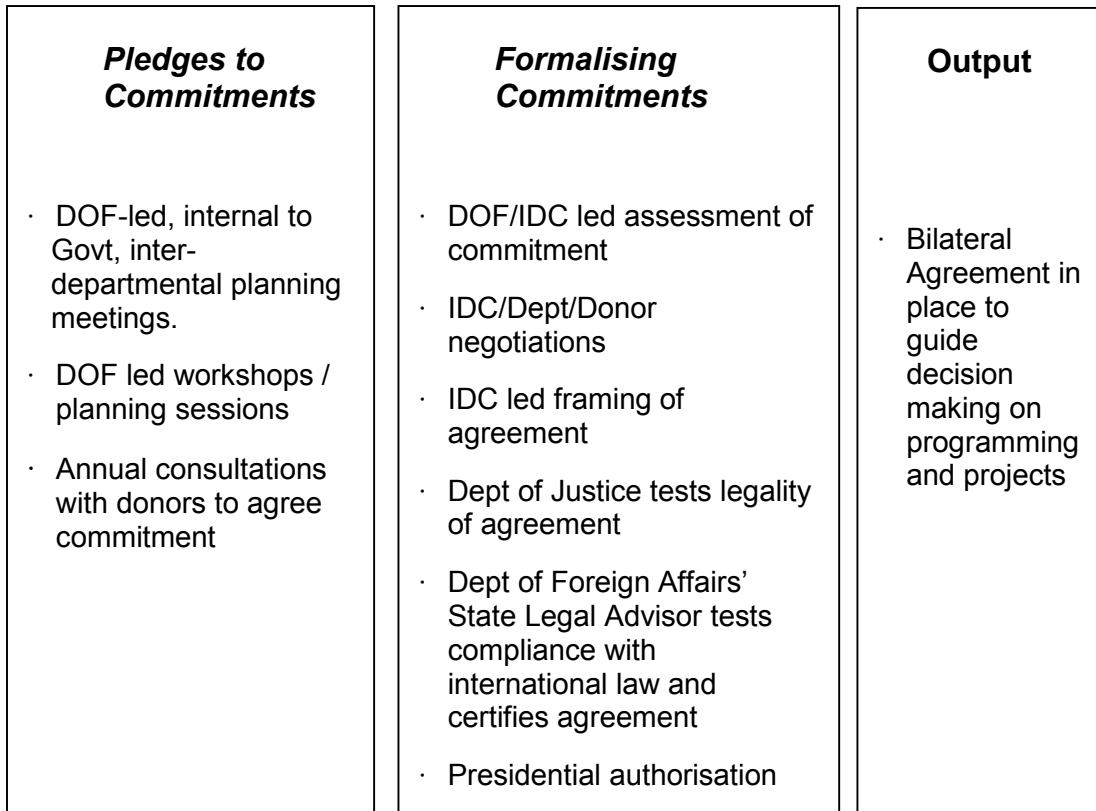
The signed overall agreement and the relevant donor strategy document⁶² (Country Strategy Paper or Memorandum of Understanding) forms the basis for all further discussions and decision-making on ODA between South Africa and that particular donor.

Critique of Phase 1: *A donor initiates the process of defining an ODA bilateral agreement with an approach to SA and an offer on the table. The donor thus assumes conceptual and positional leadership.*

Our view is that there is an alternative approach, which imposes responsibilities on the SA side before it enters into any bilateral discussions. This requires that SA interprets its MTEF framework and determines how MTEF objectives could best be supported by drawing in ODA; then undertakes a rigorous, systematic comparative advantage study of all donors to see what it wants from the global environment and who is best placed to offer this. Discussions with donors should be based on these analyses, which should provide SA stakeholders with a stronger and clearer conceptual foundation from which to operate.

⁶² A number of donors produce strategy documents that outline their strategy for engaging with SA

Figure 11: Phase 1 - converting pledges and commitments into a bilateral framework agreement



Phase 2: Translating programme / project proposals into operational agreements (see figure below)

This is a largely decentralised process with the relevant implementing agency taking the lead. The process begins with the development of project ideas by the IA, which ideally should be based on the IA's MTEF-inspired strategic plan or annual business plan. These ideas are then translated into programme / project proposals usually using consultants engaged by donors. Once accepted, the IA develops a draft agreement. There are two possible scenarios:

- ◆ In the first scenario, if the overall agreement has not included the possibility of sub-agreements, then new proposals are subject to a similar process as that of the signing of an overall agreement.
- ◆ In the second scenario, the overall agreement has made provision for sub-agreements. Therefore, the new proposal is referred to as a project business plan or project arrangement and is understood in the context of the overall framework agreement. This circumvents the need to go through the normal process of signing agreements.

Formal decisions are taken at the IDC-convened annual consultations or at the donor co-ordination meetings set up by the IA (sectoral body, department or province) itself.

IAs (largely through their donor co-ordinator) prepare and submit a formal project proposal sanctioned by their head, the political office-bearer responsible and, in the case of provinces, sanctioned by the head of the national line department and national minister. This is followed by the preparation of a draft project agreement and, in cases of good practice, this includes critical information such as counterpart contributions, recurrent cost implications, considerations of sustainability, taxation and duties. The IA obtains the necessary approval from the HoD for the agreement, and submits it to the State Legal Advisor to assess compliance with domestic laws. It is then submitted to DFA's State Law Advisor for approval and certification, followed by submission through the Office of the Director-General and Minister to the President's Office for signing authorisation. Finally, the parliamentary officer sends the signed agreement to parliament.

IDC screens programme proposals and programme agreements to ensure that they contain all the required information. If gaps are identified the IDC provides assistance to the IA to fill these.

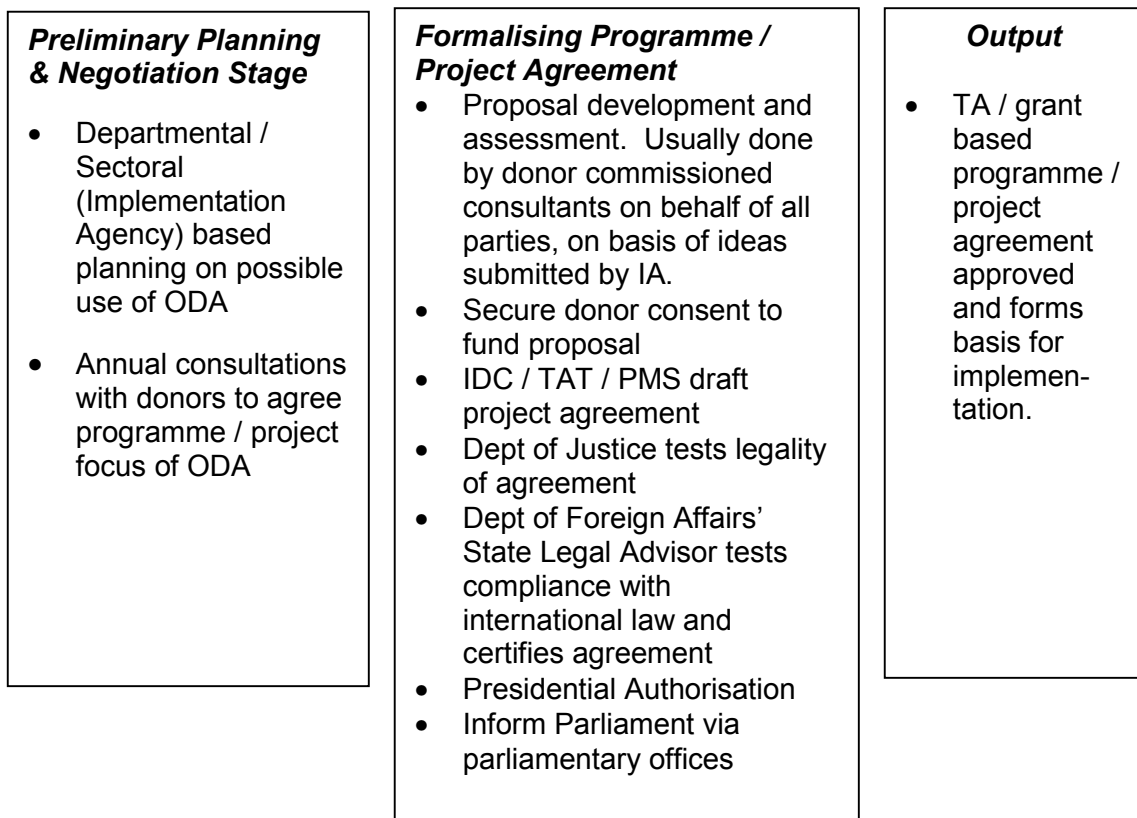
Donors assess programme proposals and decide whether they will fund the proposed programme / project.

Critique of Phase 2: *There are two issues of note here. Not all departments have developed strategic plans based on the MTEF, and if they have, these are sometimes theoretical rather than deeply informed by submissions from the operational front-line. Secondly, donors are probably more involved and*

influential throughout the unfolding of this process than is recognised in the ideal version of events. Consultants (whether foreign or local) used for the purposes of drawing up project proposals are often given a conceptual 'steer' by the donor commissioning this key exercise.

Whether individually or in combination, these two factors can therefore lead to programmes that are not strictly in line with the country's real development priorities.

Figure 12: Phase 2 - translating conceptual proposals to specific sector based programmes and project agreements



Process facilitated by IDC. Also involves Technical Assistance Team & Programme Management Services in DoF and relevant implementing agency and donor(s).

→

Phase 3: Programme / Project Implementation

We summarise below the main issues that feature in programme/project implementation discussions between IAs and donors. We have loosely divided these into two categories: project-specific and generic, though the boundaries between these two are not entirely clear and rigid. Our view is that there is a need to establish within government (an obvious location would be IDC) an institutional memory to capture examples of best practice principles and actual models pertaining to these dimensions, assessed from the point of view of sustainability, mainstreaming and SA-centredness.

Table 18: Issues between IAs and donors in implementation discussions

<i>Project specific issues</i>	<i>Generic issues</i>
<ul style="list-style-type: none"> · Scope and objectives of the agreement · Budget · The level and nature of donor contribution, balance between TA and grants, where and how TA is sourced (foreign or local), reserved rights and obligations of donors (e.g. right to audit, obligation to submit CVs of TA for clearance by IA; exemptions from taxes and duties) 	<ul style="list-style-type: none"> · Management and Accountability systems in particular: · Respective areas of authority and responsibility in terms of resource management · Funding flows and financial management, how ODA funds will be channelled into the programme / project and agreeing systems for financial accountability · SA Government contribution, rights and obligations (e.g. level and nature of counterpart contributions due from IA, transfer of ownership of project assets to IA as an unquestionable right, obligation to produce reports at defined times) · Procurement modalities for goods and services · Monitoring and evaluation methodology and focus · Settlement of disputes, early termination and amendments to agreement and project cycle · Measures to ensure post-ODA sustainability

IAs: Primarily and ultimately responsible for the effective utilisation of ODA and the implementation of the project; main contractual and logistical obligation in this respect is that counterpart contributions are met; should ensure that appropriate absorptive capacity is in place, efficient procurement processes are set up, provision is made for accounting, auditing and financial reporting (where the RDP fund mechanism is used) and mechanisms for monitoring and evaluation are established.

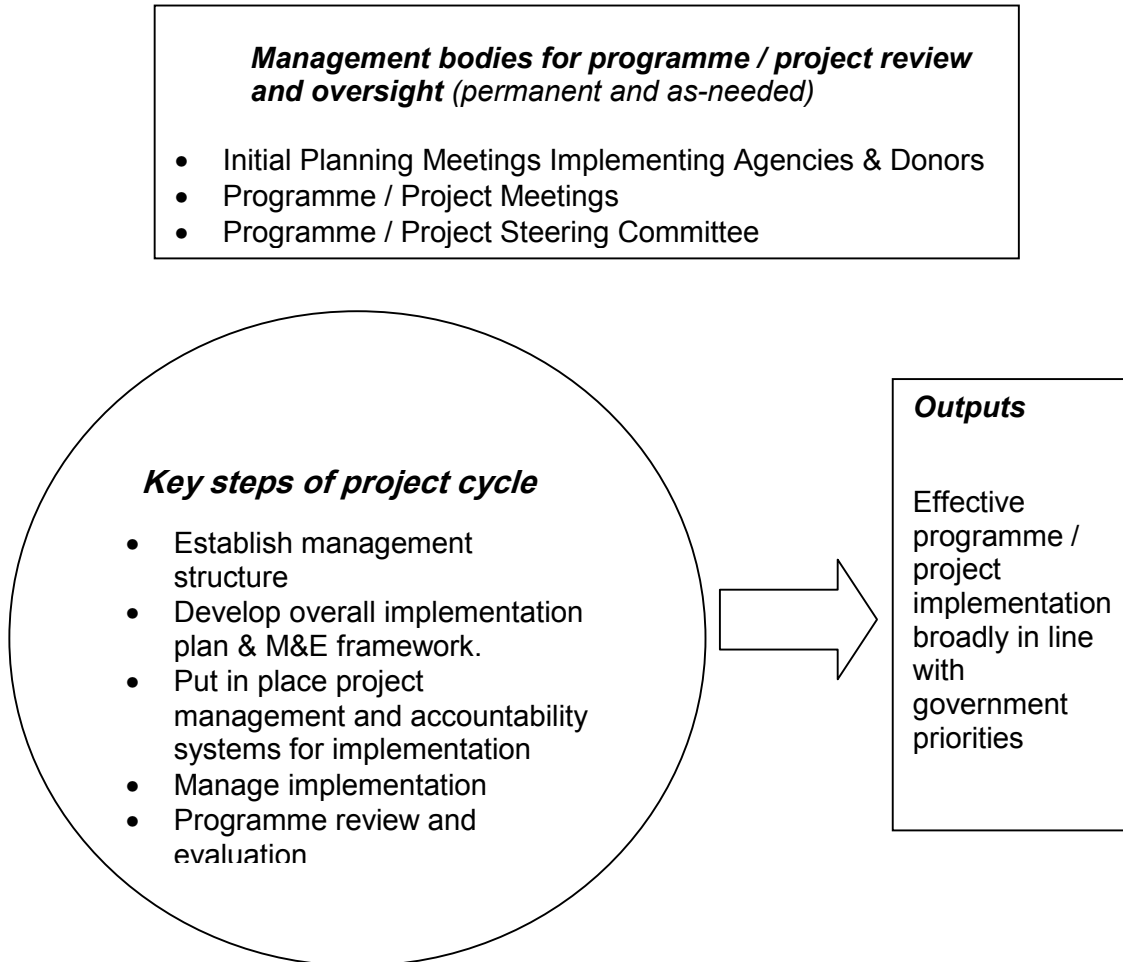
Donors: Main responsibility is to ensure agreed quantity and quality of ODA is disbursed; responsible for financial accountability where funds do not flow through the RDP fund; donors usually involved in the monitoring and evaluation of the programme.

Critique: *The most obvious and striking feature of this implementation phase is the (often largely invisible but significant) involvement of donors through virtually all aspects of the project cycle.*

Three issues in particular stand out: the influence of donors in designing the management, implementation and M & E systems; the control they exercise over the nature, procurement and supply of ODA resources; and in many cases the imposition of parallel systems of financial accountability and reporting required to meet their own needs.

Given that ODA resource power resides with donors, and especially so if the funding element of an ODA agreement is not channelled via the RDP fund, it is essential that central government (via the IDC) helps build the capacity of IA to manage donors, and as far as possible install mainstream systems of management in ODA-related projects.

Figure 13: Key elements of programme / project implementation



9.2. Part 2: National coordination mechanisms

The coordination and facilitation of ODA processes is largely managed by three organisational units, and via a number of established consultative fora that involve relevant local and international stakeholders on a formally planned basis.

In the discussion that follows we will limit our attention primarily to coordination and implementation mechanisms that have the most direct influence on the effective utilisation of ODA. In particular, we will look at:

- ◆ The IDC Directorate in the DoF, being the lead institution in the coordination and facilitation of ODA, in all but matters to do with Concessionary Loan Finance.
- ◆ Programme Management Services (PMS) and Technical Assistance Team (TAT) in the Department of State Expenditure. Both these units have ODA-related functions, though their primary focus is with mainstream government business.
- ◆ Stakeholder Coordination Mechanisms. These include: annual consultations; programme / project steering committee meetings; mid term reviews; and donor coordination meetings convened by a government implementing agency.

9.2.1 Chief Directorate: International Development Cooperation, Department of Finance

Though IDC has had no formal statutory mandate since its inception, this directorate has steadily grown into the de facto coordination hub of the ODA management system and is now responsible for facilitating most ODA-related business with donors and across the various spheres of government.

DCR II research revealed that the functional justification and present location of IDC in the DoF is beyond question⁶³. There was universal consensus among both local and external stakeholders in this respect. Given the strength of support for this position, discussion on the future role of IDC followed two strands: affecting *transactional* changes to strengthen and improve the operational efficiency of the unit, or undertaking *transformational* change by fundamentally re-visioning and re-structuring IDC as part of the process of defining a new ODA paradigm.

⁶³ For the purposes of testing stakeholder perceptions we raised two other options with a range of respondents, moving IDC to the President's Office or to DFA. The preferred option, consistently affirmed, was that IDC remain in DoF **and** that it should do so with a strengthened brief.

The developmental and remedial measures required to pursue transactional change will be evident from the diagnostic analysis presented in Table 19 where we summarise the perceived strengths and weaknesses of IDC. We take it as given that, at the very least, the issues raised in this table will form the basis for a concerted drive on the part of government and donors to consolidate and strengthen IDC's capacity.

We then offer a more radical set of proposals, in the spirit of promoting debate and framed by the fundamental question: how might IDC be structured if was designed to interpret and drive a SA-centred, sectorally-focused vision of development, into which ODA would be required to fit?

We begin with a diagnosis of the contemporary picture before moving to this radical new vision.

Table 19: Diagnosis of IDC - perceived strengths and weakness

Strengths	Weaknesses
<p>Structural</p> <ul style="list-style-type: none"> · Location in DoF · Possibility of incorporation in Budget Office if a National Treasury is created 	<p>Structural</p> <ul style="list-style-type: none"> · No formal statutory mandate leading to role unclarity & lack of formal authority to drive & enforce procedures & policies
<p>Credibility</p> <ul style="list-style-type: none"> · Known & generally respected as lead govt. agency re: ODA among national depts. & donor agencies · Led by Chief Director with excellent political and administrative connections throughout govt. · Strong, historic links with donors · Excellent, albeit informally retained, long institutional memory of ODA held by senior managers 	<p>Credibility</p> <ul style="list-style-type: none"> · Weak sector specific knowledge · Weak provincial links · Perceived lack of regular systemic contact with stakeholders
<p>ODA information management</p> <ul style="list-style-type: none"> · Assisted in developing PMS & IDC – CD is Chair of TAT Steering Committee · Repository of most agreements & literature on ODA · Up-to-date ODA data-set ('94-'99) · Currently developing on-line web-based information platform 	<p>ODA information management</p> <ul style="list-style-type: none"> · MIS systems not fully operational · Information in hard and electronic form not always easily accessible by stakeholders
<p>Management capacity</p> <ul style="list-style-type: none"> · Developed draft ODA Policy & Procedural Guidelines · Synergetic relations with Assets & Liability Management Branch · Senior management experienced in undertaking high profile, high value bilateral negotiations on behalf of SA Govt. 	<p>Management capacity</p> <ul style="list-style-type: none"> · Variable. Need to move to more formal operational systems and transparent performance based system

Strengthening and re-visioning IDC

IDC is currently organised along donor-service lines⁶⁴. While these arrangements do not in themselves preclude or militate against a conceptually sector-focused approach, the design and functioning of the unit is essentially based on providing neat bilateral or geographical interfaces between government and donors. The underlying logic behind the unit's work programme, and the consultative mechanisms it participates in, reflect its donor orientation. IDC's interaction with South Africa IAs (national, provincial and local government structures) is largely determined by this orientation.

A possible revision of this structure, based on an overtly SA-centred paradigm for the management of ODA, clearly needs to: take into account the design principles identified in the report so far and the findings of the DCR II; be realistic; and build on the proven record and capability of the Directorate.

Given these considerations, our view is that a revised, strengthened role for IDC should be based on three key functional pillars:

- ◆ IDC should be structurally located and formally mandated to shape and lead the conceptual framework for ODA.
- ◆ Thought should be given to re-define the internal structure of the directorate on the basis of a SA-orientated technical & sectoral focus.
- ◆ The unit's information management capacity should be consolidated.

We now look at each in turn.

IDC's strategic leadership and enhanced management and co-ordination of ODA

The need for Government to define the conceptual framework within which ODA is located, and to provide clear strategic leadership in this regard has been stated at numerous points in this report. In the current circumstances this role rightly belongs to the DoF⁶⁵, alongside its national responsibility for defining and managing the MTEF, and accommodating a cluster of ODA management functions, in particular, the RDP Fund, Concessionary Loan Finance (through the Assets and Liability Management Branch), and of course providing the coordination hub to ODA in the form of the IDC.

The public, strategic leadership role that needs to be performed by DoF will obviously be carried out by the respective senior-most political and executive officers in the Department. So, for example, it will require the appropriate minister to address the annual donor conference proposed in this report.

⁶⁴ Europe, Bilateral, U.N, Americas, Asia, Pacific Rim, Gulf States

⁶⁵ If and when the DoF and the Department of State Expenditure are merged to form a National Treasury, this role would of course stay with the new larger and more powerful institution.

However, a range of critical research and policy formulation processes need to occur before such an event to provide the intellectual substance necessary in the crafting of an MTEF-derived, SA-led, ODA-focused development paradigm. These include the need: to interpret the MTEF from a uniquely ODA perspective; to undertake comparative advantage 'reverse CDF' studies that identify the relative strengths of donors; to define the principles and priorities on the basis of which ODA is accessed and where it is channelled in SA; and to frame the options on the most suitable forms and processes for managing ODA across spheres of government (especially TA-based knowledge capital).

These tasks rightly belong to IDC. They represent a consolidation of the present role of IDC on the basis of the findings and ideas presented in DCR II, and build on the central management and facilitation role suggested for the unit in the 'Draft Policy Framework and Procedural Guidelines for ODA Management Manual'⁶⁶.

In Table 20 below we summarise the range of functions that should form part of the enlarged statutory brief for IDC:

⁶⁶ This Manual describes the present role of the IDC as "overall macro management of ODA (including policies and procedures), co-ordination of consultation and decision making regarding ODA and facilitating and strengthening sectoral co-ordination".

Table 20: Consolidated and enhanced leadership role for IDC

<i>Proposed new functional focus</i>	<i>Current focus / competence</i>
1. Develop SA-centred, ODA-focused development paradigm (see points 2 & 3 below) & on the basis of this a SA-led Management of ODA framework	<ul style="list-style-type: none"> · Government's institutional memory on ODA. · Experience of commissioning external consultants & coordinating government departments to review, plan & promote discourse on ODA.
2. Facilitate the development of a MTEF based priority framework for ODA	<ul style="list-style-type: none"> · Located in DOF where the MTEF is drawn. · Responsible for monitoring bilateral frameworks & programme / project agreements to ensure broad alignment with the MTEF. · See also second point in box above, re: institutional memory and commissioning external resources.
3. Undertake 'reverse CDF' comparative advantage analyses of relative donor competences; distil learning and experiences of SA Implementing Agencies, and draw on lessons from other countries with similar ODA context.	<ul style="list-style-type: none"> · Currently provides this intelligence to departments on the basis of experience and organically assembled contextual knowledge. · See also above re: institutional memory and commissioning external resources.
4. Organise and conduct annual donor conference to articulate government's current MTEF derived priorities for ODA and give clear direction to donors	<ul style="list-style-type: none"> · Experience exists within IDC of organising similar donor conferences in the period of the RDP. · Currently responsible for maintaining government's interface with donors and organising the full calendar of bilateral consultations. · Also responsible for hosting DCR I and proposed DCR II donor & local stakeholders workshop.
5. Formalise, promote and enforce an coherent set of ODA policies and procedures	<ul style="list-style-type: none"> · 'Draft Policy Framework and Procedural Guidelines for ODA Management' already done. These need to be formalised, along with a statutory mandate for IDC to enable the directorate to enforce compliance.

Table 20: Consolidated and enhanced leadership role for IDC (continued)

<i>Proposed new functional focus</i>	<i>Current focus / competence</i>
6. Establish mechanisms for cluster/sector ODA management	<ul style="list-style-type: none"> · Though the present structure of IDC is geographically & donor focused, programme managers are currently responsible for covering sectoral / cluster issues as an intrinsic element of their work. · The adoption of a structure that is based on a sectoral focus and the 'bundling' of donors along relative ODA specialisms will mean a combination and formalisation of old and new ways of working.
7. Establish a fully functional centralised management information system and website pertaining to ODA covering: up-to-date database detailing commitments and disbursements of ODA flows; donor profiles and competences based on comparative advantage studies; programme and project information; information gathered from project reviews, etc.	<ul style="list-style-type: none"> · Aspects of a comprehensive MIS already in place either within IDC (e.g. DCR II data set and studies) or broadly within IDC's compass (PMS data base). The development of an on-line information platform (web-site currently being developed by IDC) · Thus competency and plans exist within IDC to fulfil this role.
8. Coordination of training of personnel from all spheres of government responsible for management of ODA and for donor liaison.	<ul style="list-style-type: none"> · Curriculum for training will need to focus on a number of areas: procedural guidelines for ODA management, policy priorities related to ODA, behavioural and operational issues pertaining to the effective management of donors. IDC either already has, or will have (on the basis of points 1-8 here) this knowledge. · Experience of contracting consultants to undertake these functions on IDC's behalf also exists within the Unit.

Organising IDC along cluster lines while allowing for direct relationships with donors

International trends⁶⁷ and local policy developments, notably the adoption of the 'cluster' based approach to government functions taken by the President's Office, confirm the leaning in contemporary public policy towards a more holistic, cross-departmental, and sector-based approach to development. The rationale for this thematic model is that it offers a more integrated approach to development both in terms of service delivery and asset creation. Proponents of this approach claim that it produces greater gains in terms of the impact and sustainability of development interventions.

The SA version of this model is visible in the clusters formed in the Presidency, and this template is meant to increasingly inform inter-departmental linkages and sectoral approaches to government development programmes. The sourcing and flow of ODA clearly needs to support and match this SA conceptualisation of clusters and sectors⁶⁸.

The shift in perspective required for this to happen is simple yet profound. It requires government to take responsibility for defining the type of ODA it wants, and on the basis of this establishing research processes and management arrangements to mediate the acquisition of this ODA.

In this case IDC's role as the government's agent in managing these processes will then require its programme managers to have more technical and 'content' knowledge of ODA requirements relating to particular clusters and sectors. This approach does not preclude having responsibility for particular donors alongside a cluster / sectoral brief. Indeed, the results of analyses of the comparative advantages and distinct competencies of donors should help assign donors to particular clusters. We acknowledge that the allocation of donors to cluster / sectoral focus will be difficult (if not impossible) in the case of the major donors⁶⁹, but this process of screening and assigning should cover most of the other donor agencies.⁷⁰

⁶⁷ For example the notion of 'joined-up government' made popular by the Blair Administration in the UK, which requires different ministries to work closely together at the national, regional and local government levels.

⁶⁸ For example, in building an understanding of the global map on knowledge capital and the relative strengths of donors, the process could begin with basic lines of enquiry such as: where, internationally, are the best practice models relevant to SA, in terms of the five thematic clusters of interest to SA: social, economic, justice, governance and administration, and investment and employment?

⁶⁹ See Chapter 5 Section 5.6.5 Table 4: *Donor Presence in Six Most Funded Sectors* for a sample breakdown of how donors spread their resources across various ODA defined 'sectors of destination'.

⁷⁰ In instances where donors are represented in more than one cluster, one possibility would be to give responsibility for the formal bilateral administrative relationship to the programme manager who deals with the cluster where the donor's contribution is most significant.

A typical example that excludes the two largest donors from consideration (EU and USAID) might be:

Areas of responsibility for Programme Manager A:	
Cluster / Sectoral focus:	<i>Social Development</i>
Donor agencies covered:	<i>Sweden, UK, Norway, Japan, Belgium, and Canada</i>

In the diagrams below we outline the present structure of IDC, based on donor interfacing, and set it alongside a sector-orientated model⁷¹. The latter is based on the clusters used in the Office of the President. A decision on the number of clusters necessary in the ODA management environment, and the possibility of assigning more than one clusters to a programme officer, will of course be based on resource considerations within DoF.

We have included in this chart positions relating to MIS & electronic communication; monitoring and evaluation; and capacity building. These are among the services that may be required of a stronger, formally mandated IDC. These are likely to be fixed term contract posts, terminated on completion of the particular work (for example, the design of communication strategy or a monitoring and evaluation framework).

⁷¹ This model is offered as a basis for debate, and not as a definitive proposal. Should DoF find merit in this approach a more systematic organisation development intervention will be required to determine the most appropriate structure, staffing levels and skills base, based on a deeper functional analysis and resource considerations.

Figure 14: Current structure of IDC

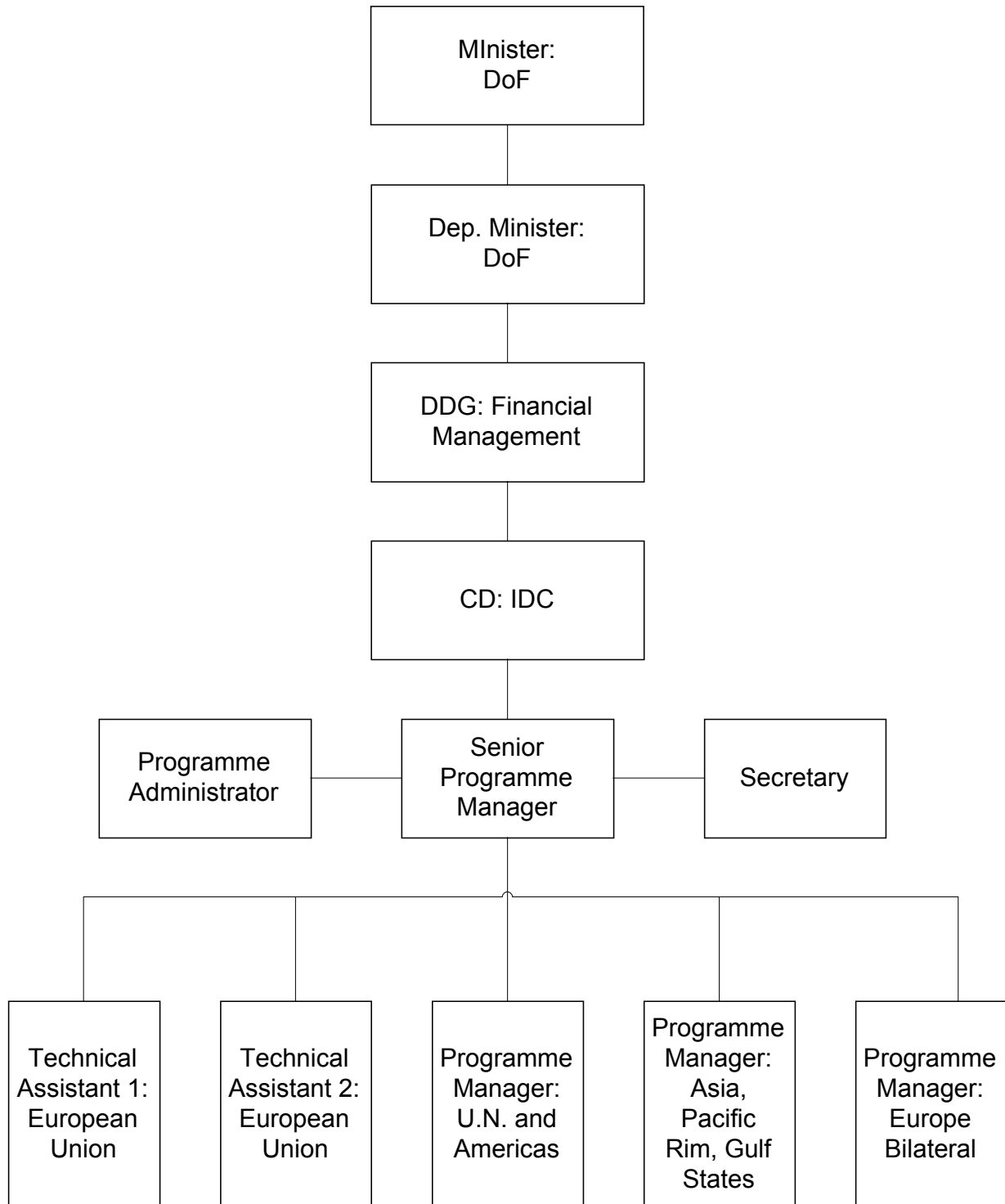
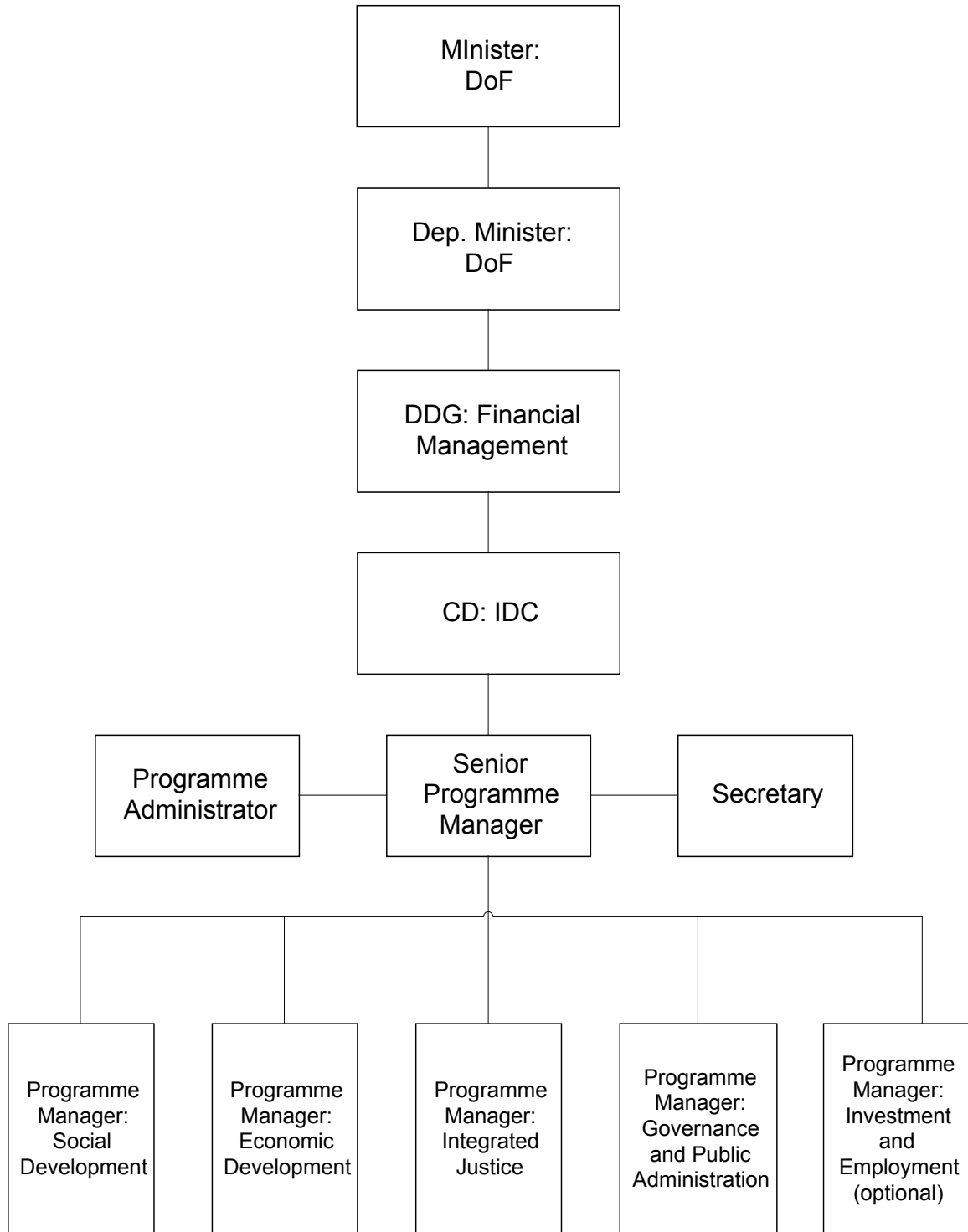


Figure 15: Possible sector based model of IDC in the Budget Office



During the course of the DCR II we were made aware of another review process that was considering the structure of the DoF and the possibility of amalgamating the Department of Finance and the Department of State Expenditure into a new ministry, the National Treasury.

Among the proposals being considered within this possible major restructuring was the possibility of IDC becoming part of the Budget Office within the DoF. If this happens this could help mainstream the development of a SA-centred framework for the management of ODA. Essentially, the function of the Budget Office is to promote efficient and equitable service delivery consistent with the government's macroeconomic and developmental goals, and a number of its focus areas are directly relevant to the ODA management process.

For instance, the Chief Directorate: Financial Planning is responsible for developing and co-ordinating MTEF planning and could assist the IDC in developing an MTEF-based ODA framework. The Chief Directorate: Intergovernmental Relations is responsible for promoting inter-departmental co-operation and could assist IDC in developing sector-based approaches to ODA.

Between them these two Directorates could assist IDC in developing formal structural links with departments, provinces and local government, both in terms of planning and integrating ODA resources into their organisational plans, and in establishing financial reporting systems across all spheres of government.

Further, the Budget Office is involved in a range of consultations, called 4x4s, that aim to promote more effective liaison between the State Treasury and departments in order to facilitate the integration of policy, strategy, budget and implementation. These structured consultations offer a framework for exploring how, and what kind of ODA, could add special value to the strategic objectives of particular government agencies. If IDC is moved to the Budget Office and invited to participate in these deliberations, an important existing forum could fortuitously become available as a means of generating deeper and wider stakeholder discussion on the utilisation of ODA on SA's own terms.

9.2.1. Information Management Mechanisms

The importance of up-to-date and accurate information on ODA for the purposes of monitoring trends, patterns and informed decision-making, and the demand for such information from local and external stakeholders, has been remarked upon at numerous points in this report (see in particular Chapter 5).

These conditions have strongly influenced IDC's conscious intent to mark out a natural role as the country's foremost provider of information relating to ODA. The directorate's aim is to become the central source of data covering two key areas⁷²:

- ◆ Compiling and maintaining an annually updated database detailing commitments, and eventually disbursements, for particular donors, as well as global ODA flows.
- ◆ Detailed programme and project information on ODA sponsored initiatives.

We have commented earlier (see Chapter 5 of this report) on the design and formatting of SA-focused data collection instruments, processes of data collection and validation, and the active cooperation required from donor agencies to cover the first of these two objectives. The quantitative outputs of DCR II will provide a sound basis to work from in this respect and could be used to populate and launch the interactive ODA website currently being planned by IDC.

The second objective will require IDC to work closely with the Programme Management Services (PMS)⁷³ and the Technical Assistance Team (TAT)⁷⁴, both of which are structurally located in the Department of State Expenditure. These two units have information management responsibilities relating to mainstream government development programmes, and are expected to maintain a dynamic database capable of providing basic project data as well as serving as a project management tool. Significantly, PMS also assists the Accountant General's Office in managing the RDP fund.

Complementing and broadening the project management capacity of the PMS, TAT was established to support the project management capacity of departments, particularly those dealing with major social infrastructure projects.

⁷² Our view is that these functions will require a combination of in house capacity and contracted consultancy services, which will need to work closely together in order to collect, process and disseminate information on behalf of IDC.

⁷³ Like the IDC the PMS also has its origin in the former RDP programme, where it developed its core expertise of closely tracking development projects and processing this information electronically.

⁷⁴ TAT has been established with the assistance of the EU, in line with the EU's commitment to help improve the impact of ODA and create systems that can enhance donor coordination. The EU's sponsorship of TAT explains its presence on the TAT Steering Committee.

Though TAT structurally currently resides within the DSE⁷⁵, its operations are determined by a steering committee comprising IDC (Chair), PMS, EU (observer status) and the Accountant General's office.

These role responsibilities of IDC, PMS and TAT are sketched here primarily to illustrate the overlapping interests of the three units. TAT and PMS are expected to work closely with IDC and help establish and jointly manage a comprehensive ODA management information system. They are also both expected to provide technical support to IDC to enable IDC to effectively carry out its duties as the country's central ODA co-ordinating agency.

In particular, the expectation is that TAT will provide support (in the form of hard data derived from its project management records) during the phases of the ODA management process that involve proposal development, the signing of project agreements and implementation. While TAT has not been established exclusively to deal with programmes relating to ODA, it is likely that this will be among its initial priorities.

While we acknowledge the general understanding between IDC, PMS and TAT to work collaboratively towards improving the effectiveness of the management of ODA, our view is that role relationships between these units would benefit from being further formalised. An option would be for the three parties to do this themselves through an OD workshop that clarifies their respective roles and functional performance targets in terms of ODA information management, and establishes service level agreements between the three parties, in particular between PMS and IDC, and TAT and IDC. Alternatively, of course, these roles and relationships could be structurally defined at an appropriately senior tier of central government, as part of a post-DCR II set of measures to streamline ODA management processes.

9.2.2. Stakeholder Coordination Mechanisms

In addition to the structures discussed above, DCR II revealed a number of review and consultative mechanisms currently in place that facilitate the management of ODA. In Table 21 below we critique these mechanisms and suggest ways of enhancing their effectiveness.

⁷⁵ These are draft guidelines which have not been formalised at the time of writing

Table 21: Critique of ODA Coordination Mechanisms

Coordination Mechanism	Convenor and Attendance	Purpose	Outputs	Comment	Recommendation
Annual MTEF based ODA conference	Convened by DoF, involving IDC, donor community, key local stakeholders (line depts. & provinces, and, when appropriate, LG representative bodies).	SA Govt. definition of priority areas of focus for ODA. Clarify macro-policy & ODA management framework.	Commonly agreed policy & operational framework, agreed between Govt. and donors.	Has not occurred in this form yet. A donor conference to highlight government development priorities & elicit ODA pledges was organised by the RDP office that preceded IDC.	Introduce practice of an annual donor conference where DoF presents a SA-led, SA-centred framework for the direction & management of ODA.
Annual bilateral consultations	IDC-led. Relevant donor, SA implementing agencies (IAs), DFA & other relevant depts.	Review existing donor assistance programmes, agree new projects, resolve outstanding issues.	A set of agreed minutes signed by SA and bilateral partner (this is the primary tool for managing and reviewing implementation).	Lack of formal provincial representation. ODA coordinators often not able to engage with technical detail. Unclear balance between strategic & operational issues. Sometimes, ceremonial performances rather than substantive discussions.	SA side needs to prepare better in order to lead ODA. IDC needs to draw in more (relevant) SA stakeholders into preparatory work (e.g. provinces where ODA is going), and SA stakeholders need to engage more purposefully. Meetings should have a clear agenda.

Table 22: Critique of ODA Coordination Mechanisms (continued)

Coordination Mechanism	Convenor and Attendance	Purpose	Outputs	Comment	Recommendation
Annual bilateral consultations (continued)					Annual bilateral consultations should be held with all donors as a matter of course. Results of consultations should be widely disseminated to appropriate SA stakeholders and information in the public domain put on IDC's ODA website.
Sectoral / departmental / provincial review meetings for donor coordination	Lead departments in sectors and provinces. Donor representatives	Donor co-ordination, (particular in the case of multi-donor programmes). Alignment with sectoral / departmental / provincial priorities.	Clearer donor alignment with sectoral and provincial priorities, and prevention of duplication of donor activities.	Held irregularly and, when meetings do take place, there is a lack of clear direction given to donors.	ODA-focused frameworks need to be developed at the sectoral / departmental / provincial levels. These should be based on, and consistent with, the national MTEF-based ODA framework from DoF, and the IA's own MTEF-based strategic plan.

Table 22: Critique of ODA Coordination Mechanisms (continued)

Coordination Mechanism	Convenor and Attendance	Purpose	Outputs	Comment	Recommendation
Mid-term bilateral review meetings – once a year	IDC Relevant donors	Similar to annual consultations but on smaller scale, aimed at resolving outstanding matters.	Minutes from these meetings attached to the minutes of the annual consultations.	Useful, but held irregularly.	Schedule as part of a formal cycle of bilateral consultations.
Programme review meetings As required	IDC Donor(s)	Assess implementation of ODA supported programmes on a regular basis	Decisions to resolve operational & accountability issues.	Inconsistent & based on limited programme / project information to consider issues in depth. Nevertheless useful in bringing two side together to monitor work in progress.	SA stakeholders i.e. IAs & IDC should present detailed reports to make better use of these meetings. Schedule should be formalised.
Project steering committees	Donors IAs & other relevant stakeholders	Project oversight (akin to management board). Responsible for overall strategic guidance and review.	Decisions to resolve operational & accountability issues.	Contrary to principle of mainstreaming. Normal dept. decision-making & accountability systems bypassed. Donors wield undue influence.	Where these exist, the SA side need to define conceptual framework & ensure strategic oversight. PSCs should note emerging good practice models. IDC should facilitate such learning.

Table 22: Critique of ODA Coordination Mechanisms (continued)

Coordination mechanism	Convenor and Attendance	Purpose	Outputs	Comment	Recommendation
Private meetings amongst donors	Usually led by the major donor in a particular sector, and involving only other donors.	Definition of a common donor position, general information sharing and agreement of negotiating tactics with SA stakeholders.	Consensus over a shared policy & operational stance to be taken in discussions with SA side.	Meetings take place informally and are prompted by a contemporary issue or the strategic needs of a particular donor. No formal record, but can shape sectoral / project level plans.	Donors are encouraged to increase the transparency of these processes.

9.3. Part 3: Implementation agencies (IAs)

This discussion relates only to ODA-utilising implementing agencies in the three spheres of government, and excludes consideration of IAs in the parastatal sector. Essentially, there are two factors that broadly constrain the effective use of ODA by IAs:

- ◆ The non-strategic structural location and weak authority of ODA-coordination units in IAs, which limit the influence of these units on the IAs own internal management processes, and on donors.
- ◆ The lack of capacity and absence of support provided to staff in the ODA coordination units in IAs, which prevents them from managing ODA effectively, and from pursuing a measured pro-SA perspective.

9.3.1. Management and coordination of ODA in IAs

National

At the national level most line departments currently have a centralised co-ordinating unit responsible for dealing with ODA (e.g. the Departments of Water Affairs and Forestry, Agriculture, and Education). However, there are also instances where certain departments do not have such structures in place (e.g. the Departments of Mineral and Energy Affairs, Home Affairs, and Welfare).

Functionally, the ODA co-ordination role is either seen as an international liaison function (e.g. Education), or located in the section of the department responsible for planning (e.g. Land Affairs).

Generally, the links between these ODA coordination units and the political and administrative heads of departments or provinces are weak. However, as the DCR II quantitative and qualitative research showed (see Chapters 5 & 6) where the top leadership of a department have worked closely with the ODA coordination unit, and purposefully sought to draw and utilise ODA within the framework of the department's own plans, the consequence have been dramatic. The Department of Water Affairs and Forestry was the best example of this in the period under review, and attracted a surprisingly and disproportionately high number of donors and volumes of ODA in support of its own plans as an IA.

Provincial

There is a dearth of information on what institutional arrangements exist for the purposes of managing ODA within the provinces. Attempts to obtain information from IDC, and directly from the provinces by the DCR II research teams, revealed little in the way of descriptions of optimally functioning formal structures mediating the flow of ODA into provinces. Essentially, where these

structures exist they are either programme or project specific (e.g. Mpumalanga Education Department) or notionally in the Office of the Premier, but not close to the apex of power within the administration. Generally, these units in the provincial implementing agencies interface directly with donors, and, though there is representation on the programme / project boards from local stakeholders, we found no evidence of a strong steer from a central national body.

We found no examples of provinces hosting a general donor conference to showcase its own development plans with a view to securing ODA for priority areas defined from a provincial perspective. However, there have been instances where a particular line department (e.g. the Eastern Cape Department of Education) has hosted a donor co-ordination conference where a department specific strategic plan was presented and donors invited to identify possible complementary areas of support within this limited framework.

Local Government

DCR II did not look closely at individual local authorities to ascertain the range of ODA-focused links. However, as we commented in Chapter 7, local government is replete with international civic links, managed mostly by the senior political and executive office bearers in Councils. There is little substantive evidence in the public domain yet of the developmental value of these relationships.

Away from these discrete links, and at the other end of the spectrum, the establishment of the Local Government Transformation Programme (LGTP) in 1999 represented an attempt to coordinate growing donor interest in this sector and to channel ODA flows on the basis of criteria agreed by the leading parties with a stake in this sphere of government.

Towards the later stages of the DCR II significant developments unfolded at pace with respect to the LGTP. At the time of writing the LGTP had not yet become fully operational in the form and manner originally envisaged. However, a number of distinct ODA supported TA programmes to this sphere have now been established by donors and relevant stakeholders, with programme-specific management structures through which ODA flows are being disbursed to provincial departments of local government, local authorities and other bodies.

Three critical issues lie within these summaries:

- ◆ **Reactive not proactive management of ODA.** In all three spheres of government, most ODA management and coordination structures have been set up reactively, in response to the arrival of ODA.
- ◆ **Functioning in isolation, not part of a coherent SA vision of ODA.** The ODA coordination units did not reflect a sense of being part of a larger, coherent and mutually supportive set of arrangements promoting discourse and good practice, and driving a SA-centred ODA agenda. At best the links with IDC were routine, at worse effectively non-existent.

- ◆ **Limited data on ODA, and poor systems for ODA data capturing and processing.** DCR II revealed few examples of departments and provinces having dynamic accurate management information systems capable of tracking the flow of ODA through IAs⁷⁶.

These factors reinforce the imperative for DoF (through IDC) to define an authoritative conceptual and managerial framework for ODA, which empowers departments and provinces to engage with ODA entrepreneurially, on the basis of their own organisational plans and grounded in a SA vision of the particular contribution that ODA can make to development.

9.3.2. Staffing and management capacity to monitor and direct ODA

There is a general lack of capacity and continuity in the coordination units charged with the responsibility of managing ODA on behalf of IAs. Most officers based in these units indicated that they lacked the necessary organisational capacity, technical knowledge and skills to perform their role effectively. In many cases officers were covering ODA-related functions alongside other demanding duties.

An issue of particular concern was the acknowledged lack of capacity to effectively manage the utilisation of TA, despite the fact that this often forms the most significant and physically manifest component of the ODA received by IAs⁷⁷.

Further, *prima facie* at least, there appears to have been a high turnover and transfer rate among ODA coordinators within departments. In many cases the incumbents interviewed during the DCR II exercise were relatively new. This lack of continuity has meant that, in the absence of well-documented procedures, new staff members have struggled to understand ODA management processes, tipping the balance of power once more towards donors.

Finally, and critically, was the issue of the off-centre structural location of these ODA coordination units, and the limited formal authority⁷⁸ vested in the officers in these units to make management decisions or have access to the top decision makers within the IAs. Generally the ODA coordination function is

⁷⁶ The Department of Land Affairs was a notable exception in this regard. See the DCR II component study on land reform for an example of good practice.

⁷⁷ We have covered this issue in other parts of this report. See in particular Chapter 7,

⁷⁸ The role of the donor co-ordinators are generally covers these functions: coordinating planning regarding ODA (internally); participating in ODA co-ordination mechanisms; facilitation of donor coordination meetings (particularly if a line department is a lead agency in a sector – e.g. health); coordinating the solicitation of ODA; developing policies and procedures; maintaining a database; collecting, generating and disseminating information throughout the department (including provinces); reporting on ODA; participating in project management structures (e.g. project steering committees).

delegated to staff at director level⁷⁹, and few DGs and the finance directors are directly involved in determining a department's strategic, conceptual approach to ODA, even though in many cases these officers are formally accountable for the ODA resources made available to their organisations.

Even when donor co-ordinators have a direct reporting line to the DG, and do manage to raise critical issues with organisational leaders, this is prompted by the need to react to circumstances, rather than with a view to conceptualising and leading the debate on ODA.

In relation to monitoring and evaluation, DCR II revealed that most evaluation studies on the utilisation of ODA and of ODA-sponsored programmes and projects are generally donor driven with departments and provincial administrations leaving much of the actual work of framing and directing these review to donors, though ostensibly both parties may be jointly responsible. DCR II unearthed no substantive evidence of monitoring and evaluation studies commissioned and resourced by the lead SA stakeholders concerned with ODA supported projects, and none that looked critically and uninhibitedly at the role of donors in the management of ODA.

⁷⁹ Though there are instances where the responsibility is assigned a level above or below this median point, to DDG's or deputy directors. However, the general argument remains extant, that ODA coordination units are not linked to the apex of power.

9.4. Part 4: Funding channels, financial management and scrutiny mechanisms

9.4.1. Funding channels

There are two approaches currently being used to channel ODA funds from donors to IAs provoking a strong debate on these divergent options:

	Option 1: Donor managed, bypassing govt, channelled to IA either directly by donor or via managing agent.	Option 2: Funds transferred through government machinery, using RDP Fund.
Main arguments in favour	Pragmatic, efficient & expedient. Allows money to move to IA swiftly & be used for the development purposes that it is intended. Government procedures, no matter how well intentioned, impose an additional layer of bureaucracy that slow down & constrain dynamic approaches to development. Witness the long delays & frustrations suffered in channelling funding via the RDP fund in the period 94-98.	ODA should be mainstreamed as far as possible & integrated within the government's budgeting, planning & financial accountability systems. This is not just morally right, but the sustainable option. Government has taken note of efficiency / expediency criticisms &, since the RDP Amendment Act (1998), the time to process funding has been reduced drastically: now claimed to be down to between 2 to 6 weeks (max.) from time of deposit in RDP Fund to transfer to IA.
Conduits used	ODA funds managed by donor & used to make direct payment to suppliers or goods & services procured for programme / project. ODA funds channelled via local managing agent / fund manager from civil society	Funds transferred from donor to RDP Fund & then onto IA
Main criticism of this approach	Used by donors to exercise de facto policy & operational influence by controlling the flow of ODA. Also, donors set up project specific management & accountability arrangements rather than following mainstream procedures.	Government involvement does not only slow the flow of ODA but also often inhibits dynamic creative decision making to the detriment of projects.
Proponents	Some donors & some local stakeholders, especially at the provincial level.	Central government & some donors.

Option 1

◆ **Direct payment by donor**

This occurs mostly when ODA is provided in the form of technical assistance, but also in certain instances where financial assistance is provided. While the accounting officer of the IA remains accountable for specified obligations imposed under the project agreement, the donor is solely accountable for project expenditure. In terms of financial probity, the donor view is that accountability systems are likely to be particularly stringent in the case of this approach because of the needs of donors to meet their own internal audit requirements.

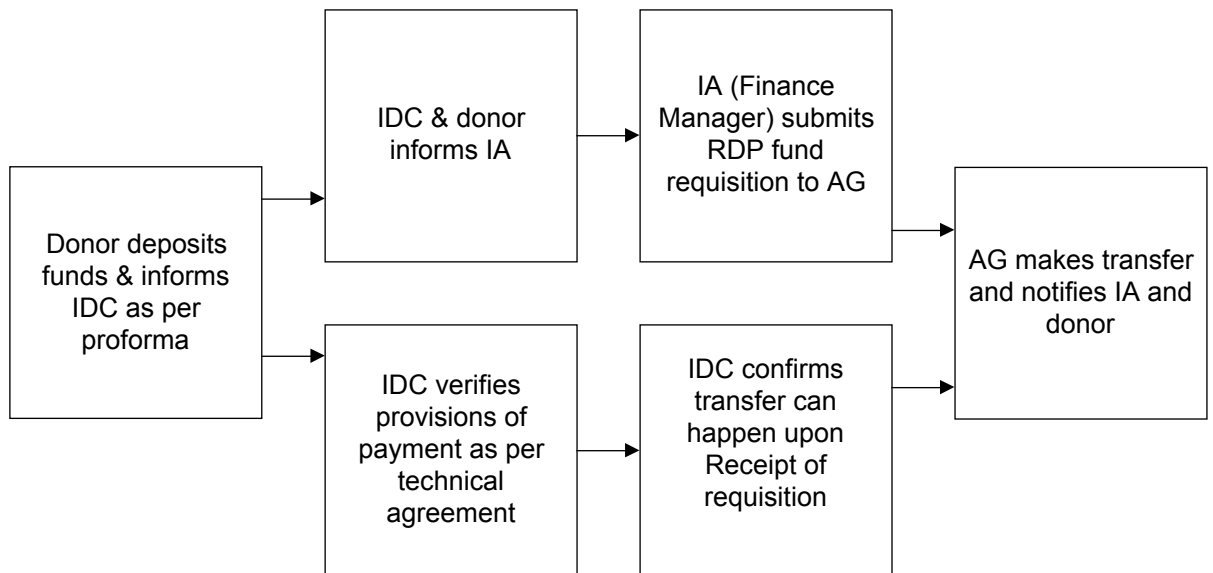
◆ **Financial management by a third party**

Managing agents / fund managers are used to implement donor-supported projects, mostly to circumvent real or perceived inefficiencies in the RDP Fund mechanism. This mechanism has also proved useful in some cases not just in moving funding quickly to the frontline of development, but also in testing and building the financial management capacity of civil society organisations engaged as managing agents / fund managers.

Option 2

◆ **The RDP Fund**

The RDP Fund Act was passed precisely for the purposes of establishing a dedicated mechanism to channel external ODA funds to IAs. Following the recognition of weaknesses in the original Act, the Act was amended in 1998 and has resulted in significant improvements in the flow of donor funding to IAs via the RDP Fund. Previously funding could only be disbursed to the IAs at the end of each year, via the national revenue fund. As a result of the amendment, funds can now be disbursed to the IAs expeditiously (depending on the speed of routine accounting procedures). The diagram below presents the process flow linked to the RDP Fund:

Figure 16: Process flows linked to the RDP Fund**Notes:**

1 As regards reimbursement the flow is the same except that budgeted funds are used for expenditure.

2 Process should take between 2 – 6 weeks.

A speculative, but probably accurate assessment from a DoF source interviewed in the course of DCR II, estimated that before the amendment to the RDP Fund Act was passed, less than 30% of ODA coming into the country passed through the RDF Fund.

While this figure may seem startling, there is no way of ascertaining its veracity. As we have stated elsewhere in this report (see Chapters 5, 7 & 8) it is practically impossible to get an accurate picture of the total sums and disaggregated amounts of ODA disbursements, in terms of form and sectors of destination, because of two basic reasons:

- ◆ Absence of accurate information on how ODA commitments are proportionally divided between TA and grants. Donors are generally reluctant to give figures on the TA element of an ODA project budget.
- ◆ Absence of accurate data on disbursements per se. The data presented in this report is based on commitment figures only, and these, too, were provided voluntarily by donors and in each case validated by the same source donor.

The essential point of note is that the total amount of ODA actually entering the country, and the proportion of this total going via government channels, is unknown. Notwithstanding the claims of expediency of the two channels that constitute Option 1 above, and the supposed inefficiencies of the RDP Fund, our view is that the preferred channel for ODA funds coming into the country should be the RDP Fund.

This view is predicated on two key principles: *transparency* regarding the source, destinations and level of disbursement, and *sustainability* in terms of building the capacity of government's own financial management systems.

Channelling ODA funds via the RDP fund will affirm these overriding principles of good government, and reinforce the fundamental position taken in this report, that the management of ODA must be in SA hands. In this respect, if difficulties exist with government systems these need to be tackled directly, rather than circumvented.

The importance of these two principles was illustrated by another DCR II research finding alluded to in Chapters 6 & 7. Departments do not always subject proposals and project agreements to scrutiny to ascertain their sustainability beyond the period of ODA support, reportedly because they do not have sufficient in-house capacity to undertake this kind of screening. As a result, these departments fail to properly consider the cost implications on their own resources in meeting the counterpart contributions they are required to provide as partners in a bilateral project agreement.

Our view is that, if the ODA funding levels and arrangements that feature in bilateral programme / project agreements are openly defined and subjected to proper scrutiny, these situations are less likely to occur. Both government and donors have a responsibility to prevent such occurrences. It is incumbent on IDC to provide better guidelines, technical advisory support (or point out where this support could be obtained from) and to offer training to departmentally based ODA coordinators covering issues such as this.

9.4.2. Financial management and scrutiny mechanisms

The RDP Fund and the Public Finance Management Act

One significant consequence of the RDP Fund Amendment Act is that the accounting officer of an IA such as the DG of the relevant department or provincial administration is identified as the official accountable for all donor funds allocated to the agency. This is in line with the requirements of the recently enacted Public Finance Management Act (PFMA) which reinforces the accountability of departmental accounting officers in general and in relation to ODA funds.

It does this in particular by prescribing specific requirements (in Section 22) relating to:

- ◆ Approval – any gift/sponsorship/donation must be formally approved by the accounting officer;

- ◆ Reporting – all gifts/sponsorship/donation must be disclosed as a note to the annual financial statements of the institution.

As such this legislation reinforces the principle of SA oversight and ownership of ODA and will compel departments to improve systems to collect and record ODA data since this information will be essential for the purposes of financial accountability.

Scrutiny over alternative ODA funding mechanisms

With respect to the use of channels of funding other than the RDP Fund, it is essential donors cooperative with IDC in establishing a transparent record of the current scenario in terms of the managing agents and fund managers being used, the IAs and programmes covered, amounts transferred and audit procedures employed.

This information should provide IDC with the basis to invite the AG to ascertain whether DG of IAs using alternative mechanisms have established sufficient and appropriate mechanisms to meet their statutory accountability obligations. The results of this scoping exercise should help identify the needs and weaknesses of IAs, and alert DGs of their financial responsibilities with regard to ODA management.

The essential point of note is that the reporting and accountability schedules of the alternative mechanisms should steadily be turned to interface more with government scrutiny and MIS systems, in the interests of public scrutiny and transparency. Apart from ensuring financial scrutiny, the objective of pursuing this line of action is that it should help in building a more comprehensive picture of ODA flows, and help IDC, PMS and TAT to monitor and track patterns of ODA more closely.

Value Added Tax

During the later part of this review the application of Value Added Tax on the procurement and supply of ODA related goods and services emerged as a vexed issue among some donors, due to the absence of a clear government policy position and an ambiguous legal framework.

There are two sides to this debate:

Table 22: Arguments for and against VAT on ODA

Option 1 All ODA related goods and services should be exempt from VAT.	Option 2 ODA goods and services should be subject to VAT
<ul style="list-style-type: none"> · ODA should go directly to IAs and be used for the purposes for which it has been committed by donors · Donors are generally accustomed to not paying taxes on their ODA contributions internationally and, in most cases, their governing bodies (e.g. parliaments) see ODA as 'charitable' giving that should be free from VAT and other taxes. 	<ul style="list-style-type: none"> · Government is the main deliverer of development in the country and VAT and other taxes raised from ODA are used largely for the same purposes that the ODA is meant for anyway. · There are significant real and bureaucratic costs involved in administering a VAT-exemption system for ODA. Further, systems of privilege are open to abuse and corruption. Subjecting ODA goods and services to VAT is thus an equitable, low bureaucracy / lower cost option.

We acknowledge that, aside from the economic and administrative dimensions, this issue evokes strong political and emotional responses among donors, and particularly further afield in their 'home' constituencies. In the circumstances it requires that DoF, through IDC, brokers a meeting between the leading SA institutions with an interest in this issue, viz. SARS, AG and DFA, to develop a common SA position and then meet a group of donor representatives to define a common understanding. It is important that this process is undertaken as swiftly as possible and that the consensus reached forms the basis of an unambiguous and practical policy framework adopted by government.

Recommendations

- Departments and provinces should develop ODA specific strategic plans based on the national MTEF derived ODA framework and their own business plans. These plans should provide the basis of a proactive and entrepreneurial engagement with donors.
- *DoF should encourage donors to develop transparent processes resulting in explicitly SA focused ODA plans, such as, Country Strategy Papers based on the MTEF derived ODA framework.*
- *The central management and coordination role of IDC should be formalised and consolidated, ideally with a statutory mandate or administrative instrument that legitimates its authority and defines its roles and responsibilities.*
- *The internal capacity and structural arrangements of IDC should be reviewed with a view to creating a Directorate based on a SA orientated technical and sectoral focus, and to enhancing information management capacity.*
- *DoF, through IDC, should organise and conduct an annual donor conference to articulate government's current MTEF derived priorities for ODA and give clear direction to donors.*
- *DoF, through IDC, should undertake a 'reverse CDF', distil learning and experiences of SA implementing agencies, and draw on lessons from other countries operating in a similar ODA context as part of the process of drawing up the MTEF derived ODA framework and directing the annual ODA donor conference.*
- *The 'Draft Policy Framework and Procedural Guidelines for ODA Management', drafted by IDC, should be formalised and a mandated IDC should promote and support their implementation.*
- *IDC should encourage donors to use mainstream government systems for the reporting, monitoring and evaluation, and financial scrutiny of their ODA programmes and, at the very least, to adopt standard project management tools across all ODA supported programmes.*
- *A fully functional, centralised management information system and website for ODA should be established, including an up-to-date database detailing commitments and disbursements of ODA flows.*
- *IDC to draw up a curriculum and coordinate the training on the management of ODA for personnel from all spheres of government responsible for ODA and donor liaison.*

(Recommendations – continued)

- *IDC to develop systems to engage SA stakeholders, especially departments and provinces, in a more methodical manner prior to participation in the various bilateral consultative and coordinating fora (see Table 6 – Critique of ODA Coordination Mechanisms).*
- *The role and function of ODA management units in IAs should be formalised and strengthened through closer linkages with their own political and executive decision-makers and with IDC.*
- *DoF should encourage all donors to use the RDP fund as the preferred option for transferring ODA to IAs.*
- *IDC should broker a meeting a meeting between the SA Revenue Service, the Accountant General’s Office and the Department of Foreign Affairs to resolve the issue of the application of VAT to ODA related goods and services.*