8. FUTURE FLOWS OF ODA: STAYING, LEAVING OR GOING REGIONAL?

In the DCR II process we were mindful of two assumptions often remarked upon in aid circles in SA and raised in DCR I:

- A latent trend and strong likelihood of ODA shifting steadily from bilateral SA-focused programmes to regional initiatives largely benefiting neighbouring countries;
- The possibility of an imminent departure of donors from SA, as if the latter was in some ways linked to the former.

The picture emerging from our studies was richer and less definitive than suggested by these statements. We comment on these below.

8.1. Regional approaches to development

A combination of strategic thinking and systems-theory insights compel donors to consider a more regional approach to development. Essentially, both streams of thought are concerned with the need to address the fundamental issues at the heart of a wide and complex range of inter-related development problems affecting South Africa and Southern Africa.

This motivation, of increasing the strategic leverage and impact of ODA to SA and to the region, is visible in donor interest in three conceptual and policy domains: strengthening liberal democratic, market orientated macro-policy environments; supporting regional analysis and approaches to programming; and encouraging intra-regional and international trade and pro-growth economic strategies in the region.

This is not to say that the trend towards regional thinking is led by ODA. The SA government has itself advocated this approach, in keeping with the country’s sense of responsibility as the region’s major geopolitical power, and informed by President Mbeki’s call for a commitment to an African Renaissance. Indeed the SA Minister of Finance, Trevor Manual, has consistently argued that the optimal development position, both from SA’s and the Region’s perspective, must be to adopt an increasingly regional approach.

Essentially, our studies found that both local and international stakeholders recognise the need to locate their development activities within a broader framework, as they seek to capture critical development variables within their planning and operational frameworks. There is a realistic understanding that the problems and challenges of countries in the region are not contained within national boundaries, and the solutions therefore necessitate regional action. The examples emerging from the component studies illustrate this situation graphically.

There is little point in promoting economic growth and tackling unemployment effectively in SA and not doing the same in the neighbouring states. A relative economic boom in SA would only produce a new set of social problems in the country, as the unemployed migrate from the failing economies of regional states. The challenges of environment and water management physically and visibly straddle neighbouring states, and cannot be dealt with in isolation. In the Health sector, Malaria, TB and HIV have to be tackled regionally if there is going to be any hope of the epidemics being contained effectively.

The implications for governments and donors are conceptually clear: there is a need to conceptualise development programmes regionally, and act both locally and regionally. However, the link between regional conceptual analyses and regional action is far from seamless, and, herein lies the rub, this has a bearing on ODA flows.

The 'regional' label covers at least three different approaches currently being pursued by donors:

- **Common regional issues.**
  We define these as development challenges occurring distinctly within different states, but common to all these states and hence shared as a regionally common experience. The targeting of ODA at these 'common regional problems and issues' has usually meant promoting learning between states, so that the benefits of good practice models developed in one state are taken to neighbouring states. Democracy and governance models and gender empowerment, are examples of these, where donors are channelling ODA to promote leading edge thinking from SA, and the lessons learnt in SA, to neighbouring states.

- **Distributed regional issues.**
  We define these as development problems and aspirations where the root causes and development variables, and hence the potential solutions, are distributed across the two or more countries. In this case ODA has to be channelled to a trans-national project involving two or more states. The World Bank's environmental management initiative in the Maluti Mountains between SA & Lesotho; the infrastructure developments relating to the Maputo corridor (from Gauteng to the Maputo harbour) which drew largely TA-based ODA from a number of donors; and the Trans-Kalahari Park (between SA & Botswana) currently being formulated and likely to attract ODA from a range of donors, are examples of these.

- **Common, distributed and shared regional issues**.
  We define these as issues where the problem and the solutions are present and deeply rooted within each country, and also in neighbouring states, and where the nature of the problem is such that it respects no geographical or administrative boundaries. Further, the issue is perceived as a 'shared problem' by national governments. Hence, the only hope of a solution lies in a focused effort within a state as well as concerted regional endeavour. Health issues such as Malaria, TB and HIV are obvious examples of this.

The purpose of delineating this typology is to show that, while the case for taking a regional approach is conceptually compelling, the operational reality of working regionally is not so simple. The increased complexity of analyses, the absence of effective Southern African regional institutional mechanisms (with due respect to

SADC), understandable national pride and priorities - allied at times with a touch of resentment among SA neighbour's at having to live in the shadow of and do business with[45] a regional superpower - all militate against swift, cost effective utilisation of ODA through regional arrangements.

Our prediction would be that only a small proportion of ODA will continue to go to the category we describe as '*common regional issues'* in the form of short, contained, project-based, initiatives[46]. However, the second two categories, i.e. '*Distributed Regional Issues'* and '*Common, Distributed and Shared Regional Issues'*, will only attract substantial levels of ODA if the programmes in these areas are well led by a programme-specific cross-border governance authority[47], or by the SA government itself with the willing consent of neighbouring states.

The reality is that few effective institutional interlocutors currently exist in the regional arena, and the lead time and investment required to establish dedicated, programme-specific regional institutional mechanisms is likely to be longer than that offered to ODA by national development programmes.

So, despite the allure of regional analyses, the likelihood is that no significant amount of ODA is likely to switch away from bilateral aid programmes. The more likely scenario is that bilateral programmes will be located within a regional conceptual framework. The regional approach will underpin and reinforce ODA country strategy approaches, and not replace them.

Therein lies the irony. Donors wish to see their ODA used as effectively as possible in terms of maximum influence on regional development issues, but, in the absence of effective regional media to work through, their default position is likely to remain largely bilateral. We look at this issue next.

8.2. Regional institutions as possible interlocutors of ODA

Regional structures and institutional arrangements are required, on both sides of the ODA relationship, if regional approaches and programmes are to be pursued smoothly and effectively. This axiomatic precondition begs a number of obvious and related questions:

- Do such institutional mechanisms exist?
- Are there dynamic, credible, representative and efficient regional SA institutions which can mediate the processing and implementation of ODA for common good in line with development objectives that are determined by SA partners and not by donors?

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[45] SA has trade surpluses with all the SADC member states. In mid-94, even before SA joined SADC, only 4% of members' trade was within the community, while 25% was with SA, a pattern that has not changed greatly, despite concerted attempts within SADC to narrow this trade gap. *Source: The Economist Intelligence Unit, 1999*

[46] In other words, ODA-sponsored South-South cooperation will be minimal.

[47] For example project specific governance authorities such as the Lesotho Highlands Water Authority or the Southern African Customs Union.

- ♦ Do the key multilateral and bilateral donors have internal management arrangements in place that allow them to negotiate with regional bodies? Or are there country-specific or sub-regional territorial arrangements on the donor side, which mean that a particular donor office has jurisdiction over only a part of the Southern African region?

- ♦ What is the fundamental design principle on the basis of which donor management systems are determined? Are most not based on the primacy of nation states as recipients of ODA, and the donor agencies own administrative convenience in terms of ODA management?

- ♦ What, then, are the extra transactional and management costs (on both sides) of ‘going regional’ and operating through additional levels of complexity and bureaucracy?

The Southern African Development Community (SADC)[48] is the obvious regional interlocutor for ODA to be channelled through. However, there is universal recognition among all the leading stakeholders, and here we mean regional states and donor agencies, that SADC’s complex, distributed and deconcentrated systems of management and coordination, are functioning sub-optimally at this point in the institution’s history.

A skeletal analysis of three key dimensions - political, economic and institutional - reveals a picture richly infused with latent tensions and stark schisms, conditions that are far from ideal in terms of mediating and managing collaborative regional programmes aimed at achieving the International Development Targets (IDTs) that member states are committed to individually and collectively. (See Table 12 below)

[48] SADC comprises of Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. SADC essentially has a dual mandate. Its political mandate is to ‘evolve common political values, systems and institutions to promote and defend peace and security’. SADC’s economic mandate is to deal, inter alia, with trade, investment and finance issues, promote sustainable utilisation of natural resources and ‘achieve development and economic growth… through regional integration’.

Table 12: IDTs applicable to SADC states [49]

International Development Targets
Reduction by one half in the proportion of people living in extreme poverty
Universal primary education in all countries by 2015
No gender disparity in primary and secondary education by 2005
Reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality by 2015
Access through the primary health care system to reproductive health services for all individuals of appropriate ages no later than 2015
Implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed by 2015
Achieve a 25% reduction in HIV infection rates among 15-24 year-olds in the worst affected countries by 2005, and globally by 2010

Politically, during the period of field research for DCR II, the institution's agenda was dominated by the conflicts in the Great Lakes Region and within the boundaries of two of its largest states, DRC and Angola, to the exclusion of any substantive debate by Heads of States on development issues relating to the IDTs summarised above.

Economically, the economic might of SA's relatively very highly developed and sophisticated economy, its trade imbalance with regional neighbours, and the potentially damaging impact on weaker SADC economies of SA's preferential bilateral trade agreements with the EU and US, and the possibility of these protocols being a back door through which cheap foreign imports enter the SADC region, generated deep concern among other member states.

[49] Source: DFID-SA

Institutionally, SADC's dispersed Sector Co-ordinating Units, most of whom are run by national administrations, have long been seen as operating on inadequate resources. Inevitably, these conditions have engendered an internal climate of competition over strategic priorities and levels and sources of funding[50], between the SADC secretariat and particular SADC Sector Coordinating Units, and understandably between the various dedicated Units. Given these circumstances, the charge that SADC lacks the institutional capacity to coordinate the efforts of the international community, and collaborate with other regional organisations effectively, is not surprising.

The EC has been SADC's foremost provider of aid to date and, as such, provides a useful case study. Over the past fifteen years it has made available 395 million Euro to the organisation. Significantly, a review in February 2000 highlighted that only 47% of the funds made available in the Regional Indicative Programme (RIP) that has just ended, had been committed[51]. Weak institutional capacity and poor project cycle management systems emerge as the primary reasons for this low absorptive capacity[52] and lack of success in terms of effective implementation of projects. Additionally, and significantly, the report identified inadequate human resources in member states as a constraint impacting on the implementation of regional projects that are concerned with harmonisation.

These findings pose unavoidable questions. Is there not an understandable tendency among regional governments, and their ministries and agencies, to focus on and promote their own development plans before regional plans? Is this not a natural phenomenon in the context of electoral cycles and democratic pressures within countries, limited resources, and a supra regional framework marked with unresolved tensions?

Despite these far from perfect conditions pertaining to SADC at this point, it is fair to say that all the key stakeholders with an interest in African and Sub-regional development, read the signs of history as pointing inevitably towards regionalisation. The tide of globalisation and the dominance of the view that countries need to associate regionally into formal economic blocs in order to deal with the power and pressures brought to bear by the world's most powerful economies (US, EC, Japan) compel all stakeholders to think regionally.

The issue is therefore not *whether* some ODA will ever switch to SADC and other regional institutions to go towards addressing common regional problems, distributed regional challenges, and common, distributed and shared regional issues. The real question is *when* this is likely to happen, and how significant the shift in ODA resources is likely to be over the medium to long term, that is up to, and over, the next five years.

[50] These systemic tensions are not peculiar to SADC. We recognise that they are endemic to composite bodies that combine political, administrative and technical decision makers, and pursue a complex mix of political and economic aspirations, through deconcentrated structures. They simply become more pronounced in a resource-starved environment.

[51] Notably these are commitment figures and the disbursement amount is likely to be even lower.

[52] Contrast this with EU aid to SA. In international comparisons SA emerges as among the very best in terms of absorbing EU aid.

The leading donors of ODA to SA - the EC, USAID, the major European bilaterals, the main concessionary loan finance institutions including the World Bank, members of the UN family - all these donors regard SADC as the key regional interlocutor and the basis for developing regional programmes. Some, like EC, have directly established RIPs with SADC and alongside these will seek consent from the SA government to assign a percentage of their bilateral aid programme to SA towards 'regional initiatives'. Typically, as in the case of the EC, this is likely to be around 10%.

Our view is that these trends are not significant in volume at this point, and are unlikely to become pronounced over the next five years. The absence of credible alternatives to SADC, SADC's weak institutional capacity and inability to process aid swiftly and effectively, the pressure on donors to convert commitments to disbursement within agreed time frames and to see their ODA making a decisive contribution towards the achievement of IDTs, all these factors point towards channelling ODA principally through bilateral programmes. The significant shift will therefore largely be conceptual and analytical, in that donors will seek to locate their bilateral programmes within a regional analysis. However, within these conceptual constructs, in all likelihood, disbursements and implementation will continue to go via national programmes.

8.3. ODA commitments and pledges to SA

The tables below encapsulate commitments and pledges of ODA to SA to the year 2006[53]. As these tables show, though the horizons for pledges vary from donor to donor, the analyses revealed no definitive withdrawal or closure plans by any donor, whether phased or precipitous.

It is difficult to extrapolate with confidence and state with any certainty what the likely figures for ODA will be in the medium to long term given the variables at play. The unknowns include:

- Differences in the pledge-periods;
- The possibility of rollovers;
- The changes that occur in the sequence from pledges, to commitments and, finally, into disbursement;
- The possibility of an international high-profile initiative generating myriad new programmes and leading to an increase in ODA in a particular area (e.g. say the Rio +10 UN Conference on Environment and Development coming to SA);
- The possibility of significant new concessionary loans being taken up to fund capital investment in a priority MTEF sector e.g. the strengthening of local government and enhancement of service delivery mechanisms through an Municipal Infrastructure Investment programme.

[53] Note: the figures used in Tables 14 and 15 are a combination of pledges and commitments, while the quantitative analyses of ODA in the period '94-'99, presented in Chapter 5, were based on commitments.

The tables that follow offer partial but useful illustrative pictures. They do not present comprehensive or comparable information across all donors, and are not based on officially confirmed, comprehensive or precisely disaggregated analyses. However, in the interests of conveying as much information as possible on future trends we have summarised the material currently at hand, despite the raw form in which it presently exists.

On the basis of information before us at this point, we have no indications of sharp changes in the flow of ODA in any direction, and certainly no basis for suggesting a significant downward trend of ODA to SA over the next five years.

Table 13: Donor commitments 1994 – 1999 and new donor pledges from January 2000 onwards

COUNTRY/ MULTILATERAL	COMMITMENT		NEW PLEDGES	
	PERIOD	*FOCUS*	*PERIOD*	*FOCUS*
AUSTRALIA[54]		Govt/NGO		
	1994 - 1995	A$ 8.0 million (Grant and technical assistance)	2001 – onwards	New commitments to be decided on new project identification
	1995 - 1996	A$ 9.0 million (Grant and technical assistance)	*Current pledges can be carried forward to 2004. No details are currently available of the level of commitments beyond 2001.*	
	1996 - 1997	A$ 10.0 million (Grant and technical assistance)		
	1997 - 1998	A$ 10.0 million (Grant and technical assistance)		
	1998 - 1999	A$ 10.0 million (Grant and technical assistance)		
	1999 - 2000	A$ 10.0 million (Grant and technical assistance)		
	2000 - 2001	A$ 10.0 million (Grant and technical assistance)		
CANADA		Govt/NGO/Private Sector		
	1996 - 1997	$10.6 million (Grant and technical assistance)	1999 - 2000	Indicative amount of 11 m CA $ per annum for the next 3 years (tied to present operational projects)
	1997 - 1998	$10.68 million (Grant and technical assistance)		
	1998 - 1999	$13.8 million (Grant and technical assistance)		
DENMARK		Govt/NGO/Private Sector		
	1994 - 1998	750 million DKK (Grants only)	1999 - 2001	150 million DKK (Grants through DANIDA)
	1994 - 1998	300 million DKK (Environmental assistance through DANCED)	1999 - 2002	240 million DKK (Environmental assistance through DANCED)

[54] The bulk of AusAID assistance is in the form of technical assistance. Only NGOs, or when applicable, other civil society organisations get grant funding from AusAID. No grant funding is provided to government.

COUNTRY/ MULTILATERAL	**COMMITMENT**		**NEW PLEDGES**	
	PERIOD	***FOCUS***	***PERIOD***	***FOCUS***
EUROPEAN UNION		Govt/NGO		
	1995	123.3 m Euro (Grants and technical assistance)	2000 - 2006	125.0 m Euro per year until 2006
	1996	129.2 m Euro (Grants and technical assistance)		
	1997	127.5 m Euro (Grants and technical assistance)		
	1998	127.5 m Euro (Grants and technical assistance)		
	1999	127.5 m Euro (Grants and technical assistance)		
EUROPEAN INVESTMENT BANK		Govt/Private Sector		
	1995 - 1997	300m Euro (Loans) 1st Framework Agreement	2000 - 2002	375m Euro
	1998 - 1999	375m Euro (Loans) 2nd Framework Agreement	2003 - 2006	450.05 Euro
FINLAND		Govt/NGO		
	1994-1999	52 million FIM	2000 - 2006	R 50 million per year for undecided period
FRANCE		Govt/ NGO		
	1995 - 1999	176,3 m FF <u>Grants</u> Cultural, Scientific and Technical Co-operation	2000 - 2006	Indicative amount 50m FF per annum (cultural, scientific and technical co-operation)
		French Global Environment Fund - 1998 6 m FF		
	1994 - 2000	1148 m FF <u>Loans and Equities</u> Agence Francaise de Development Group (Including PROPARCO)		
	1995 - 1999	Financial Protocol 426,5 m FF (Tied to French technology / equipment)		

COUNTRY	COMMITMENT			NEW PLEDGES	
	PERIOD	***FOCUS***		***PERIOD***	***FOCUS***
GERMANY		Govt/NGO/Parastatals			
		Technical Co-operation	Financial Co-operation	2000	25 m DM –Technical Co-operation
	1992	10 m DM		2000	25 m DM Financial Co-operation
	1993	13 m DM			
	1994	25 m DM			
	1995	25 m DM	50 m DM		
	1996	30,4 m DM	60 m DM		
	1997	29,4 m DM	30 m DM		
	1998	22 m DM	25 m DM		
	1999	36 m DM	25 m DM		
ITALY		Govt/NGO			
	1994	408 000 000 Italian lire		2000 - 2002	50 000 000 000 Italian lire
	1995	2 314 000 000 Italian lire			
	1996	1 440 000 000 Italian lire			
	1997	2 268 161 173 Italian lire			
	1998	12 248 508 029 Italian lire			
	1999	9 579 125 770 Italian lire			
IRELAND		Govt/ NGO			
	1994	IR£ 1.3 million		2000 - 2004	IR£ 3 million per annum until 2004 Subject to programme review and Parliamentary appropriation
	1995	IR£ 6 million			
	1996	IR£ 4.4 million			
	1997	IR£ 3 million			
	1998	IR£ 2.6 million			
	1999	IR£ 2.6 million			
JAPAN	1994	2.887.049 yen		2000 - 2006	US $ 1.5 billion :
	1995	6.632.507 yen			US $ 100 m Grant aid
	1996	9.682.543 yen			US$ 400 m ODA loans
	1997	10.516.369 yen			US $ 500 m Other official flows (loans)
					US $ 500 m Export guarantees
NETHERLANDS		Govt/NGO			
	1996	NLG 38.6 million		2000 - 2004	NLG 50 miliion p.a. in untied grants
	1997	NLG 22 million			
	1998	NLG 50.8 million			
	1999	NLG 49.7 million			

COUNTRY	COMMITMENT		NEW PLEDGES	
	PERIOD	***FOCUS***	***PERIOD***	***FOCUS***
NORWAY		Govt/NGO/Private Sector		
	1995 - 1999	NOK 615 million (Grants)	2000 - 2004	NOK 400 million (excludes direct NGO Co-operation and private sector co-operation)
SWITZERLAND		Govt/NGO		
	1994 - 1999	SFR 80 million	2000 - 2005	SFR 7 million per annum from SDC SFR 2-3 million from other sources
SWEDEN		Govt/NGO		
	1995 - 1996	(18 Months) 345 MSEK (Grants)	1999 - 2001	MSEK 600 million
	1997	New commitments 230 MSEK (Grants) Roll-over from 1995/1996 141,2 MSEK		
	1998	New commitments 230 MSEK (Grants) Roll-over from 1997 101,9 MSEK		
UNITED KINGDOM		Govt/ NGO		
	1994 - 1998	£ 114 million	1999 - 2002	£ 90 million
USAID		Govt/NGO		
	1994	$131.000 m (Grants and technical assistance)	2001 - 2002	2001 and beyond - awaiting verification
	1995	$122,900 m (Grants and technical assistance)		
	1996	$120,600 m (Grants and technical assistance)		
	1997	$86,500 m (Grants and technical assistance)		
	1998	$71,593 m (Grants and technical assistance)		
	1999	$57,895 m (Grants and technical assistance)		
	2000	$46,678 m (Grants and technical assistance)		

Table 14: ODA commitments and pledges to South Africa