




# **Design and Implementation Evaluation of the Urban Settlements Development Grant**

STUDY REPORT



human settlements  
planning, monitoring  
and evaluation

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This report has been independently prepared by PDG. The Evaluation Steering Committee comprises the Department of Human Settlements and the Department of Performance Monitoring and Evaluation in the Presidency.

The Steering Committee oversaw the operation of the evaluation, commented and approved the reports.

#### Contact Details of PDG

Submitted by:	Submitted to:
Mr Nick Graham	Dr Zoleka Sokopo
Director	Chief Director: Human Settlements Strategy
Palmer Development Group	Department of Human Settlements
PO Box 46830, Glosderry, 7708	Private Bag X644
(021) 671 1402	Pretoria, 0001, South Africa
(021) 671 1409	Tel: +27 12 421 1794
083 262 1028	Fax: +27 86 65102866
Email: <a href="mailto:nick@pdg.co.za">nick@pdg.co.za</a>	Email: <a href="mailto:Zoleka.Sokopo@dhs.gov.za">Zoleka.Sokopo@dhs.gov.za</a>

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## List of Acronyms

APP	Annual Performance Plan
BCMM	Buffalo City Metropolitan Municipality
BEPP	Built Environment Performance Plan
BNG	Breaking New Ground (Policy)
CCAP	Capacity and Compliance Assessment Panel
CIPA	Capital Investment Priority Areas
CoCT	City of Cape Town
COGTA	(Department of) Cooperative Governance and Traditional Affairs
CoJ	City of Johannesburg
CSP	Cities Support Programme
DCoG	Department of Cooperative Governance
DFI	Development Finance Institution
DH	Department of Housing
DHS	Department of Human Settlements
DORA	Division of Revenue Act
DORB	Division of Revenue Bill
DPLG	Department of Provincial and Local Government
DPME	Department of Performance Monitoring and Evaluation

EMM	Ekurhuleni Metropolitan Municipality
EPMO	Enterprise Project Management Office
ETWG	Expanded Technical Working Group
FFC	Finance and Fiscal Commission
HSDG	Human Settlements Development Grant
ICDG	Integrated City Development Grant
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
IRDP	Integrated Residential Development Programme
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MIIF	Municipal Infrastructure Investment Framework
NEPF	National Evaluations Policy Framework
NDPG	Neighbourhood Development Partnership Grant
NDP	National Development Plan
NLTA	National Land Transport Act
NMBM	Nelson Mandela Bay Municipality
NPM	New Public Management
NT	National Treasury
NUSP	National Upgrading Support Programme
OPSCAP	Operations Capital
PTIG	Public Transport Infrastructure Grant
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
SDF	Spatial Development Framework
SPLUMA	Spatial Planning and Land Use Management Act
USDG	Urban Settlements Development Grant
UISP	Upgrading Informal Settlements Programme



## 1. Introduction

The Urban Settlements Development Grant (USDG) was proposed for evaluation as part of the National Evaluation Plan of 2012/2013. The assessment was planned and commissioned through a partnership between the Department of Human Settlements (DHS) and the Department of Performance Monitoring and Evaluation (DPME) in the Presidency as part of the National Evaluation System.

The National Evaluation Policy Framework (NEPF) provides the national framework for typologies of evaluations and their respective purposes. In terms of the NEPF, a design and implementation evaluation of the USDG was initiated in June of 2013 with PDG appointed to conduct the assessment. The appointment and management of the project was administered by the Department of Human Settlements, which serves as the transferring department responsible for the USDG since its introduction in 2011.

The following report sets out the background to the assessment, the methodology employed, the findings and analysis, before arriving at conclusions and recommendations.

### 1.1 Purpose of the evaluation

The USDG is a substantial conditional capital allocation to metropolitan municipalities and the only supplementary grant at local government level. It was introduced midway through the 2009-2014 term of government, and against the backdrop of the National Outcomes Approach, which included targets related to the upgrading of informal settlements and devolution of the housing function to metropolitan municipalities. The grant was introduced relatively rapidly in 2011 in terms of provisions in the annual Division of Revenue Bill (DORB) and lacked an adopted policy framework. Given the size of the grant, these developments have occurred in the absence of a well-defined programme theory and conceptualization of the grant's design and intentions. While draft USDG policy frameworks have gone some way to give direction, the regular revisions and disjuncture between these draft policies and provisions of the Division of Revenue Act (DORA) have necessitated an authoritative assessment of the grant's design and implementation to date to crystallise, refine and improve the grant mechanism going forward.

The purpose of the evaluation as stated in the Terms of Reference is “to analyse the Theory of Change, inner logic and consistency of the programme and the lessons from its implementation. The evaluation will also examine the institutional and funding frameworks including the adopted monitoring system” (DHS, 2013a: 4).

### 1.2 Evaluation questions

No specific evaluation objectives were specified for the assessment. Instead, the aforementioned purpose was expressed by 14 evaluation questions that guided the design and implementation evaluation. The evaluation questions taken directly from the Terms of Reference

(DHS, 2013a: 5-6) are grouped in a conceptual sequence and follow below.

### **Historical context**

1. What informed the theoretical framework and development of the USDG?
2. What are the factors that informed the transition from MIG-City to USDG?

### **Conceptualisation and design**

3. Is the theoretical framework that informs the USDG valid and does it provide an appropriate response to human settlements challenges facing urban areas?
  - 3.1 Is the grant structure appropriately targeted, given its dual objective to respond to human settlements issues in the urban context?
  - 3.2 Is the direct transfer of funds to municipalities the suitable solution to the challenges of creating efficient urban spaces?
  - 3.3 How is the creation of the USDG linked to the housing function and its integration into human settlements development at local level?
  - 3.4 Analyse the different versions of the policy framework over time and what influenced the revisions to it.

### **Implementation mechanism**

4. How has the USDG been interpreted at national, provincial and municipal levels?
5. Is the grant being implemented according to the design?
6. To what extent has the USDG through the Built Environment Performance Plans found its place within the suite of the development-planning framework (such as Business Plans, Integrated Development Plans (IDPs), Housing Sector Plans, Annual Performance Plans, the Service Delivery Budget Implementation Plans)? Do these planning instruments talk to one another across national, provincial and local departments involved in the implementation of the USDG?
7. As the USDG is being implemented, what are the important challenges/changes that are occurring in terms of the roles and responsibilities of the relevant actors? How is this affecting programme delivery?
8. Are resources used efficiently? Is value for money obtained?
9. How does the USDG interface with the municipal accreditation process and the City Support Programme?
10. What are the institutional issues/gaps that are coming to light as this programme is being implemented and how is it affecting delivery of the USDG?

### **Institutional and Funding Framework**

11. Analyse the legal framework and policy shifts within which the USDG is being implemented: does it support or encumber the intentions of the grant?
12. How could the structure of the grant and its application be improved and strengthened?

### **Monitoring Framework**

13. Are the performance indicators (as specified in the grant framework) for the USDG suitable

for its stated policy purpose and how is it captured in the performance monitoring frameworks of the various spheres of government?

14. Analyse the extent to which the departmental monitoring frameworks have been revised to track performance (physical and financial) of the USDG. Also reflect on the relationship between the current planning and monitoring frameworks that relate to the USDG.

## 2. Background to the intervention

The following section presents the legislation and policy environment relevant to the USDG.

### 2.1 Legislation

The USDG is a conditional, supplementary grant transferred from national to local government for the purposes of funding urban planning, land acquisition and infrastructure for land development, all with a particular (but not exclusive) concern for informal settlement upgrading. The section describes only the legislation that directly impacts on the administration of the grant by both national and local government.

The legal framework within which the USDG is implemented consists of the following legislative elements:

- The Constitution, 1996;
- The Division of Revenue Act, 2011-2013 (a new one is enacted annually);
- The Local Government: Municipal Finance Management Act, 2003;
- Legislation governing land use and land development as well as spatial planning, which now falls under the framework of the Spatial Planning and Land Use Management Act, 2013; and
- Other legislation relating to municipal planning and urban development.

### **Constitution**

Section 214(1)(c) of the Constitution requires an Act of Parliament to provide for conditional allocations to local government over and above the equitable share provided for in section 214(1)(a). This Act can only be enacted after consultation with the South African Local Government Association (SALGA) and the Fiscal and Financial Commission (FFC), after taking into account the recommendations of the FFC and it must also take into account a set of ten criteria. This section of the Constitution is relevant to the USDG because the grant is considered a conditional allocation to local government and therefore requires the consultation of SALGA and the FFC before passing an Act of Parliament to this effect. The Constitution also sets out the respective powers and functions of the three spheres of government, and of relevance to the USDG are the concurrent national and provincial legislative competence for housing, and the local government responsibility for municipal engineering services, municipal public transport and municipal planning.

### **Annual Division of Revenue Act**

The main law governing the implementation of the Urban Settlements Development Grant is the annual DORA, which is the Act of Parliament, referred to in section 214 of the Constitution. A new DORA is enacted each year which sets out, inter alia, the strategic goal, grant purpose, outcome statements, outputs, allocation criteria and the respective responsibilities of the national transferring officer and municipal receiving officers.

The USDG has been included as a Schedule 4B allocation to metropolitan municipalities in DORA since 2011. This identifies it as a supplementary allocation and makes it the only one of its kind.

### ***The Local Government: Municipal Finance Management Act (MFMA), 56 of 2003***

A municipality has to reflect clearly all funds received, including the USDG, in its budget, financial statements and annual report. All expenditure has to be recorded and reported to the transferring department, which in the case of the USDG is the National Department of Human Settlements, with the Director General as the accounting officer for the USDG expenditure. In terms of section 65(1) of the MFMA it is the municipal manager's responsibility to ensure that expenditure is lawful. This obligation is further supported by section 217 of the Constitution, which requires that any expenditure, by any sphere of government, must be 'in accordance with a system which is fair, equitable, transparent, competitive and cost-effective'. The MFMA also requires compliance with accepted accounting and prescribed supply chain management procedures.

### ***Spatial Planning and Land Use Management Act (2013)***

In relation to the laws dealing with land use planning and land development there has been a recent and fundamental change to the legal framework, reflected in the enactment in July 2013 of the Spatial Planning and Land Use Management Act, 16 of 2013 (SPLUMA). The SPLUMA was influenced by a Constitutional Court ruling and its enactment has reduced the uncertainty around legislative powers and functions for land use planning and land development. However, the overall legislative framework is not yet consistent with the new position. In relation to land use and development applications the Constitutional Court's judgment in the *Habitat Council* case delivered in April 2014 was unambiguous that all municipal planning decisions lie within the competence of municipalities. This removed any doubt that there might be a more prominent role for national or provincial government to play in determining land use changes. The tools available to these two spheres include the requirement of additional approvals by national and provincial authorities, which is not relevant in this case, and the conditions attached to grants such as the USDG.

<sup>1</sup> *Johannesburg Metropolitan Municipality v Gauteng Development Tribunal and Others*, 2010 (6) SA 182 (CC).

<sup>2</sup> *Minister of Local Government, Environmental Affairs and Development Planning, Western Cape v The Habitat Council and Others; Minister of Local Government, Environmental Affairs and Development Planning, Western Cape v City of Cape Town and Others* [2014] ZACC 9

## **Urban Development**

As with land use planning and land development the laws governing spatial planning are changing fast. Since 2000, municipalities have been required by the Local Government: Municipal Systems Act, 32 of 2000, to compile and approve Integrated Development Plans, which include municipal Spatial Development Frameworks. They have also had to ensure that municipal decision-making is consistent with these plans. The enactment of the SPLUMA now requires that not only municipalities but national and provincial governments also must prepare spatial development frameworks (the national and provincial spatial development frameworks of Parts B and C of Chapter 4 of the Act). While the national spatial development framework does not have a specific legal status conferred on it by the Act, section 17(2) of the SPLUMA requires that ‘all provincial development plans, projects and programmes must be consistent with the provincial spatial development framework’. This implies that provincially driven housing and upgrading programmes undertaken using USDG funding will need to be consistent with the provincial spatial development framework.

Although the Housing Act, 107 of 1997 is not directly governing the use of the USDG, it has definite implications for the design and implementation of the grant. It sets out the respective roles of the three spheres of government in relation to housing. While provinces are responsible for housing delivery, municipalities are responsible for creating a public environment conducive for housing development, including the provision of bulk and internal engineering services. The Housing Act also sets out a process whereby municipalities can be accredited to administer any national housing programme. The roles and responsibilities of the three spheres of government provided for in Act, are further detailed in the National Housing Code. The USDG is explicitly not a National Housing Programme as contemplated by section 3 of the Housing Act, 1997 (and as detailed in the National Housing Code). The USDG is intended to support such programmes, not provide an alternative to any of them.

## **2.2 Policies and programmes associated with the USDG**

### ***Breaking New Ground (2004)***

The Comprehensive Plan for Sustainable Human Settlement, or ‘Breaking New Ground’ (BNG), introduced a more flexible approach to housing interventions, introducing a wide range of housing programmes to enable appropriate and diverse settlement interventions, including the Upgrading Informal Settlements Programme (UISP). BNG was also a recommitment to the notion of building sustainable human settlements and provided a definition of what policy meant by human settlements. This was seen as indicating a much needed paradigm shift from narrow focus on delivery of subsidy housing to providing quality living environment where shelter needs are met in balance with physical infrastructure, access to services and amenities, access to economic opportunities (workings of the city), etc. Later on the changing of the department from housing to human settlements politically conferred the human settlements mandate to the department. The BNG comprised key elements in relation to the need for changes to the financial arrangements surrounding the housing subsidy at the

time. These covered the need to: (i) restructure the subsidy instrument; (ii) adjust beneficiary contributions and criteria; (iii) enhance beneficiary criteria; (iv) enhance funding flows and; (v) address fraud, corruption and maladministration (DoH, 2004). The amendments were intended to then meet the growing demand for and responsiveness to the need for housing. The BNG policy remains the key policy for the Department of Human Settlements and as such has a direct influence on the USDG as an instrument to effect the department's programmes. The BNG policy also included timeframes for implementation of its various strategies over the five years from 2004 to 2009.

However despite the notable paradigm shift, the Department still had a legal obligation to fulfil the right to housing. The only fiscal instrument that the department had to fulfil its policy intent was the Human Settlement Development Grant (HSDG), which despite its name, was essentially a housing grant and did not fund other components of human settlements. Even in cases where they were funded it was in direct support of the delivery of subsidised housing either through the Integrated Residential Development Programme or (consolidation phase of) Upgrading of Informal Settlement Programme. Human Settlements had always been a local government function funded by various sectoral grants that integrate at a local level municipalities' own revenue.

### ***Housing Code (2009)***

In 2009 the Housing Code was revised and “sets the underlying policy principles, guidelines and norms and standards which apply to Government's various housing assistance programmes introduced since 1994 and updated” (DHS; 2009:9). It aimed at is aimed at simplifying the implementation of housing projects by being less prescriptive while providing clear guidelines. It established the Integrated Residential Development Programme as a new, more flexible programme to allow the purchase and servicing of land for mixed-use and mixed-income developments. To effect the Housing Code, the HSDG was instituted in 2010, as a revision of the previous Integrated Housing and Human Settlement Development Grant. The HSDG allocation to various housing programmes included a breakdown of what portion of the grant could be allocated to each component of the housing process: land, surveying, internal services, top structure, etc. This subsidy quantum breakdown was published annually and this is particularly relevant to the USDG because the spending provisions are intended to be somewhat mutually exclusive in terms of components, yet complementary in terms of overall product and outcome. The process of accrediting municipalities to perform housing functions is captured in Part 3, Vol. 3 of the National Housing Code. It is important to note that the Housing Code has not been amended to incorporate any provision for the application of the USDG.

### ***Outcomes Approach of Government (2010)***

In 2010, the release of the Presidency's Outcomes Approach saw Outcome 8 of the 12 Na-



tional Outcomes formulated as: Sustainable Human Settlements and Improved Quality of Household Life (Presidency, 2010a). The introduction of Outcome 8 responded to a problem statement that the current housing development approach, with a focus on the provision of state subsidised houses, would not be able to meet the current and future backlog in a financially sustainable way, given that there was an estimated need for adequate shelter of 2.1 million units, of which approximately 1.2 million were in informal settlements and 590,000 in backyard shacks (Presidency, 2010b).

Output 1 of Outcome 8 sought to elevate the importance of informal settlement upgrading as the priority programme within the multiple programmes described in the National Housing Code, arising out of the BNG Policy. The second imperative, Output 2 was to ensure “Improved access to basic services” (Presidency, 2010a: 14). Output 3: Mobilisation of well-located public land for low income and affordable housing with increased densities on this land and in general and Output 4: Improved Property Market. The outputs of Outcome 8 are closely aligned to those of the USDG.

### ***National Accreditation and Assignment Framework (2004, 2006 and 2012)***

An Accreditation Framework for Municipalities to Administer National Housing Programmes was developed in 2004 and outlines the rationale and principles for accreditation. The Municipal Housing Accreditation Policy Framework (2006) requires that the compliance assessment be carried out by independent external assessors and the DHS established a Capacity and Compliance Assessment Panel (CCAP) in August 2009 to assess the capacity and compliance of the municipalities with the requirements of the municipal accreditation framework. The revised National Framework for Assignment and Accreditation (2012) replaced Level 3 accreditation with full assignment of the housing function by the MEC in terms of the Municipal Systems Act (Act No. 32 of 2000). The details of the framework are discussed in the literature review.

### ***Cities Support Programme (CSP)***

The CSP was introduced by National Treasury as a policy framework in 2012, and initiated in 2013. The purpose of the CSP is to coordinate a range of urban functions that impact on city efficiency. The programme supports the assignment of the housing and public transport functions and the restructuring of the fiscal framework to support this transition. It targets four critical areas of the built environment: governance and planning, human settlements management, public transport and climate resilience. Informal settlement and backyard upgrading is a specific sub-component of the programme. It also provides technical support for urban management and incentives linked to performance indicators, which in turn are intended to guide the indicators used for other grant-driven programmes. The focus is on performance, as measured by a set of indicators that are linked to longer-term sustainability objectives,

rather than compliance and delivery metrics. The CSP is linked to the USDG through participation in the CSP being a condition to metros receiving the USDG (RSA, 2013a).

National Development Plan (2012)

Although the National Development Plan 2030 (NPC, 2012), was produced subsequent to the introduction of the USDG, it is instructive in that it is informed by many of the same policy drivers. Of particular relevance is Chapter 8, which aims to transform human settlements through: (NPC, 2012: 58)

- A strong and efficient spatial planning system, well integrated across the spheres of government;
- Upgrading of all informal settlements on suitable, well located land by 2030;
- Ensuring more people live closer to their places of work;
- Availability of better quality public transport; and
- More jobs in or close to dense, urban townships.

## **2.3 Fiscal policies informing the establishment of the USDG**

### **2.3.1 MIG and MIG (Cities)**

MIG was initiated in 2003 as a new municipal infrastructure funding arrangement to combine all existing capital grants for municipal infrastructure into one grant. At the time it combined seven different grants into one to enable a coordinated approach for more cost effective planning and integrated service delivery (DPLG, 2004). Further, there was a major change from a system of project based applications for funding to the distribution of funding using a formula. MIG remained a conditional grant originally introduced as a specific purpose Schedule 6 grant (2003) before moving between a supplementary Schedule 4 and then back to a Schedule 6 grant (2010) and finally to its current form as a Schedule 5 specific purpose allocation (2013). This fluctuation between the different scheduling types has been in part about the associated conditions and purposes of the grant that have always been orientated toward providing infrastructure for basic services to poor households and related municipal infrastructure. MIG has largely retained its original purpose of funding infrastructure to provide for a basic level of services, as expressed in the current purpose identified in DORA 2013: To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities (RSA, 2013b).

#### ***MIG (Cities)***

Although MIG (Cities) was officially introduced in DORA 2009 for the financial year 2009/2010, it was essentially an evolved version of MIG, allowing greater agency in the application of capital funding by metropolitan municipalities to enable them to better “manage, support and account for built environment outcomes” (National Treasury, 2009. MIG (Cities) consolidated the built environment responsibility of cities with associated transfers of funds directly to cities. The intention was to promote integrated capital infrastructure investment in urban areas, with expanded potential for the grant to include or complement a variety of other infra-



structure-related investment including: housing; public transport and land use management. Collectively, this was envisaged as providing cities the leeway to channel the grant towards the creation of more enabling conditions for economic growth and expanded employment while simultaneously reducing basic service backlogs and improving urban amenities for poor communities especially (National Treasury, 2009).

## **2.4 Culmination of the legislative and policy precedents in the establishment of the USDG**

The USDG was approved by Cabinet in 2010, drawing on the fiscal policy lessons learned from the MIG (Cities) (2009) and its precursor the MIG grant (2003). It was introduced into the fiscal framework in 2011 through the DORB as a supplementary grant transferred to the eight Category A municipalities (metros) by the DHS. It was introduced in the context of increasing urbanisation, proliferation of informal settlements and a housing backlog greater than existed in 1994, despite significant housing delivery (National Treasury, 2012a). It was a conditional financial allocation intended to provide metros with the means to address the land, bulk and connector infrastructure, and basic service needs of an increasingly urbanised population.

The more specific dynamics that informed the design of the grant form the basis of the findings for the design evaluation section of this report.

### 3. Methodology

This section describes the evaluation design, the methods employed and the approach to analysis. The design seeks to ensure the validity of findings in relation to the purpose set out in the Terms of Reference under the prevailing conditions, while also providing for the reliability of findings to ensure confidence in the overall evaluation results.

Based on the design, decisions regarding the data collection methods and information required to address the evaluation criteria and questions are described. This is followed by an explanation of the analytical methods in order to extract maximum value within the limitations of the available data and resources.

#### 3.1 Evaluation design and approach

As a combination of the two evaluation typologies (design and implementation) set out in the National Evaluations Policy Framework (Presidency, 2011), the assessment was planned in distinct phases to distinguish between the design component (conceptual), and that of the implementation component (empirical). This requirement led the evaluators to applying a Theory-Based Approach to the assessment, distinguishing between the need to conceptually develop and understand the intervention logic or Theory of Change, before moving into empirically testing this in practice. As part of the empirical testing, the Terms of Reference required a detailed examination of four metropolitan municipalities as the implementers of the grant. Thus, the evaluation was conducted in three parts: first, by articulating and describing the intervention logic as part of the design review; then by assessing implementation against that intervention logic at the level of the four metropolitan municipalities; and finally by providing an overall design and implementation assessment according to a set of overarching research questions.

From the Terms of Reference, the evaluation design is presented here in terms of how it applies a Theory-Based approach, addresses the evaluation questions and assesses the evaluation criteria. Specifically, the design review component addressed historical context and grant conceptualisation, evaluation questions. The conceptual findings and theory constructed for the intervention during the review phase then informed the implementation component which included assessments at municipal level for four metropolitan municipalities in relation to the constructed Theory of Change and the implementation evaluation questions. Lastly, additional empirical data gathered at a national level has been combined with synthesised findings from the design review and implementation assessments in four metros to address questions about institutional, funding and M&E frameworks. The Evaluation Parameters and Protocol presented below spell out how the various methods were employed in the course of the evaluation to answer the questions at hand.

### 3.2 Evaluation parameters

In the case of this evaluation there are three overarching methodological decisions that can be explained in terms of a set of evaluation parameters. These three decisions are:

- Employing a Theory-Based Approach as a methodological framework and basis for interpreting the findings;
- The preference for identifying programme contribution rather than attribution; and
- The use of data triangulation for more robust findings and methodological rigour.

The following are the parameters shaping the evaluation methodology:

#### ***Parameter 1: Overarching evaluation questions***

The fourteen evaluation questions (and sub-questions) of the evaluation organised into the five thematic clusters necessitated an approach that could distinguish between those design (conceptual) and implementation (empirical) components. The necessity of first surfacing the programme theory, with recognition of its historical context and current conceptualisation, lent itself to a Theory-Based Approach<sup>4</sup> which was used to test the logic of the grant and its implementation mechanisms, namely through the metro implementation. The distinction between conceptual and empirical components of the evaluation also speaks to how each cluster of questions addresses the evaluation criteria. Lastly, how these overarching evaluation questions have been organised practically in terms of the evaluation project management phases is also included because the evaluation questions informed both the approach and project methodology.

**Table 1: Evaluation Questions aligned to Approach, Criteria and Phase**

<b>ToR Evaluation Questions Clusters</b>	<b>Theory-Based Approach</b>	<b>Evaluation Criteria</b>	<b>Evaluation Phase</b>
Historical context (2.1-2.2)	Conceptual	Relevance	Design Review
Conceptualisation and design (2.3 + sub-questions)	Conceptual	Relevance	Design Review
Implementation mechanism (2.4-2.10)	Empirical	Efficiency and Effectiveness	Metro Implementation + Overall Assessment
Institutional and funding framework (2.11-2.12)	Empirical + Conceptual	Relevance and Efficiency	Overall Assessment
Monitoring framework (2.13-2.14)	Empirical + Conceptual	Relevance and Effectiveness	Overall Assessment

<sup>4</sup> It should be noted that there is not an exact fit between the conceptual and empirical components of the study since there was always a degree of empirical evidence needed as part of the design review, but its focus was overwhelmingly conceptual. Similarly, the overall assessment entails rendering judgement on both components as combined in relation to a set of evaluation questions.

**Parameter 2: Complexity of intervention implementation**

The USDG is the product of a shifting policy framework that involved the complex interaction of national, provincial and local governments, with the implementation mechanism of metros, through a complex and iterative series of engagements across spheres. Further, as a supplementary instrument with involvement of all three spheres, it was clear that the grant should be understood amongst a variety of mechanisms that contribute to the same outcomes.

**Parameter 3: Variety of data available**

The last parameter has led to the methodological decision (also required in the Terms of Reference) to triangulate data through a mixed methods approach to data collection. This has allowed the evaluation to benefit from the variety of administrative data generated at municipalities, qualitative primary data collected via interviews and focus groups, other qualitative and historical reporting data generated in the course of implementation at national and provincial level, as well as quantitative financial and non-financial performance information captured and reported across the three spheres of government.

**3.3 Research protocol**

The research protocol for the assessment has been developed to respond to the 14 relevant research questions (see section 1.2) based on the overarching approach and assessment criteria. The approach and methods employed to answer the 14 research questions as organised by thematic cluster are described in the table below.

Table 2: Overarching research protocol

Thematic cluster	Research question	Approach and methods employed to answer the question
Historical Context	2.1. What informed the theoretical framework and development of the USDG?	The question is answered through qualitative data collected from national stakeholders involved in the design of the USDG in tandem with supporting documentation and literature from the period, as well as analysis of the various iterations of the policy frameworks over time.
	2.2. What are the factors that informed the transition from MIG-City to USDG?	The question is addressed through interviews with national stakeholders that were involved in the development of MIG (Cities) and the USDG across the Departments of Human Settlements, Cooperative Governance and National Treasury, as well as comparisons between the different policy frameworks.

Conceptualisation and Design	2.3. Is the theoretical framework that informs the USDG valid and does it provide an appropriate response to human settlements challenges facing urban areas? (2.3.1-2.3.4 sub-questions)	The question and sub-questions are addressed through national stakeholder interviews coupled with comparative international and domestic literature and policy review, as well as policy framework comparison and conceptual analysis.
Implementation Mechanism	2.4 How has the USDG been interpreted at national, provincial and municipal levels?	This question is answered through data surfaced via interviews with national stakeholders involved in the design and implementation of the USDG; focus group engagements with the relevant provincial stakeholders; as well as municipal stakeholder interviews, such as Portfolio Committee Heads and identified municipal officials. Documentary reviews of the metro BEPPs, BEPP assessment reports, USDG performance reports, national USDG policy documents and relevant provincial planning documentation are also used to provide evidence of the interpretations of the USDG to date.
	2.5 Is the grant being implemented according to the design?	Qualitative data from stakeholder interviews at national and municipal level, both internal to the state (e.g. public servants, political heads) as well as external interviews (e.g. private sector and civil society representatives) and focus groups with provincial stakeholders provide explanations for grant implementation. This is triangulated with empirical performance information and financial data from metros to render a judgement around the implementation of the grant to date against the intervention theory set out for the USDG.

	2.6 To what extent has the USDG through the Built Environment Performance Plans found its place within the suite of the development-planning framework? Do these planning instruments talk to one another across national, provincial and local departments involved in the implementation of the USDG?	This question is addressed for the three levels of government through documentary review of the BEPPs, BEPP assessment reports and other municipal planning and reporting documents as supported by interview data at the municipal and national levels and insights from the provincial focus groups. Cross-referencing between planning instruments across spheres is one particular area of investigation.
	2.7 As the USDG is being implemented, what are the important challenges/ changes that are occurring in terms of the roles and responsibilities of the relevant actors? How is this affecting programme delivery?	This question is answered mainly through interviews with municipal stakeholders and the provincial focus groups, as supported by municipal and provincial reporting, municipal project selection documentation, and available performance information and financial data. National stakeholder data complements this, but emphasis is placed on those public servants closest to the implementation mechanism.
	2.8 Are resources used efficiently? Is value for money obtained?	The first question is answered based on the historical and emerging accounts of resource utilisation in light of the implementation processes described by metros, provincial and national stakeholders. Non-financial performance outputs are considered but the value for money question is not addressed.

	2.9 How does the USDG interface with the municipal accreditation process and the City Support Programme?	This is answered through interviews with municipal senior managers familiar with the initiatives as well as some provincial focus group inputs, as supported by reference to relevant municipal documentation. Due consideration is given to validation workshop inputs in light of on-going developments since data collection and reflections of well-placed national stakeholders.
	2.10 What are the institutional issues/gaps that are coming to light as this programme is being implemented and how is it affecting delivery of the USDG?	An identification of institutional issues for the three spheres occurs based on qualitative data obtained from metro stakeholders and the provincial focus groups in the main, as supported with performance data that corroborates and explains these in the BEPPs. National stakeholders' reflections on institutional gaps and issues in light of the historical development are also included.
Institutional and Funding Frameworks	2.11. Analyse the legal framework and policy shifts within which the USDG is being implemented: does it support or encumber the intentions of the grant?	Comparison of the legislative requirements set out in terms of DORA and the various iterations of the Policy Framework over time is undertaken against empirical evidence of implementation and qualitative data from key stakeholders to determine whether legal and policy shifts are supporting or encumbering the grant.
	2.12. How could the structure of the grant and its application be improved and strengthened?	Consideration of the results of assessments across the four metros in light of the analysis for question 2.11, as well as qualitative data collected during the validation workshops, provides possible options for improving the grant structure.
Monitoring Framework	2.13. Are the performance indicators (as specified in the grant framework) for the USDG suitable for its stated policy purpose and how is it captured in the performance monitoring frameworks of the various spheres of government?	Analysing the monitoring data currently available in light of the grant's overall intentions and conceptual underpinnings, an assessment of how appropriate the current set of performance indicators is provided.

	2.14. Analyse the extent to which the departmental monitoring frameworks have been revised to track performance (physical and financial) of the USDG. Also reflect on the relationship between the current planning and monitoring frameworks that relate to the USDG.	Comparing the analysis of 2.13 in light of the historical development of the USDG and the various iterations across legislative and policy frameworks, the extent to which the various evolutions of the USDG monitoring framework provide a useful measure of performance is determined.
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### 3.4 Sample

The sample included for this assessment was defined at the outset as those national departments (National Treasury, Department of Cooperative Governance, Department of Performance Monitoring and Evaluation and the Department of Human Settlements) and other external stakeholders involved in the implementation of the USDG. The four case study metropolitan municipalities selected by the Technical Working Group are:

- City of Cape Town;
- City of Johannesburg;
- Ekurhuleni; and
- Buffalo City.

In addition, the three provinces in which these metros are situated (Western Cape, Gauteng and the Eastern Cape) were included in the sample. The details of the numbers and representation of those engaged follows in the next section.

### 3.5 Data collection

As set out in the discussion on evaluation parameters, a mixed method approach was employed for the purpose of data collection over the different stages of the evaluation. The intention was to maximise already existing data available while collecting primary qualitative data to deepen, enrich and cross-validate existing data. Selecting a spread of respondents and data sources was deliberate in an effort to triangulate and corroborate perspectives across the three spheres of government with those of external stakeholders in the private sector and civil society.

The following data collection methods were used in the course of this evaluation as differentiated by primary and secondary:

#### **Primary data**

- Semi-structured interviews;
- Focus groups; and
- Validation workshop feedback

#### **Secondary data**

- Document and literature review;



- Financial performance and non-financial performance monitoring data; and
- Project lists and records

Of the 89 different individual respondents from which primary qualitative data was obtained in the form of an interview or focus group, the four broad perspectives could be differentiated: National, Provincial, Municipal and External (non-governmental, civil society or developers). The following graph presents a visual proportion of the total sample while indicating the absolute number of individuals by perspective.

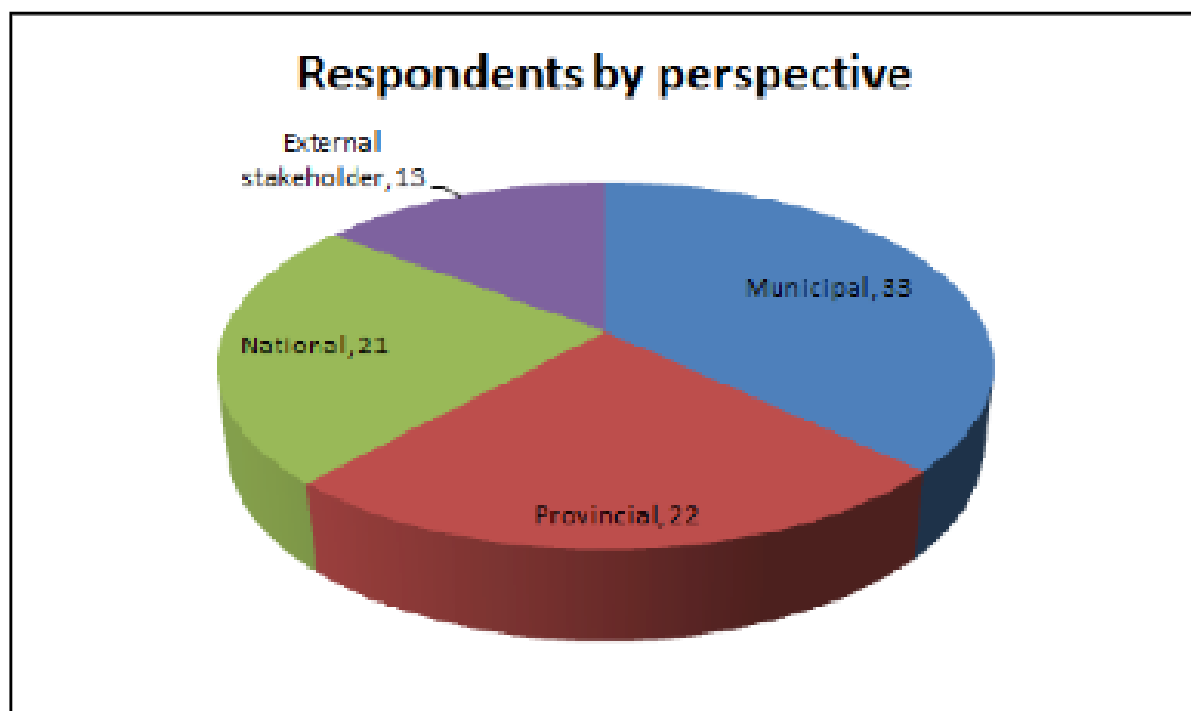


Figure 1: Proportion and number of respondents by perspective

The above demonstrates an even balance of national and provincial individuals consulted, albeit with national stakeholders engaged at greater depth. Similarly, the largest portion of respondents being municipal is consistent with the implementation focus of the assessment and the study of metro cases. More external stakeholders were intended to be interviewed but few proved knowledgeable or willing to comment on the USDG. Nevertheless, they still provide critical perspectives outside of the state and are taken as the closest proxy perspectives for beneficiaries possible given the design and scope of the assessment. The following provides an overview of each of the data collection methods used and what this entailed.

### 3.5.1 Document and literature review

The document and literature review has served both descriptive and comparative purposes in the evaluation. Documentary evidence has been mainly descriptive in nature, setting out the provisions and conditions of the existing arrangements, except where reporting and reflection has occurred through statutory performance reports and presentations.

International and local literature, on the other hand, has helped to provide a comparative

analytical basis for considering the strengths and weaknesses of the grant in light of existing local, domestic and international practices. Thus, the document and literary review entailed:

- Review of all national legislation, policy documents and published comment (including minutes of Human Settlement Portfolio Committee meetings) on the USDG and associated grant arrangements.
- Review of South African literature relating to the environment in which the USDG is being implemented, including the human settlements context, fiscal framework, planning, project process arrangements and monitoring systems.
- Review of the international literature dealing with the financing of urban settlements in cities.
- Review of all national performance reporting, assessments and presentations on USDG planning and implementation.
- Review of relevant provincial strategic planning and reporting in respect of the USDG.
- Using the four municipal cases to review all municipal planning, policy and budgeting in relation to the USDG including BEPPs, Integrated Development Plans (IDPs), Spatial Development Frameworks (SDFs), Service Delivery and Budget Implementation Plans (SDBIPs) and other local policies.
- Review of all available municipal reporting and presentations in relation to the application and outputs of the USDG.

The document and literature review occurred in two phases, firstly as part of the design review where it was mainly descriptive and then later as part of the four metro cases and overall evaluation report where it has been mainly comparative.

### **3.5.2 Semi-structured interviews**

Semi-structured interview guidelines in relation to the phase and focus of the evaluation were structured thematically with customisation to the roles associated with each respondent's position. These guidelines were approved by the Technical Working Group prior to undertaking the primary research. Interviews of approximately one hour were conducted with 66 respondents across three stages: Design Review (14 national respondents across DHS=4, NT=5, and DCoG=1, DPME=1, Other=3); Metro Assessments (43 respondents with CoCT=11, BCMM=14, EMM=5, CoJ=13); Overall assessment and follow-up (9 respondents across DHS=3, DoT=3, NT=1, External=2).

Interviews can be distinguished between the two levels of perspectives: national and metro, with a range of sub-categories within each, recognising there was at times a degree of overlap in terms of the data extracted through interviews given the different historical and current positions that many respondents have assumed. The distribution of interviews is provided below.

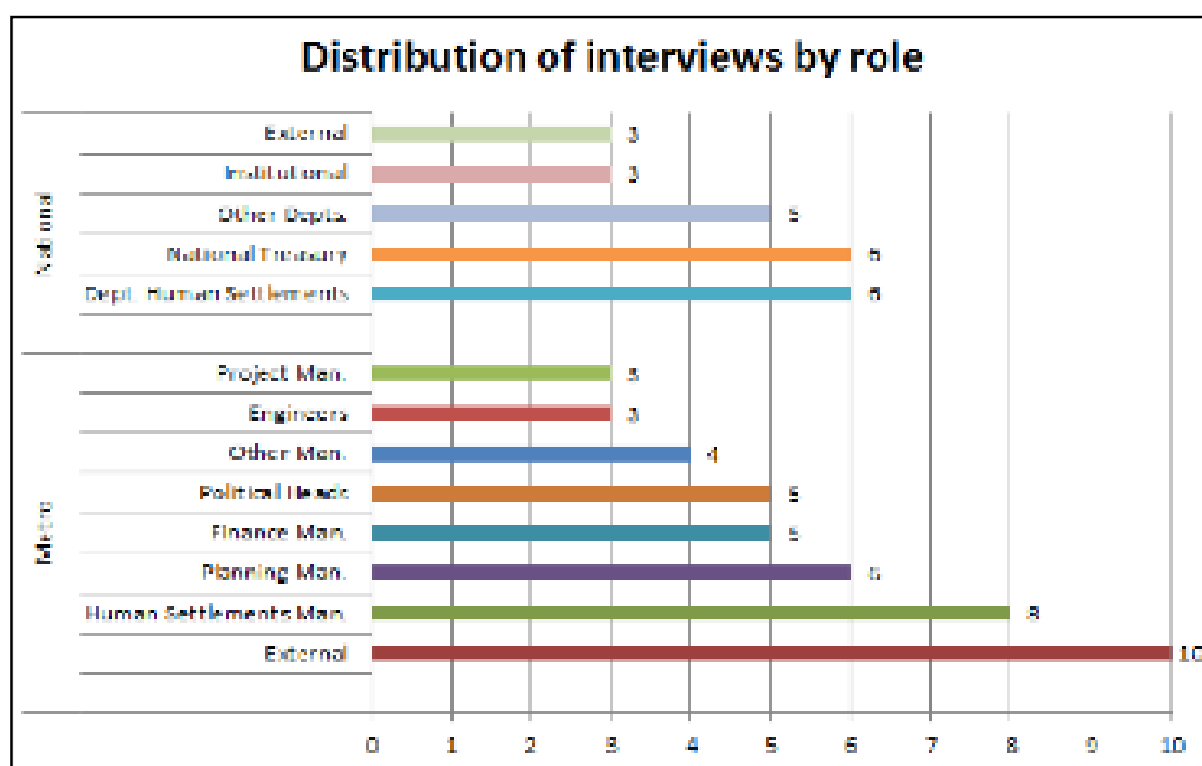


Figure 2: Distribution of interviews by role<sup>5</sup>

Figure 2 illustrates the broad spread of roles amongst interview respondents. Whereas only national respondents were engaged at the design and overall assessment stages, the metro respondents from the four case study municipalities were engaged as part of the metro implementation stage.

All interviews were recorded for reference purposes and transcribed during the session. All respondents consented to participate, gave permission to be recorded and acknowledged that their words may be attributed to them by signing a consent form stating their rights and decision to participate in the research. In this report, quotations and perspectives are attributed to respondents anonymously using a perspective (N=National and M= Metro) and numbering system to provide protection to the respondents.

A small amount of documentary evidence was not available for review (such as some earlier versions of the policy framework), and there were some interviews which could not be secured within the set timeframes of the project plan, which implies some degree of limitation on stakeholder perspectives. Nevertheless, the breadth and variety of respondents consulted as well as their organisational roles are indicative of an encompassing set of perspectives that

<sup>5</sup> External at the metro and national level refers to representatives of Civil Society, and Private Sector Developers. Institutional refers to respondents from state institutions such as the Financial and Fiscal Commission and the Housing Development Agency. Other departments include DPME, Department of Transport and the Department of Cooperative Governance. All respondents of National Treasury and Department of Human Settlements are understood to be public servants or contracted in this capacity.

provide a firm basis for cross-validation and triangulation.

### **3.5.3 Focus groups**

Focus groups with representatives of three provincial departments<sup>6</sup> were arranged to surface collective historical understandings of the provincial interpretations and understandings of the USDG and its implementation to date. The focus group discussions were organised in relation to the same implementation themes identified for the metro respondents, albeit focussed on specific areas of provincial involvement such as the BEPP planning, HSDG alignment and project selection processes as well as provincial exposure to USDG funds. 22 Respondents were engaged across three provinces in three focus groups (Gauteng=9 respondents, Western Cape=10 respondents and Eastern Cape= 3 respondents) with respondents ranging from the Head of Department to CFOs, as well as Directors and Deputy-Directors for M&E, to provide broad and collective qualitative data for the USDG.

Focus groups were also recorded for reference purposes and transcribed during the session. All respondents consented to participate, gave permission to be recorded and acknowledged that their words may be attributed to them by signing a consent form stating their rights and decision to participate in the research.

### **3.5.4 Financial and non-financial performance data**

Use of existing national and municipal performance data included mostly quantitative secondary data relevant to financial allocations and spending for the USDG, the municipal capital budget, as well as performance information as set out in the Service Delivery and Budget Implementation Plan (SDBIP) and USDG performance reporting for the four municipalities included in the scope of this work.

Spatial data was also obtained from the Geographic Information Systems (GIS) of municipalities for the purpose of mapping the completed USDG and HSDG projects to date to provide a spatial representation of spending and capital development in the city. Visual representations of this data in aggregate form are included in the report.

### **3.5.5 Project lists and records**

In instances where project lists and records were available from the metros for projects benefiting from the USDG, these project lists and records were obtained for analysis and comparison. It should be noted that this project information does not represent work completed, but is a useful indication of what has been approved and actioned to date in relation to the implementing departments, types of projects underway, as well as the types of areas in which

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<sup>6</sup> Western Cape, Gauteng and the Eastern Cape. There were only three instead of four because Ekurhuleni and Johannesburg both fall within the Gauteng Province. In the Eastern Cape a classic focus group session could not be arranged and was instead catered for in separate group interviews.

these projects are scheduled.

### **3.5.6 Validation workshops**

Presentations of draft metro reports detailing the municipal findings, analysis and emerging conclusions and recommendations were circulated for sharing with participating stakeholders. Presentations were made by the researchers with an opportunity provided to all participants, as well as other affected municipal parties, to challenge, validate or offer alternative perspectives to the contents of the draft report and presentation. In some instances new data or perspectives were introduced at the validation workshops and these inputs were noted at the session and have since been incorporated into the findings section of evaluation report where appropriate.

### **3.6 Limitations of the research**

The most significant limitation of the research is evaluating a grant without a final or agreed upon policy framework or an established Theory of Change. This limitation was mitigated through constructing a Theory of Change as a conclusion to the findings of the design review stage of the research. The constructed Theory of Change was used as the analytical framework against which the implementation of the grant was evaluated.

Since the interviews were semi-structured and questions customised to the respective perspectives of the respondents, there was some intentional variability in instrumentation which gives rise to potential bias. However, this is in line with the differentiation of roles and responsibilities within and outside of government. The nature of the interviews required informed probing and a degree of respondent-specific questioning that was at times improvised in order to extract maximum relevant data based on the respondents' familiarity with the USDG and related processes. This limitation was mitigated by using senior researchers for the interviews with extensive experience and knowledge of municipal planning, monitoring and evaluation, finance and human settlements.

All interviewees were interviewed in their professional capacity and their views were assumed to be those of their respective institutions. However, there is a risk that personal opinions were expressed in interviews that are not representative of the organisation. This risk was mitigated through interviewing multiple representatives from the same institution and cross referencing interview data with official documentation and reports. Where individual views differ from the views of others or the official documentation, these are highlighted.

Some of the secondary data reported here is also internal reporting information that has not been subjected to tests of data quality, objective verification or an audit of performance information, making the veracity of the information potentially questionable. This has been mitigated to some extent through triangulation with other data sources, where possible. Fur-

ther, in some instances the information reported at metro level appears inconsistent with data captured at the national level and is uneven across the metro data reported. Similarly, the documents available at provincial and national level were not all available despite requests and attempts to gain access to them. The various iterations of the policy framework and changes to the performance matrix which were taken up to varying degrees mean that much of what is reported is not standardised and comparable. However, the presentation of this information back to the metro in the form of the validation workshop and the interrogation of the datasets in relation to other reporting has helped to ensure this limitation has been mitigated insofar as possible.

The reliance on government officials to avail themselves and provide financial and non-financial data related to the USDG resulted in some minor delays in obtaining documents and accessing respondents. Some national respondents, particularly political officials, were unavailable or failed to respond to requests to participate. Further, some respondents were less knowledgeable about the USDG than others, with external stakeholders particularly disadvantaged in this regard. Further, the reluctance of some officials to engage at length in depth, particularly with regards to the provincial focus groups, was also a challenge to data collection. However, the validation workshop as a forum to clarify data collection gaps, provide further inputs and make additional referrals did help to limit the extent to which any of these challenges might impact on the credibility of the findings.

### **3.7 Analysis approach**

In line with the combined nature of the evaluation (design and implementation), the analysis is divided into two parts. The analysis of the USDG design is informed by the literature around international best practice for financing urban settlements in cities. It then draws from the findings around the historical and policy context and process leading up to the introduction of the grant to determine whether the grant design, as defined through the constructed Theory of Change, best responds to the challenges it is meant to address.

For the analysis of the grant implementation, the analytical framework is the constructed Theory of Change, and the analysis focuses on explaining where and why the implementation of the grant has supported, or deviated from the intentions of the grant design. In practical terms, an initial review of the documentation provided some context and helped to later triangulate the data obtained during the course of the semi-structured interviews and the focus group. Qualitative data was analysed at metro, provincial and national levels respectively in relation to the section themes designated in the interview guideline, consistent with the current report structure, to determine areas of commonality or difference. Within thematic areas, internal and contrasting perspectives were checked against external stakeholder perspectives and alternative perspectives emerging from the validation workshop. Further evidence was sought from the documents reviewed that may support, reinforce or provide alternative

perspectives to the qualitative data obtained through interviews and the focus group. The conclusions present answers to the research questions, and in so doing, render judgement on both the design of the grant and the implementation mechanisms.

#### **4. Literature review**

## 4.1 Introduction

Given the nature of the USDG as a financing mechanism to support human settlements development at the local level, this literature focuses on two bodies of literature: housing and human settlements literature to trace South African policy informants and its links to international trends, particularly with regard to informal settlement interventions; and local and international trends in land, infrastructure and housing finance. The findings from the literature review will be used to contextualise the findings of the evaluation, presented in sections 4 and 6, and provide supporting arguments for the conclusions drawn in section 8.

## 4.2 Human settlements policy trends

### 4.2.1 Post-apartheid housing policy and the shift to human settlements

#### *National Housing Subsidy Scheme*

One of the key commitments laid out by South Africa's first democratic government in 1994 was a promise to ensure housing access. Charlton and Kihato (2006) describe how the intention of the housing policy in 1994 was to fund a 'starter house' that households could improve over time. However, this shifted in the late 1990s to standardised unit of defined specification, with some limited expectation that this could be expanded. In order to fulfil the government commitment to housing access, National Housing Subsidy Scheme was established with an objective of providing 1 million houses within five years starting in 1995. The Housing subsidy scheme was a mechanism through which the state could provide housing for those the market will not serve. It offset market failures and its role was to level the playing field for the poor; to provide the poor with ownership of urban assets. Its format manifested in standardised 'RDP' units delivered through the Project-Linked Subsidy. At the outset the programme was, in practical terms and in effect, implemented by the private sector that identified appropriate land parcels and developed houses thereon by utilising the capital subsidy. The target was met after seven years and the programme revealed a number of problems relating to the size and quality of houses as well as issues around the developers. As a consequence, towards 2001, the day-to-day responsibility for the delivery of houses (and thereby the capital subsidy) began to be transferred towards the public sector. This took the form of provincial governments initially and eventually municipalities having the responsibility of identifying projects and assigning appropriate contractors to ensure their development (Shisaka Development Management Services, 2011). With the shift from private to public provision of housing, municipalities began to confront constraints as some struggled to identify, implement and, in some instances, fund housing projects. This culminated in municipalities having to use their own funds to meet the demand for housing. The national housing subsidy scheme failed to keep pace with the demand for housing and informal settlements burgeoned in the first decade of democracy. In a landmark Constitutional Court case, the 'Grootboom case'<sup>7</sup> in 2001, the court found that the state, as a joint entity including all three spheres of government,

<sup>7</sup> Citation: 2001 (1) South Africa 46 (CC)



needed to devise and implement a programme that included measures to provide suitable housing and services to those in desperate need.

### ***Breaking New Ground (2004)***

As a result of a review of the national housing programme from 1994-2004 (DoH, 2004), and in the wake of much external criticism of the singular nature of housing and its inability to address informal settlements (cf. Laloo, 1999; Huchzermeyer, 2001), the 'Breaking New Ground' policy marked a significant shift in housing policy setting out a new vision for housing as reconceptualised in the form of sustainable human settlements. 'Sustainable human Settlements' are defined as: "well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity", further described as a safe and a secure environment with adequate access to economic opportunities, a mix of safe and secure housing and tenure types, reliable and affordable basic services, educational, entertainment and cultural activities and health, welfare and police services (DoH, 2004:11). The document further sets out a new plan and approach to human settlements creation which expanded the scope of the work of the then Housing Department considerably and sought to better integrate and coordinate work with other government departments and entities. Thereafter the Department changed its name to the Department of Human Settlements, in line with the new settlements paradigm.

The BNG policy introduced a more flexible approach to housing interventions, introducing a wide range of housing programmes to enable more appropriate and diverse settlement interventions, including the Upgrading Informal Settlements Programme (UISP). The BNG comprised key elements in relation to the need for changes to the financial arrangements surrounding the housing subsidy at the time. These covered the need to: (i) restructure the subsidy instrument; (ii) adjust beneficiary contributions and criteria; (iii) enhance beneficiary criteria; (iv) enhance funding flows and; (v) address fraud, corruption and maladministration (DoH, 2004). The amendments were intended to then meet the growing demand for and responsiveness to the need for housing. The funding instrument to support the BNG was a combination of the Housing Subsidy Grant and the Human Settlements and Redevelopment Grant to form the Integrated Housing and Human Settlements Grant.

### ***Housing Code (2009)***

The policy prescripts of BNG are encapsulated in the Housing Code (DHS, 2009), which describes the multiple national housing programmes. The two dominant housing programmes are the Integrated Residential Development Programme (IRDP) and the Upgrading of Informal Settlements Programme (UISP). The IRDP supports the development of integrated settlements which include a variety of land uses, housing typologies, and income levels. The IRDP provides for land acquisition, servicing of stands for commercial, recreational, educa-

tional and health purposes, and residential stands for all income groups. The programme can be undertaken in one step or in two phases, beginning with serviced stands and following with the construction of top structures.

The UISP focuses on providing secure tenure, access to basic services, social and economic amenities and options for housing development to people residing in informal settlements. The UISP, as a 'priority programme', and the subsidy for this programme, drawn from the overall quantum of the Human Settlements Development Grant, funds land purchase and basic services, with housing top structure intended to be funded subsequently through one of the other housing programmes. In addition, the Housing Code requires that municipalities make a minimum capital contribution of 10% to UISP projects. The UISP also draws funding from the Social and Economic Amenities Programme to provide the amenities in informal settlements and the Emergency Housing Programme if relocation is required (DHS, 2009). However, Graham and Palmer (2014) note that prior to the introduction of the USDG, there was a lack of complementary funding mechanisms that provide other critical investments (bulk infrastructure, public facilities) to support the UISP. There has been criticism that UISP has not been adopted as widely as was anticipated (Tissington, 2011; Pithouse, 2009), and that the mass roll out of greenfield projects through the IRDP continues to dominate the delivery of housing opportunities (PDG, 2014a).

The approach to UISP is aligned to international shifts in responses to informal settlements. Although the approach of international agencies like the World Bank has vacillated over time between self-help, sites and services and market-based housing solutions, the failure of sites-and-services schemes, combined with the growth of community based-movements, saw alternative solutions arising in the form of bottom-up informal settlement interventions in the early 1990s (Huchzermeyer, 1999). In-situ upgrading of informal settlements is now internationally accepted as an appropriate, and in many cases preferable strategy to addressing shelter needs (Cities Alliance, 2011). The World Bank has now adopted in situ upgrading as a preferred approach, insisting on community participation and an individualised approach that responds to the specific social needs of individual settlements (World Bank, 2009), while UN-HABITAT policy documents firmly state an intention to improve the quality of lives of informal settlement residents through the provision of basic services (UNHSP, 2003; UN-HABITAT, 2005). Target 11 of Goal 7 (Ensuring Environmental Sustainability) of the UN's Millennium Development Goals (UN, 2000) (to which South Africa has subscribed) commits to a significant improvement in the lives of 100-million slum dwellers by 2014 through the provision of improved water and sanitation, and access to secure tenure. These objectives show strong parallels with Outcome 8: Output 1 and the approach advocated in the UISP.

Debates around informal settlement upgrading are closely linked to debates around security of tenure, which is considered a prerequisite for upgrading (World Bank, 2003; Payne, 2004).

However, international literature has shown that legal title is not necessary for security of tenure (Fernandes and Varley, 1998; Gilbert, 2002) and there has been a shift in many countries to adopt a flexible, more simplified property registration system for upgrading informal areas based on de facto systems (Durand-Lasserve and Royston, 2002). In South Africa security of tenure in urban areas is generally measured through the allocation of a title deed, which is evidently too narrow an interpretation.

While the housing and human settlements policy is centred around the national housing programmes and the HSDG, the widening definition of human settlements clearly introduced an overlap in responsibility between the provincial and local spheres of government. While housing the poor, and subsequently human settlements, is the concurrent responsibility of provincial and national government, local government has always had a human settlements mandate and has been responsible for, amongst other things, providing bulk engineering services. The format of the HSDG meant that for housing projects the split in responsibility was made with internal services being provided by provinces and bulk services provided by municipalities. Accreditation enabled this division to be closed, to some extent, through municipalities taking responsibility for the entire process, albeit with provincial funding and approval. However, the case of informal settlement upgrading has been more blurred, with some upgrading taking place through the UISP and some being undertaken by municipalities using their own funding. Existing policy is not clear on whether basic services in informal settlements falls within the housing mandate of the DHS, or the service provision mandate of local government. The USDG as a direct transfer to local government, but managed by the DHS, is at the heart of this debate.

#### **4.2.2 Broader government policy developments impacting on human settlements**

##### ***Outcomes Approach of Government (2010)***

Government adopted the National Outcomes Approach in 2010 as part of a broader shift towards a results-based approach signified by Improving government performance: Our approach (Presidency, 2009). The Outcomes Approach is premised on the evolution of a range of results-based practices often associated with the New Public Management (NPM) movement which came to the fore internationally in the mid-1990s (Mouton, 2010). The NPM promotes decentralisation, partnerships, management by results and a customer orientation intended to reform the public service (Mouton, 2010: 100). It was explained that “the outcomes approach is designed to ensure that government is focused on achieving expected real improvements in the life of all South Africans. The outcomes approach clarifies what we expected to achieve, how to achieve it and how we will know whether we are achieving it” (Presidency, 2010c:9-10). The Guide to the Outcomes Approach states that, “the outcomes approach requires us to think afresh about the logical links between what we do and what we achieve” (Presidency, 2010c: 10). The Outcomes Approach was introduced in the same year that Cabinet took a decision to establish the Urban Settlements Development Grant (USDG).

The Outcomes Approach is significant for the USDG because of its focus on decentralised responsibility for the achievement of the outcomes, a comprehensive and government-wide monitoring and evaluation approach focusing on outcomes, and the elevation of the importance of informal settlement upgrading as the priority programme within the multiple programmes described in the Housing Code.

### ***National Development Plan***

The National Development Plan has the aim of eliminating poverty and reducing inequality by 2030, while increasing employment and drawing on the creative energies of South Africans to forge partnerships and create new development opportunities (NPC, 2012). The chapter on human settlements in the NDP begins with this quote taken from the Reconstruction and Development Programme (1994) which entails the enduring goal of “breaking down apartheid geography through land reform, more compact cities, decent public transport and the development of industries and services that use local resources and/or meet local needs” (NPC, 2012: 233). The selection of this quote serves to emphasise the enduring legacies of apartheid as they pertain to human settlements, and that they have been a feature of the agenda for the past two decades.

The NDP addresses spatial dislocations as they pertain to towns and cities compared with rural areas, and notes that South Africa still faces the legacy of dysfunctional and inequitable spatial patterns. In particular, it explains the spatial dimensions of land reform and the importance of differentiating needs and assets relevant to human settlements depending on the context (NPC, 2012: 237-242).

In terms of the agenda going forward, the NDP sets out the objectives for 2030 as:

- Strong and efficient spatial planning system, well integrated across spheres of government;
- Upgrade all informal settlements on suitable, well located land by 2030;
- More people living closer to their places of work;
- Better quality public transport; and
- More jobs in or close to dense, urban townships (NPC, 2012: 58).

The NDP also puts forth a range of activities to advance these objectives which include: reforms to the current planning system for improved coordination; densifying cities and allocating resources to promote better located land and settlements; substantial investment to ensure safe, reliable and affordable public transport; a spatial development framework that strikes a balance between location of jobs and people; a review the grant and subsidy regime to ensure diversity in product and finance options for greater spatial mix and flexibility; incentivized development of spatial compacts; and introduce mechanisms to make land markets work more effectively for the poor to support urban and rural livelihoods, amongst others (NPC, 2012: 58-59).

Of direct relevance to the USDG is that one of the core actions outlined in the NDP (NPC, 2012: 58) is to:

*Conduct a comprehensive review of the grant and subsidy regime for housing with a view to ensure diversity in product and finance options that would allow for more household choice and greater spatial mix and flexibility. This should include a focused strategy on the housing gap market, involving banks, subsidies and employer housing schemes.*

In effect this places a renewed focus on the role of housing finance in addressing both the socio-economic and spatial challenges facing municipalities in the country. The USDG, given its flexibility and capital size, is therefore central to ensuring diversity of housing product in metropolitan municipalities. The timing of the NDP meant that it was not an informant to the conceptualisation of the USDG, but may have impacted on how it was interpreted and refined since its introduction.

### **Cities Support Programme (CSP)**

The purpose of the CSP is to coordinate a range of urban functions that impact on city efficiency, and is described as follows:

*“It is intended to enable larger, more capable municipalities the opportunity to restructure existing components of the social wage (redistributive entitlements in housing, transport, land and infrastructure development as well as the provision of free basic services) into a coordinated framework that enables them to more capably navigate and improve the functioning of the land and housing markets, reduce current spatial and infrastructure inefficiencies, and simultaneously fulfil constitutional objectives.” (National Treasury, 2012b:4)*

It is interesting to note that the programme assumes that the assignment of the housing and public transport functions is inevitable and aims to support municipalities to develop the capacity to fulfil this new role. It is, by its nature, integrative and focused on all built environment functions.

### **IUDF**

The Draft Integrated Urban Development Framework (IUDF) (COGTA, 2014) was published in 2014 as the national response to development in Cities in order to realise the objectives of the NDP, and is therefore of particular relevance to the USDG. The draft IDUF includes a justification of the focus on cities, effective distribution of resources, and a focus on city efficiency.

## **4.2.3 Local government responsibility for built environment functions**

### **Housing**

The South African government has followed international trends with the decentralisation of a number of government functions (Nel and Binns, 2003; Pieterse, 2002), including a provision

for the accreditation and assignment of the housing function through the Housing Act and the Municipal Systems Act. The strategy of accreditation was further defined and described in the 'Breaking New Ground' Policy (DoH, 2004), Part 3, Vol. 3 of the National Housing Code (DHS, 2009) and in Outcome 8: Output 1 (Presidency, 2010a). Housing is a concurrent function shared by national and provincial government. However, as De Visser and Christmas (2007) note, the reality of housing delivery is that it is an integrated function performed by all three spheres of government who each perform specific roles as set out in the Housing Code (DHS, 2009). At the level of implementation, provinces and local municipalities (mainly metropolitan municipalities) act as housing developers.

The South African context can be contrasted with India, where land, housing, urban development (including slum upgrading) and provision of civic infrastructure is a state (provincial) function (MCGM, 2014). The central government, however, plays a significant role through the allocation of funds and other resources. Local government is responsible for infrastructure and municipal service provision, including basic amenities to slums, but not the provision of public housing (MCGM, 2014).

Huchzermeyer (2002) notes a difference between Brazil and South Africa being that policy making on informal settlements is devolved to the sub-national level in Brazil, while in South Africa it is still centralised through the Housing Code. However, the Brazilian system was constrained through the absence of an associated decentralised housing finance system. Huchzermeyer (2002) believes that the decentralization of political power to local government in Brazil has allowed for customised localised responses through participatory democracy, while the centralisation of South African policy has resulted in a standardised response through the dominance of the capital subsidy system, and the exclusion of more innovative and participatory responses to informal settlements.

However, the accreditation process seeks to address this very problem through the devolution of the housing function to concentrate all built environment functions at the local level, even if housing policy is still centrally determined. Robinson (2007) notes that international literature and experience suggests that decentralisation initiatives are most successful if they are implemented incrementally. This is certainly true of the accreditation process, which is envisaged to take place in three successive steps. Accreditation as set out in Outcome 8: Output 1 provides for a "progressive process that entails incremental delegation and ultimate assignment of housing functions to municipalities. The devolution of the housing function to local government proves to be the way to integrate housing and infrastructure planning and delivery processes at local level" (Presidency, 2010b: 27).

The Policy Framework and Guidelines for the Accreditation of Municipalities, approved in 2005 and revised in 2012 (DHS, 2012a), sets out the criteria and process for accreditation.



Level 1 accreditation is restricted to delegation of beneficiary management, budget planning and administration and priority programme management and administration, while Level 2 accreditation sees the delegation of full programme management and administration to the municipality. Level 3 was the highest degree of accreditation which included management of funds. However, the revised National Framework for Assignment and Accreditation (2012) replaced Level 3 accreditation with full assignment of the housing function by the MEC in terms of the Municipal Systems Act (RSA, 2000). With assignment, the HSDG funds would pass directly from the national department to the municipality without first going to the provincial department. The Capacity and Compliance Assessment Panel (CCAP) was established in 2009 to assess the existing capacity of priority municipalities. Tissington (2011) reports that the CCAP concluded assessments in six metropolitan municipalities as well as three local municipalities. The figure was revised to 23 municipalities after inputs from members of the CCAP during the research process. The Division of Revenue Bill (RSA, 2013a) envisaged that the housing function would be assigned to six metropolitan municipalities in 2013, but this has not yet taken place.

### ***Public transport***

The South African Constitution designates public transport as a functional area of concurrent competence between the national and provincial spheres of government. Municipal public transport and municipal planning are exclusive functions of local government, but are to be overseen by provincial and national government. Typically, national government has a legislative and regulatory role and establishes national policy and strategy. Provincial government largely has a planning and coordination function and is tasked with monitoring the implementation of policy at the local level. Previously, the National Land Transport Transition Act (Act No. 22 of 2000) (NLTTA) facilitated the establishment of Transport Authorities (TAs) to manage public transport at the local government level. However, TAs were not widely adopted, and the National Land Transport Act (Act No. 5 of 2009) (NLTA) specifies that TAs must be dissolved and absorbed into municipal structures. In terms of the new Act, local government is responsible for almost all public transport functions at the local level, including, inter alia, developing local policy, preparing transport plans, managing and implementing public transport networks, managing integrated ticketing systems and setting operational and technical standards.

### ***Spatial planning***

The enactment of the Spatial Planning and Land Use Management Act, 2013 provides municipalities with significant planning powers, which has coincided with an increasingly strong Constitutional Court view on the content and nature of municipal planning as a functional competence of local government. This has changed the legislative environment for spatial planning, land use and land development, all of which are key to the implementation of the USDG policy. This is particularly important when confronting the challenge of aligning the

spatial targeting objectives of different spheres. In the past the provincial government has been able to proceed with land use changes such as subdivision and township establishment through provincial decision-making systems such as those provided by the Development Facilitation Act or the Less Formal Township Establishment Act. These avenues are no longer available to provincial governments: all decisions about where land use is changed to facilitate human settlement development lie with the metros. To the extent that either of the other spheres wants to influence these decisions they have to rely on instruments such as grant conditions.

- In relation to the spatial planning process the Spatial Planning and Land Use Management Act makes two important changes:
- It requires that every provincial government must adopt a provincial spatial development framework, with which 'all provincial development plans, projects and programmes must be consistent';

#### **4.2.4 Summary of human settlements policy trends**

The preceding section has illustrated how various approaches to 'packaging' housing have been applied in South Africa since 1990 when the process of 'democratising' the housing process began. This has ranged from 'site and service' schemes in the early 1990s, the standard 'RDP housing' package which included plot, services house and tenure, the main low income housing style from the late 1990s through the 2000's, to the wider range of options which exists now (Tissington, 2011), including a distinct policy focus on the upgrading of informal settlements.. The focus on housing has also shifted to consider a broader notion of 'human settlements' which includes public and social services and access to livelihoods. There has also been a re-commitment to the 'incremental' approach to housing initiated in the Housing White Paper, driven mainly by the lack of resources to enable fully subsidised housing to be provided to all low income households and the inability to acquire land and set up 'formal' housing projects. As the backlog in provision of housing remains, both government and cities recognise the importance of scaling up delivery of housing opportunities, with a clear policy focus on incremental initiatives that is consistent with international trends. The culmination of these policy trends was Outcome 8, introduced in 2010. The Outcome, however, required a different way of financing human settlement interventions, and informal settlement upgrading in particular. In addition, there is a clear legislative and policy basis for the devolution of the housing function to local government, starting with the metropolitan municipalities. These trends paved the way for the introduction of the USDG in 2011.

### **4.3 Trends in financing instruments for land, infrastructure and housing**

#### **4.3.1 The South African local government fiscal framework**

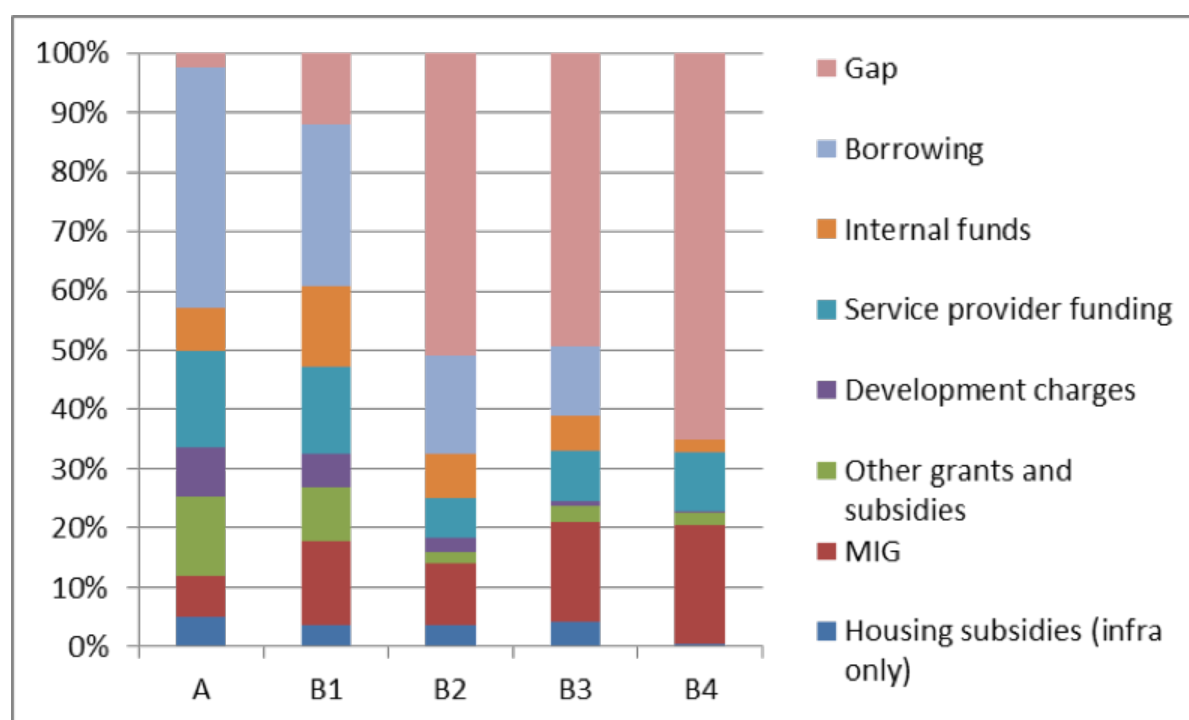
The fiscal framework relates to the way in which revenue flowing to the national fiscus is re-distributed to other spheres of government. This report will not provide a full discussion on the local government fiscal framework: this can be found in FFC (2013). As the USDG supplements the capital budget of metros, this review will focus on the capital financing system



compared to international examples, and only mention the operating systems insofar as it impacts on the capital account.

The capital funding sources available to South African municipalities comprise national transfers (grants), debt finance (borrowing), internally generated funds, and development charges and service provider funding (e.g. capital provided directly by Eskom and Water Boards). The relative split of the capital funding sources by category of municipality is shown in Figure 3, which includes a 'gap' between available revenue sources and ideal expenditure levels.

**Figure 3: Capital funding mix by municipal category** (Source: FFC, 2013 using National Treasury local government database, 2011/12 budgets)



Metropolitan municipalities are reliant on grants and development charges for approximately 50% of the capital financing requirement, and satisfy the other 50% through internal funding and borrowing. South African metros are therefore much less reliant on grant funding than smaller municipalities.

### **Capital grants**

Capital grants are reflected in the annual Division of Revenue Act (e.g. RSA, 2013b) which identifies all transfers from the national fiscus to provincial and local governments. The Bill upon which the Act is based also includes an explanatory memorandum on the system of transfers and a brief description of the key policy parameters for each transfer.

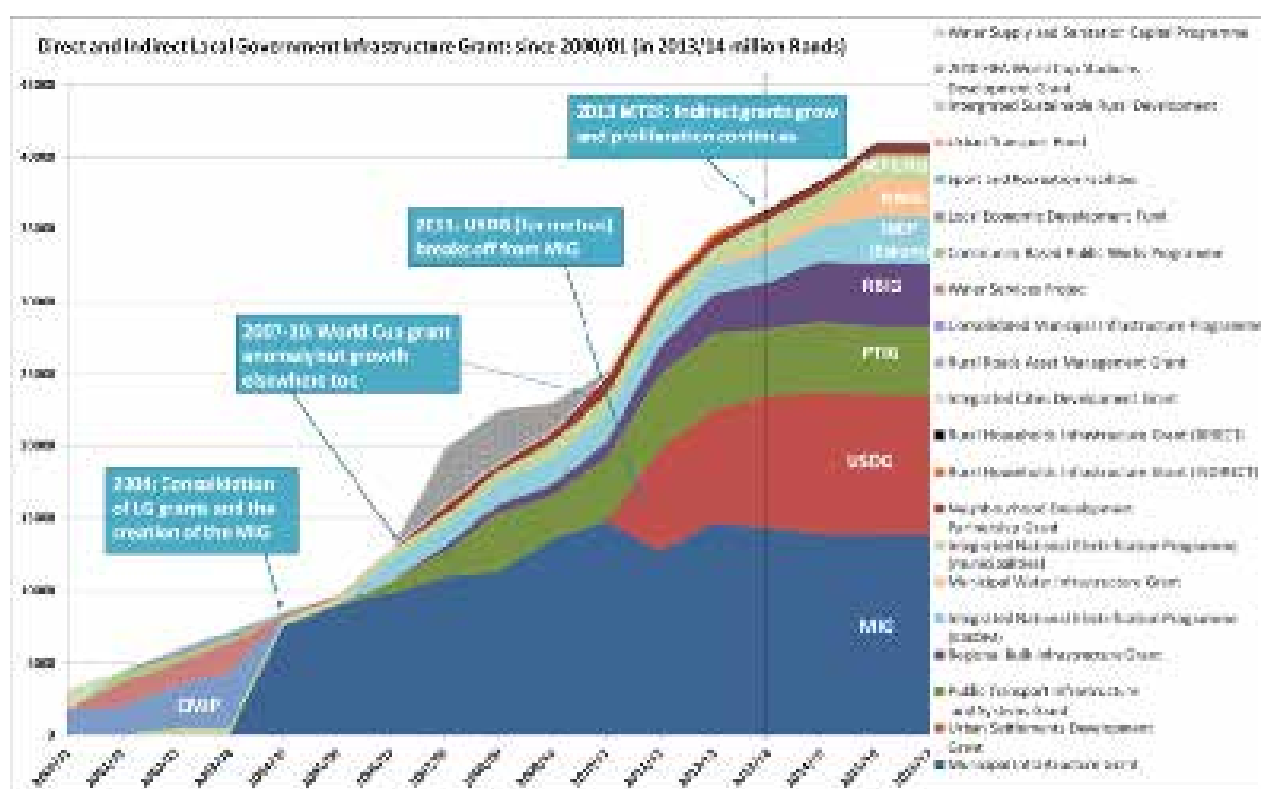


Figure 4: History of local government infrastructure grants – 2000 to 2016 (Source: National Treasury, 2014)

The figure above shows two notable trends. The first trend is a substantial increase in the total quantum of infrastructure grants allocated to local government. Secondly, the figure indicates an initial consolidation of grants into MIG in 2003/4, and then a later proliferation of grants into the current grant arrangements. An overview of the capital grants available to local government is presented in Table 3.

Table 3: Transfers made to municipalities and others involved in the municipal realm

	Amount (R million) 2012/13	Description	Benefitting municipal category	Type
Infrastructure grants				
Municipal Infrastructure Grant (MIG)	13 882	Primary infrastructure grant but excludes electricity	Non-metros	Formula based, conditional
Urban Settlements Development Grant (USDG)	7 392	Infrastructure, Land and social services. Emphasis on informal settlements	Metros	Formula based, conditional
Public Transport Infrastructure and Systems Grant (PTISG)	4 988	Road based public transport infrastructure, mainly Bus Rapid Transit	Metros mainly	Application based but trend towards formula

Electrification Grant (INEP)	3 031	Grant to municipalities which provide electricity Eskom	Metros and locals	Application based
Bulk water grant (RBIG)	2 517	For bulk water infrastructure not paid direct to municipalities	Districts and locals (in kind)	Dept of Water Affairs decision
Other infrastructure grants	1 175	Various	Metros and locals mainly	Various
PRASA Capital Grant	3 527	Paid to PRASA for heavy rail infrastructure	Metros mainly	Dept of Transport decision
Capacity building grants	708	Various	All	Various
Other grants	1 303	Various	All	Various
<b>Total</b>	<b>38 523</b>			

conditions (RSA, 2009a). This acknowledgement of differentiation was indicative of the underlying thinking that provided for the incremental expansion and application of this fiscal instrument to other municipalities that demonstrated sufficient capability in planning, implementing and reporting on grant funded infrastructure projects over time (National Treasury, 2009). The following quote from the MIG (Cities) Policy Framework reflects this:

*MIG (Cities) is being introduced as a first step to address these problems of inadequate control, fragmentation and weak accountability that currently undermine the performance of urban infrastructure investments. A differentiated approach to the funding of large urban municipalities will allow a more appropriate, outcomes-focused relationship with national government to emerge. In addition, it is intended to lay the foundation for cities to gradually assume a greater role in other built environment investments, particularly with respect to transportation and housing (National Treasury, 2009: 5).*

The five key principles that informed and distinguished the design of MIG (Cities) were the following:

- Municipalities must lead the management of the built environment;
- Existing capacity in urban local government should be recognized and supported;
- Capital expenditure balancing needs for poverty alleviation with economic growth;
- Support to provide an outcomes-focused supplement to capital budgets; and
- Accountability for performance in achieving developmental objectives in the built environment (National Treasury, 2009: 6).

Despite being a key principle, the accountability for performance improvement proved to be a peripheral element of the grant design, as evidenced in the performance reporting. The significance of this design feature was constrained by the fact that performance reporting was almost always limited to reporting on a diverse set of infrastructure outputs, as captured in the final MIG (Cities) Performance Report (National Treasury, 2012c). Furthermore, the differen-

tial contexts of the municipalities and their various capital funding arrangements made comparison of non-financial performance difficult as evidenced in the MIG (Cities) Performance Report (National Treasury, 2012c).

#### **4.3.2 International examples of integration of land, infrastructure and housing finance**

The emphasis on funding housing versus land and urban services varies from country to country, as does the degree to which financing is decentralized, and whether the service delivery activities are coordinated. A key feature in the design of the USDG is that it links bulk and connector infrastructure with three of the key components of ‘housing’: internal infrastructure, land and tenure. In relation to practice in most countries, and in South Africa in the past, this is unusual: the typical arrangement is to fund ‘housing’, with one or all of the four components mentioned, separately from bulk and connector infrastructure. In doing this the emphasis is typically on creating an environment where individual households can access some form of debt finance in order to contribute to the financing of a housing package of some sort. For example, a useful review of housing finance subsidies by Hoek-Smit (2008) is focused entirely on ways of improving access to debt finance. In Cairo, the National Housing Programme (NHP) provides formal housing units in urban areas. At the national scale the NHP has incurred significant financial costs in the provision of public housing as well as in terms of unforeseen subsidies towards the costs of land and off-site infrastructure for such housing (Cities Alliance, 2008). This is similar to the findings of Freire’s review of the Brazilian experience, where decentralization of responsibility has revealed numerous policy problems including: (i) city policy being biased towards finished, rather than basic, units, (ii) expensive finished units requiring substantial subsidies (iii) inhabitants being unable to afford rental housing unit rents and, (iv) enforcement of land use restrictions continues to be difficult for municipal authorities which has allowed land invasions to escalate (Freire, 2013: 387).

However, the integration of the housing and infrastructure financing can be viewed positively. In Singapore, in the 1960s it was recognised that there was a need for ‘shelter for all’ and to achieve this objective, the state initiated an integrated package of instruments, including: a new public housing development planning which identified the necessary institutions, funding resources and their apportionment as well as the rental system required. This integration of policies and instruments allowed housing provision to be complemented with appropriate infrastructure connectivity (Freire, 2013). Similarly, in the Jawaharlal National Urban Renewal Mission (JNNURM) in India, Urban Development Authorities (UDAs) were tasked with ensuring that land redevelopment projects encompass the full spectrum of housing needs, including infrastructure provision (Peterson, 2007). In the Philippines, where this has not been achieved, the general approach to urban upgrading has been problematic because it has been implemented in a non-integrated manner and with inadequate resources (Cities Alliance, 2008).

International experience indicates considerable variation in the way the financing of land is managed and how land is used to finance other municipal activities. Peterson (2007) documents how the finances generated through the sale or renting of public land in India, Ethiopia and China act as a vital resource for funding infrastructure improvements and redevelopments. Peterson contrasts China and India's approach to land acquisitions and shows that, while in China municipalities were originally given full control of land acquisition, in India the autonomy of municipalities (and support development agencies) was restrained. Over time, the two systems evolved. In China, due to resistance by rural communities to the acquisition of their land, the State had to reduce the autonomy of municipalities and require that land acquisitions be approved by higher-level government authorities. In India, the system is still relatively constraining to municipal authorities but in Mumbai a redevelopment initiative has managed to secure part of the funding attained through land sales for public investment (Peterson, 2007). In South Africa, land for housing is financed through any one of the HSDG, the USDG or municipal own funds and there is no dedicated funding instrument for land purchase. There is also no specific strategy around using land to fund other municipal activities.

#### 4.3.3 Capital grant design

According to Slack (2007, cited in UN-HABITAT, 2009), there are four justifications for inter-governmental fiscal transfers: vertical fiscal imbalance (fiscal gap), horizontal fiscal imbalance, externalities, and political rationales. The USDG would fall into the first category, with metros not having sufficient own-source revenues to meet their expenditure responsibilities. UN-HABITAT (2009:36) suggests that the solution to vertical imbalance is "...an unconditional (lump sum or block) transfer that allows the municipality to spend the funds in whatever areas it deems appropriate. The amount can be distributed on the basis of revenue sharing, by formula; or on an ad hoc basis. Revenue sharing based on a derivation basis favours richer areas, and also incentivises the generation of a return on investment, whereas the use of a formula based on underlying need results in better equalisation or redistribution.

Transfers can be broadly categorized as unconditional (general purpose) or conditional (specific purpose) (UN-HABITAT, 2009), which can be further broken down into lump sum or equalization unconditional grants (based on some form of differentiation), and matching or non-matching conditional grants.

Table 4: Types of inter-governmental fiscal transfers (Source: UN-HABITAT, 2009:36)

Type of Transfer	Characteristics
Unconditional	No conditions attached to use; lump sum
Unconditional (equalization)	No conditions attached to use; lump sum; based on fiscal capacity and sometimes expenditure need
Conditional Non-Matching	Has to be spent on specified functions; lump sum
Conditional Matching	Has to be spent on specified functions; municipality is required to match transferred funds

In South Africa's case the majority of grants are non-matching conditional grants distributed by formula, but with considerable latitude allowed to municipalities to take decisions on how the money is spent. Conditionality in grant programs always raises some issues, and often the design of the grant does not match the actual practice at the city level. The specific problem varies from country to country (see Kim, Lotz and Mau (2010)). In India, the trend is toward more grant conditionality and increased differentiation, taking the capacity of the municipality into consideration. In Brazil the conditionality of funding caused problems due to high standards resulting in expensive units that were not affordable to households (Freire, 2013). Requirements to match grants with other finance are a common feature of good practice in developing countries (see Bahl et al, 2013). But even where explicit co-funding is not required, there is always an implicit match in terms of operation and maintenance of the public facilities and expanded public service levels. Tanzania presents an interesting example of co-funding being provided by community contributions, rather than municipal co-funding. In 1990, the World Bank funded a project to upgrade some of the poorest communities in Dar Es Salaam (Freire, 2013). By involving the community in the project design and maintenance of the new facilities the community was given a sense of 'ownership' which led to them making a contribution of 5% of the capital cost of projects. This is similar in nature to the debates around the role of micro financing, which emerged in the Indian sub-continent (Jones and Datta, 1999; Patel et al, 2002), but have been applied to housing projects in South Africa as well (Baumann and Bolnick, 2001).

The debate regarding the pros and cons of various strains of grant conditionality displays mixed experiences around the world. Shah (2009) presents both a theoretical and practical underpinning for a case in favour of output-based, rather than traditional conditional, grants. In particular, Shah argues that the advantage of an output-based grant system rests in the fact that it gives local authorities the scope to freely determine the inputs which they use to achieve the agreed-upon outputs. This is supported by the fact that grant financing is linked to service delivery performance.

In contrast, under a traditional conditional grant system, local authorities are more constrained in terms of having to provide detailed feedback on the process by which they introduce inputs into their programmes. Another constraint to traditional conditional grants is that they tend to undermine local authority autonomy "and budgetary flexibility while re-enforcing a culture of opportunism and rent seeking" (Shah, 2009: 82). These points are most succinctly illustrated in the table below.

Criterion	Traditional conditional grant	Output-based grant
Grant objectives	Spending levels	Quality and access to public services
Grant design and administration	Complex	Simple and transparent
Eligibility	Recipient government departments/agencies	Recipient government provides funds to all government and non-government providers
Conditions	Expenditures on authorized functions and objects	Outputs –service delivery results
Allocation criteria	Program or project proposals approvals with expenditure details	Demographic data on potential clients
Compliance verification	Higher level inspections and audits	Client feedback and redress, Comparison of baseline and post-grant data on service quality and access.
Penalties	Audit observations on Financial compliance	Public censure, competitive pressures, voice and exit options for clients
Managerial flexibility	Little or none. No tolerance for risk and no accountability for failure.	Absolute. Rewards for risks but penalties for persistent failure
Local government autonomy and budgetary flexibility	Little	Absolute
Transparency	Little	Absolute
Focus	Internal	External, competition, innovation and benchmarking
Accountability	Hierarchical and to higher level government, controls on inputs and process with little or no concern for results	Results-based, Bottom-up, client-driven

Source: Boadway and Shah (2009) in Shah (2009: 83).

Shah (2007, cited in UN-HABITAT, 2009:39) lays out 10 public finance principles for designing fiscal transfers, which provide a useful basis for evaluating the design of the USDG:

**Efficiency:** Efficiency is achieved if the grant is neutral with respect to local government decisions on the allocation of resources to different activities, except where the grant corrects existing distortions in expenditure practices. For example, municipalities do not have the incentive to provide the correct level of services where the benefits extend to residents of other areas. A grant provides the incentive to increase expenditures to the optimal level.

**Fairness (equity):** Equity dictates that all municipalities should be able to provide an adequate level of service without resorting to unduly high tax rates. To achieve this objective, the transfer to municipalities should vary directly with the fiscal need and inversely with the fiscal capacity of the municipality (capacity to raise own-source revenues).

**Clear Objectives:** Grant objectives should be clearly specified.



**Accountability:** The donor government should be accountable for the design and operation of the grant program. The recipient government should be accountable to citizens and the donor government for the use of the funds.

**Transparency:** This principle is an extension of the accountability principle. Transparency is enhanced when the recipient government and citizens/taxpayers have access to information about the grant formula and the allocation of funds.

**Stability and predictability:** Revenues should be stable and predictable so that municipalities can budget and plan for future expenditures.

**Revenue adequacy:** Municipal governments should have adequate revenues to discharge their expenditure responsibilities.

**Autonomy:** Municipal governments should have autonomy and flexibility to set their priorities and not be constrained by grant funding.

**Responsiveness:** The grant formula should be flexible enough to allow municipalities to respond to changing economic circumstances.

**Simplicity:** The grant formula should be based on objective factors over which local governments have limited control. The formula should be easy to understand.

#### 4.3.4 Fiscal decentralisation and autonomy

In considering the way housing and infrastructure is funded, the relative responsibility of the State (and sub-national regional or provincial governments in some cases) and City is a primary consideration. UN-HABITAT (2009) notes the general trend towards fiscal decentralization, which generally follows the increased devolution of functions to local government. The South African fiscal framework is an outlier in the sense that national government has delegated fiscal resources to support the housing and public transport functions, but without municipalities having full control of the function.

Bahl (2010) includes a summary of the relative grant dependence with South African cities in the middle of a large range for middle income countries. China is at the extreme with cities having a large degree of financial autonomy (Wong, 2013). China probably represents an extreme in the sense that cities have been left almost entirely to their own devices, although more recently State support is growing (Wong, 2013). Chinese cities have had to raise most of their own finance for municipal services (including health and education) infrastructure and housing. Chinese municipalities have also created local investment corporation which have allowed them to raise a considerable portion of their capital through debt finance. Egypt represents a situation close to the other extreme with functions and financial responsibilities highly centralised (Bahl, 2013).

While the relative role of local government in the South African economy may be small by international standards (UN-HABITAT, 2009), local government is given considerable autono-



my. Eckardt and Shah (2008) assessed the relative autonomy and responsibility of local government in developing countries (including middle income countries and South Africa ranks highest in terms of fiscal responsibility and third highest in terms of autonomy).

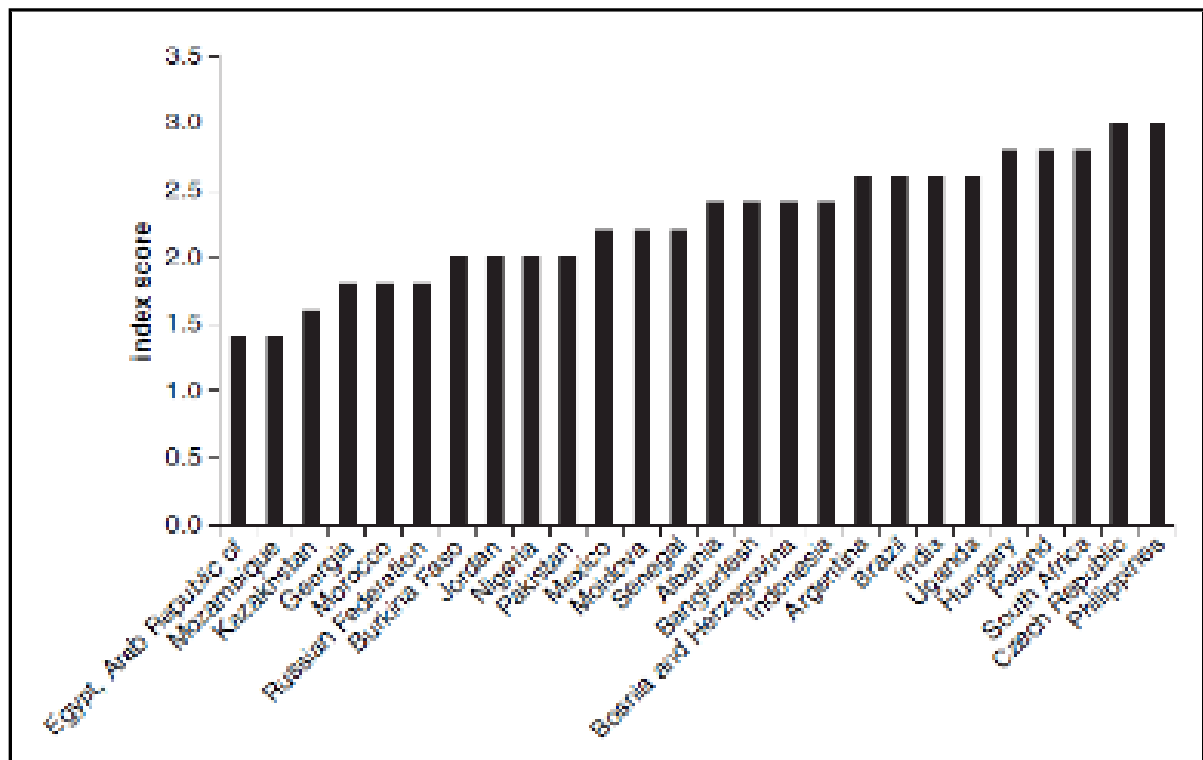


Figure 5: Ranking of countries relating to fiscal autonomy (Eckardt and Shah, 2008)

A key feature in the design of a fiscal system is the extent of autonomy to raise 'own' revenue given to cities (Smoke, 2013). In relation to international practice South African cities have well developed property rates and tariff related revenue arrangements. However, there are arguments that there are other sources of local revenue which can be pursued in order to reduce the dependence of cities on grants. In this regard the local business tax initiative (De Waal, 2011) in South Africa was an attempt to gain greater revenue autonomy.

#### 4.3.5 Monitoring and evaluation of conditional grants

Grant conditionality implies that there is some mechanism of accountability in place for the grant conditions to be adhered to. As Oates (2008: 330, quoted in UN-HABITAT, 2009:38) states: "these systems of grants, although serving legitimate purposes, can, under certain circumstances, be a source of serious fiscal mischief". UN-HABITAT (2009) promotes the use of performance measurement over financial audits to evaluate efficiency and value for money, but note that this requires full information on input costs and outputs. Performance measures are more often associated with operating costs than capital costs. UN-HABITAT (2009) also notes that when two or more levels of government are funding the same service, accountability problems can arise. This is partially true in the case of the USDG and the HSDG, where there is potential overlap in the funding of land and internal services.

#### **4.3.6 Summary of trends in financing instruments for land infrastructure and housing.**

South Africa has a very mature fiscal framework by international standards, which is characterised by a mix of funding sources, a nuanced approach to differentiation and a relatively strongly decentralised system. South Africa also has relatively sophisticated system of transfers with an orientation towards devolving responsibility to local government. While the application of conditional capital grants is commonly applied in the rest of the world (see Shah, 2009) the specific case of a formula-based grant funding both housing related and infrastructure investments could not be found in the literature reviewed. There appear to be no international examples of a conditional capital grant with as wide a reach as the USDG.

## 5. Definition of the grant design

### 5.1 History, conceptualisation and design

A final version of the USDG policy framework was not adopted prior to, or during, the undertaking of this assessment and no history of the grant had previously been documented. The evaluation assessed version seven to 13 of the policy framework and 2011, 2012 and 2013 DORA. The presented definition of USDG design (Theory of Change and logframe) were mainly informed by documents available by September 2013 and were validated in a broad stakeholder workshop attended by National Treasury, DHS, South African Cities Network, SALGA and cities. In line with the evaluation design, the first sub-section is dedicated to a mainly historical description of the USDG. This is followed by a conceptual presentation for the purpose of assessment. These mainly descriptive findings then inform the structure of the following section on Implementation Findings.

#### 5.1.1 Informants to the design of the USDG

There are three main informants to the design of the USDG: differentiation, grant flexibility and the outcomes focus of the MIG (Cities); the renewed focus on human settlements and emphasis on informal settlement upgrading; and a broader process of devolution of built environment functions.

#### ***Differentiation, grant flexibility and outcomes focus from MIG (Cities)***

The design of the USDG is most directly related to the design of the MIG (Cities) grant. MIG (Cities) (as derived from MIG) had already gone some way to set out a series of principles that found a resonance in the USDG. These were that:

- Municipalities must lead the management of the built environment;
- Existing capacity in urban local government should be recognized and supported;
- Capital expenditure should balance needs for poverty alleviation with stimulation of economic growth;
- Support for an outcomes-focused supplement to capital budgets; and
- Accountability for performance in achieving developmental objectives in the built environment (National Treasury, 2009: 6).

A differentiated fiscal framework that recognises different fiscal needs in different types of municipalities was an inherent part of MIG (Cities), which recognised that metros should have a different set of grant conditions to those non-metros receiving MIG (National Treasury, 2009). This thinking is evident in the early drafts of the USDG policy framework (DHS, 2011a). As a concept of the theoretical framework it is currently provided for by singling out metros firstly, but providing that in the future other municipalities could become potential recipients (either by enjoying metro status or when they meet as yet undetermined conditions for non-metros) (RSA, 2011:83).

The MIG (Cities) grant framework is similar in content, but slightly different in emphasis. The strategic goal of the MIG (Cities) was:

*“.. to supplement capital budgets of large cities, ensure integrated planning, effective leveraging of municipal resources towards the eradication of backlogs, improved performance in integrated human settlement development outcomes, and effective asset management practices; subsidise capital costs of providing basic services to poor households; [and] Improving efficiency of maximising developmental outcomes and a coordinated approach to built environment management” (RSA, 2010:134)*

This can be compared with the first USDG DORA framework that sets out the strategic goal of the USDG to:

*“support the development of sustainable human settlements and improved quality of life for households through accelerating the provision of serviced land with secure tenure for low-income households in large urban areas by supplementing municipal resources”, (RSA; 2011:167)*

and the grant purpose:

*“To improve the efficiency and coordination of investments in the built environment through: Providing large municipalities with appropriate resources and control over the selection and pursuit of investment programmes in the built environment” (RSA; 2011:167)*

The clear similarities between the two grants are that they are both supplementary and outcomes-focused. Both cover infrastructure, basic services and human settlement development. However, the USDG places more emphasis on the settlement level; on basic services, tenure and quality of life. Although the USDG was termed a ‘new’ grant, it is an evolution of a number of grant intentions that originated in MIG (Cities).

### ***Focus on human settlements and emphasis on informal settlement upgrading***

The USDG’s policy origins grew from the MIG (Cities) policy, but there were other sources of influence. Policies such as BNG and the Housing Code were also clearly formative policies in this respect. The change of name of the Department of Housing to Human settlements also signified a national shift away from narrow focus on provision of housing towards a broader notion of human settlements. The belief at the time (circa 2010) was that MIG (Cities) did not place sufficient emphasis on the key concern of informal settlement upgrade (Respondents N2; N4; N5), which was identified as a political priority, notably as part of Outcome 8. The timing of Outcome 8 and the introduction of the USDG in the following year is significant; the USDG outcomes are closely aligned to those of Outcome 8. Outcome 8 is therefore positioned as a key policy informant to the USDG.

MIG (Cities) had not provided for land acquisition, a key inhibitor to informal settlement upgrading, and thus there was concern as to whether MIG (Cities) was being directed to the kind

of capital investments that would actually benefit poor households in informal settlements. The political prioritisation of informal settlement upgrades was a critical factor in this shift and partly motivated the change of administrative department from the Department of Cooperative Governance to the Department of Human Settlements. It was reported that the assessment of the need to change the grant framework through the replacement of MIG (Cities) with the USDG was driven by the Intergovernmental Relations Division of National Treasury (Respondent N2) and there was an implicit acknowledgement of a shift in intergovernmental emphasis at the time.

### ***Part of a broader process of devolution of built environment functions***

The establishment of the USDG was not only guided by these sector policies, but was a development intended to support a much broader government policy shift towards an outcomes-based approach and devolved responsibilities for built environment functions. The devolution of responsibility of built environment functions is clearly articulated as a policy intent through the housing accreditation process and the Housing Code (DHS, 2009), the devolution of the public transport function (through the National Land Transport Act (RSA, 2009b)), the increase of municipal planning powers (through SPLUMA (RSA, 2013c), the Cities Support Programme Framework (National Treasury, 2012b) and more recently through the Integrated Urban Development Framework (IUDF) (COGTA, 2014).

### **5.1.2 Establishment of the USDG**

In introducing the USDG, the backlog in access to housing remained the primary driver. Although the grant was not intended as a housing grant it was seen as central to the upgrading of informal settlements and, therefore, a shift to control of the grant by DHS was considered necessary (Respondent N5).

Recognising the policy intent towards city autonomy, with devolved decision-making, the USDG followed the same format as applied for MIG (Cities) as a 'Schedule 4B' grant: a supplement to city budgets. The grant also included a portion of the HSDG, a more conditional national controlled grant. The intention was not for national government to tightly circumscribe the kind of projects to be funded (as with the HSDG), but for sector departments to regulate service standards across a wide range of projects. Further, the stated intention was to have an integrated, intergovernmental approach centred on the approval of the BEPP which, in turn was linked to the IDP and the budget (Respondent N9).

As a conditional supplementary grant, the USDG is neither unconditional, nor specific purpose, according to the UN-HABITAT classification described in Table 4. However, it does tend towards an output-based (performance oriented) grant as defined in Table 5. The definition of Schedule 4B grants in DORA is "Allocations to municipalities to supplement the funding of programmes or functions funded from municipal budgets". This definition implies

that the programmes and functions contributed to the grant are pre-existing, and in the case of municipalities relate to programmes already identified through their IDP, which in turn are funded through their capital budget. The nature of a supplementary financial instrument presupposes a properly functioning municipal treasury, able to manage a range of financial mechanisms. It also assumes an administration sufficiently able to coordinate output delivery against existing budgets, in particular its existing capital investment programme. Crucially, a supplement can be applied to address a deficiency or enhance a specific area. In the case of this supplementary financial instrument, that deficiency was understood as the inability to raise municipal own funding for pro-poor infrastructure development in the built environment, – the ‘vertical fiscal gap’ described by Slack (2007) – as evidenced by existing backlogs and the growth in informal settlements. The USDG is conceptualised as allowing for the blending, combination and integration of capital funds that serve to link, complement and integrate the infrastructure capital projects which comprise the municipal built environment. It is therefore not the only contributing input to the overall built environment outputs and can therefore only ever be contributive, not attributive, toward this end. As a supplementary grant the USDG was not intended to displace any other sources of funding that may have been used in the absence of the grant.

The extent to which sufficient involvement and consultation of all relevant stakeholders took place is contested (Respondents N10 and N2). At the outset, the grant design was managed by National Treasury to the point where a submission to Cabinet to establish the USDG was made, with Cabinet approval received in December of 2010.

The decision by Cabinet to establish the USDG by combining MIG (Cities) with a portion (about 15%<sup>8</sup>) of the Human Settlements Development Grant (HSDG) took some by surprise for the swiftness with which the process was set in motion (Respondents N7 and N22). The following figure presents a summary of the key historical events in the development of the USDG on a timeline. Cabinet level developments are designated in blue, while national Department of Human Settlements is designated in green and National Treasury in red.

<sup>8</sup> The 15% figure was provided in interview anecdotes, but no documentary evidence of exactly how much of the HSDG was re-allocated to the USDG could be found to confirm this figure.

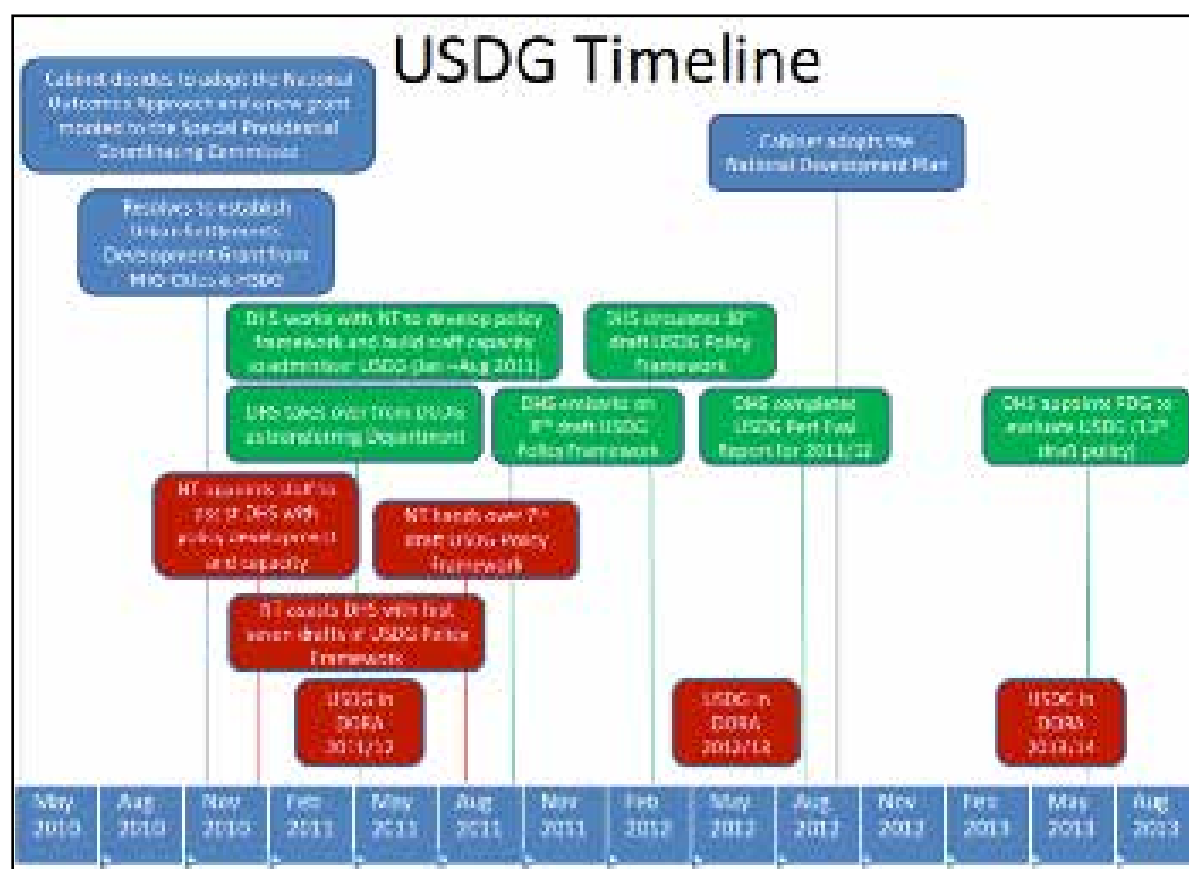


Figure 6: Timeline of events in the development of the USDG 2010-2013

Since the policy framework was still in an early draft form at the time of introducing the USDG, and there were not yet any well-defined programmatic arrangements for grant implementation, the Division of Revenue Bill of 2011 was the first public document to set out the purpose, goal, outcomes, outputs, responsibilities and associated conditions of the grant (DORB, 2011). This is significant since the Division of Revenue Bills of 2011-2013 have come to define the USDG grant framework and remain the only legally binding USDG documents (Respondent N9).

Despite initial planning providing for a support and capacity building process for the USDG and DHS of approximately three years (Respondent N10), there were early capacity challenges and intergovernmental cooperation difficulties. DCoG, which at the time was ending its responsibilities for the MIG (Cities) grant, had limited engagements in the handover process and an opportunity was missed to share lessons learnt with DHS to avoid some of the challenges that had been experienced with administering a Schedule 4 Supplementary Allocation to the metros (Respondent N8).

As captured in the Handover Report (Coovadia, 2011), the policy framework development process and capacity building for DHS were hampered by the shifting of responsibilities between staff at DHS and the inadequate briefing of new entrants to the process. This was



further challenged by the fact that the timing of the decision to establish the grant meant that the opportunity to give input on the Division of Revenue Bill for 2011 had already passed (Respondent N10).

The eight metropolitan municipalities that sought to qualify for the USDG were required to develop Built Environment Performance Plans (BEPPs) for the first time as part of the conditions for receiving funding with the USDG. Described as the “rationale for the Capital Investment Programme of Cities and Towns” in the earliest available version of the USDG policy framework (National Treasury, 2011), the BEPP was to be a new planning instrument for a more credible and funded Capital Investment Programme which presupposed the existence of a number of other statutory plans and compliance measures. Crucially, the BEPPs were expected to give expression to the key principles of the USDG. The National Treasury initiated the idea of the BEPP, which it intended to be a planning instrument not just for the USDG but for other interventions as well. BEPPs were introduced as a requirement in terms of DORA and the USDG was used as an incentive to prompt metros to undertake long-term built environment planning. The BEPPs brought broader strategic considerations of the built environment and spatial development into the planning and delivery of human settlements within the metros. It was intended to shift the planning process from an engineering and infrastructure orientation to one of a broader human settlements approach (Respondent N9).

It was around this time that the involvement and support of National Treasury in the policy development and capacity-building process came to an end. The 7th and 8th drafts of the USDG Policy Framework, the latter circulated in October of 2011, marked the handover from National Treasury to DHS. The intergovernmental sentiment of the time described by one respondent was that the DHS believed itself prepared to take over the management and administration of the grant, as well as the finalisation of the policy framework (Respondent N10). Thus, despite the original projections by National Treasury for continued support over three years, DHS took to institutionalising the grant and continued to refine the policy framework as informed by its direct experiences around the planning, monitoring and reporting of the HSDG and its associated outputs and results (Respondent N9).

From the time when DHS took responsibility for the management and the administration of the USDG to municipalities, there have been a wide range of developments that have informed the on-going evolution of the grant. Since the 8th draft in October of 2011, five further iterations have been circulated, with the 13th draft the latest version circulated in October 2012 informing this assessment<sup>9</sup>. Subsequent to this, the policy framework has undergone further revisions, currently in its 18th draft.

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<sup>9</sup>This evaluation only considers the policy development up to the 13th draft and only notes the existence of the further five drafts.

The DORA grant framework is the only legally binding provision covering the USDG. The DHS policy framework, which was intended to provide additional guidance to municipalities and other stakeholders, has never been finalised. When considering revisions and what influenced changes to the policy framework it can be understood in two broad phases: Drafts with National Treasury's support up until the 7th draft; and all subsequent drafts undertaken by the Department of Human Settlements.

### ***National Treasury support phase (NT draft revisions 1-7)***

The relatively quick shift from DCoG as the transferring department for MIG (Cities) to DHS for the USDG left the latter department without much time to prepare for the new responsibilities of conceptualising and administering the USDG (Respondent N22). In the interim National Treasury provided substantial assistance to DHS to draft the policy framework and manage the grant (Respondents N5; N7 and N10). This formative involvement by National Treasury clearly distinguished the first phase of the grant policy framework's development. Between drafts 1-7 of the USDG policy the DORA 2011/2012 was enacted, with the USDG included as the only Schedule 4 grant to municipalities. Key provisions that changed or altered significantly in later drafts, included but were not limited to:

- Intended expansion from eight initial metros up to 29 potential municipalities according to eligibility requirements;
- Greater emphasis on complementarity and integration of the HSDG and USDG;
- Emphasis on the Long Term BEPP;
- Greater emphasis on urban efficiency and more equitable spatial development;
- Greater emphasis on integration and complementarity between other built environment grants; and
- Inclusion of the DORA framework in the policy framework.

From October of 2011, effectively half a year into the implementation of the USDG, National Treasury stepped back from its support role and handed over to the national Department of Human Settlements. It is evident from the analysis of the policy framework revisions that the initial DORA 2011 document did not fully reflect the policy intent of the DHS, although this is likely because the policy was still in development.

### **5.1.3 Iterations of the draft national policy framework (DHS draft revisions 8-13)**

The later versions of the USDG policy underwent a series of changes in relation to the earlier versions. Noticeable from this stage were the discrepancies between the DORA grant framework for the USDG and the different versions of the USDG policy framework. Inevitably, these differences in policy intent have contributed to the differing interpretations and emphases of different stakeholders (National Treasury and DHS) in relation to the grant. The following table sets out where specific provisions and areas of emphasis across the different versions of the USDG related policy documents and DORAs varied:

Table 6: Summary of outcomes and outputs content from 4 USDG policy documents 2011-2013

Outcome or output content	DORA Feb 2011	USDG policy v8, Oct 2011	USDG policy v13, Oct 2012	DORA Feb 2013
Conventional housing related outputs: land availability, services (including infrastructure) and tenure.	3 of four outcomes relate to this objective. 9 of 19 <b>outputs</b> relate to land acquisition, planning, servicing and tenure.	Only one generic outcome included to cover whole programme. Three of five <b>outputs</b> related to land, infrastructure and tenure.	Only a generic intent statement; no outcomes. 3 of 4 <b>outputs</b> relate to land, services and tenure.	3 of 9 outcomes relate to this objective. 4 of 7 <b>outputs</b> deal with land, tenure and services.
Provision of housing which implies access to formal housing unit ('top structure')	One outcome mentions 'shelter'. 4 of 19 <b>outputs</b> relate to shelter, rental units and building.	Not included	Not included	Not included
Inclusion of informal settlements	Not specifically mentioned as an outcome. 2 specific <b>outputs</b> related to informal settlements	Not specifically mentioned in overall policy intent statement or <b>outputs</b>	Mentioned specifically as one <b>output</b>	Not mentioned as an outcome. Informal settlements upgrading included as one <b>output</b> .
Access to social and community services	Not mentioned as outcome or output	Not mentioned as outcome or output	Basic social amenities included as part of one <b>output</b> .	Only mentioned as part of a density outcome. Part of one service access output.
Economic and jobs related	Not mentioned as outcome or output	Included as part of two outputs	One output related to job creation	Two specific outcomes on jobs and livelihoods. Included as part of spatial integration outcome. Jobs included as on output.
Density and spatial efficiency	Mentioned as outcome. Not included as output.	Not included	Not included	Covered by one outcome. No related output.
Cost of land	Not mentioned as outcome or output	Not included	Not included	Covered by one outcome. No related output.
Gearing in other sources of finance	Not mentioned as outcome, but 3 outputs included, mostly related to grant coordination	Not included	Not included	Included as an outcome, specific to mixed use developments. No output included.
Management capacity		One output included	Not included	Not included
Process related objectives		One <b>output</b> included	Not included	Not included
Financial management	One <b>output</b> included	One <b>output</b> included	Not included	Not included

In the way the USDG has presented outcomes and outputs, there has been a range from:

- At the one extreme no expression of outcomes, other than through a single statement, as included in the two USDG draft policy documents; at the other extreme, 7 outcomes are provided for it in the DORA 2013; to
- Including 19 outputs in the 2011 DORA to only 4 (or 9 if you use the Performance Matrix) in the case of the USDG policy version 13.

One recurring issue throughout the various policy positions is that the logical link between the expected outputs and the desired outcomes is not explained nor is there a coherent explanation of the intervention logic. Furthermore, there is inconsistent, conflated and at times contradictory usage of the terms impact, outcomes, and outputs with implications for the monitoring framework (see Section 6.14).

The key shifts in intent of the outcomes and outputs can be summarised as follows:

- a. There has been consistency in including the primary requirements of a 'conventional' housing programme (except for top structure): land acquisition, services (with associated bulk and connector infrastructure included) and security of tenure. The associated outcomes and outputs are stated in different ways but essentially amount to the same thing.
- b. Provision of a complete housing package, including reference to a 'top structure' was included as an output only in the 2011 DORA.
- c. The extent to which the USDG is specifically targeted at informal settlements is variable: it is mentioned in all cases except for the USDG policy version 8. It is not mentioned as an outcome in other versions of the policy but is included under outputs in three of them.
- d. There is no mention of social and community services in the 2011 DORA and version 8 of the draft policy framework. However, this appears in later versions of DORA and the draft policy framework.
- e. While economic and jobs related provisions are excluded on the 2011 DORA they are included in later versions of DORA, moving towards a pragmatic provision for jobs to be related to construction activities .
- f. Density and associated urban efficiency provisions are included in DORAs but not in the USDG policy outcomes and outputs.
- g. Similarly, cost of land and gearing of finance provisions are only included in the DORAs.
- h. Finally, there are processes and capacity related provisions in the 2011 DORA and the version 8 policy, which do not appear in the two later documents.

<sup>10</sup> Interestingly, there are no provisions associated with the grant that would make it any greater a driver of the urban economy or job creation than ensuring these considerations of the built environment and spatial efficiency. There is however clearly an assumption that if capital investment is made in the built environment that improves spatial efficiency, this will improve the economy and create job opportunities.

## 5.2 Defining features of the USDG

The history of the grant's evolution means that the defining features of the grant are dynamic, contested and evolved over time. The defining features of the grant were articulated in various documents (of different forms ranging from NT presentations to portfolio committee, cabinet minutes, DORA, draft policy, etc.) and changed with each iteration. At the time the evaluation was done there was no single document with conceptual authority on the design of the USDG. The USDG design elements therefore define the original intentions of the grant and were presented to and validated by an Expanded Technical Working Group (ETWG) on 26 September 2013. These design elements have been labelled as 'primary features' and to:

- Support the devolution of built environment responsibility to cities;
- Supplement the budgets of cities in order to enable them to meet their social development mandate;
- Integrate funding for infrastructure, and associated services, with land and secure tenure; and
- Focus on access to housing opportunities for poor households.

However, there are also a range of features for which there is less consensus. In such instances these are identified as comprising subsidiary elements of the grant as validated by the ETWG. These secondary features are:

- Incorporating spatial and land-related objectives;
- Triggering change with housing arrangements;
- Using the grant to gear in other investment;
- Incorporating the BEPP as an additional, central intergovernmental planning instrument

Since these primary and subsidiary features are the defining elements of the grant (although not necessarily its overall goals and objectives), they are considered an integral element of the intervention hypothesis against which the design and implementation of the USDG is judged. However, these features are not sufficient for assessing the design and implementation and thus a more detailed and expansive Theory of Change was developed to describe all the steps that actors are required to implement the grant as designed.

### 5.2.1 Representations of the Theory of Change for the USDG

The Theory of Change for the USDG is based on widely recognised models for presenting development interventions according to a common logical sequencing model from inputs, through activities to outputs, outcomes and impacts (Morra Imas & Rist, 2009).

Previously implicit to the USDG design, the Theory of Change is a representation of the logical sequence of events expected to flow from the intervention. It is particularly significant in this assessment because in order to conduct an empirically-based evaluation of the im-

plementation of the programmatic aspects of the USDG, it is a prerequisite that this logical process is made explicit and reflects the common understandings of all stakeholders.

The Theory of Change for the USDG has been constructed by discerning the key elements identified by Morra Imas and Rist (2009), which in the case of the USDG were:

- The original perspectives and thinking that informed the USDG as an intervention.
- The results chain that is expected to logically flow from this conditional grant.
- The key assumptions and external factors on which the USDG's Theory of Change is based.

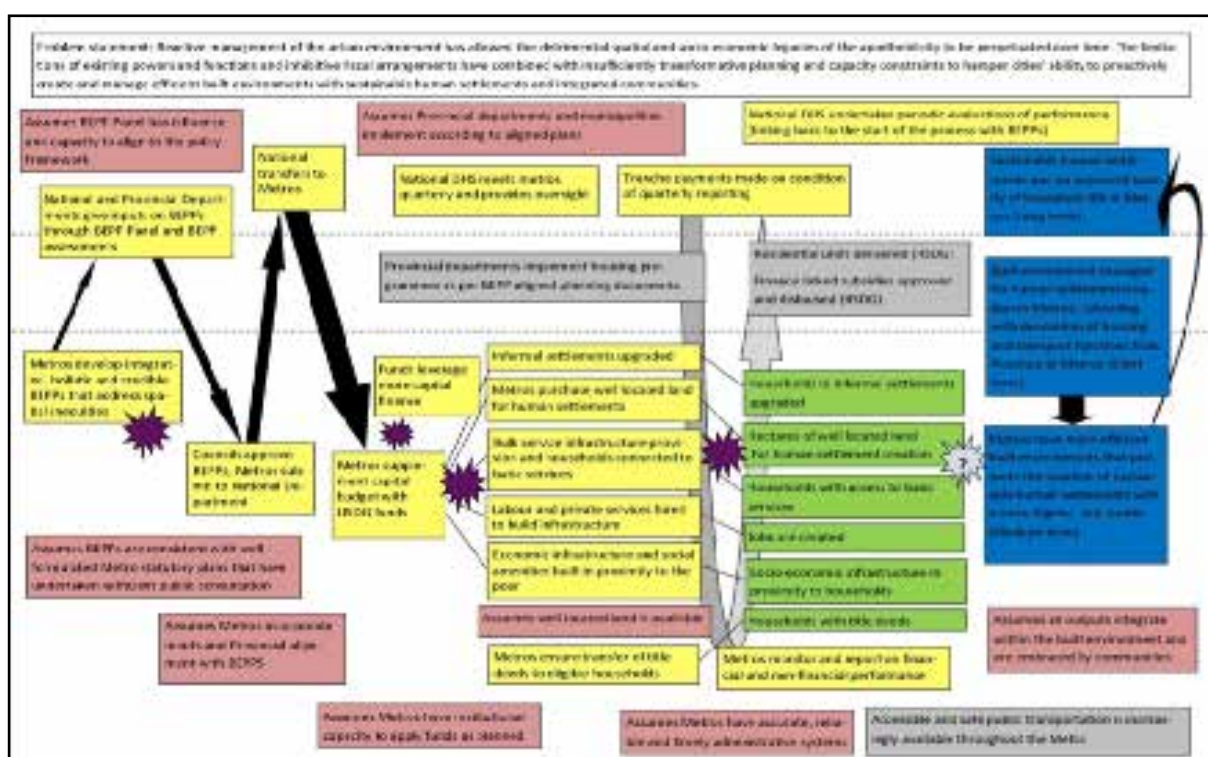
The Theory of Change is presented in two different ways, by way of a detailed process flow chart; and a more traditional Theory of Change applying the logical model approach. Both representations are based on an understanding of the programme theory as informed primarily by the 13th Draft of the USDG Policy Framework, national design respondents and as validated by the ETWG.

The process flow chart of the USDG Theory of Change begins with a brief problem statement at the top, before proceeding from left to right. The boxes in yellow identify inputs or activities, depending on the perspective or actors involved. Spheres of government are identified by broken lines distinguishing the responsibilities and functions of the different levels (local, provincial and national) in the implementation of the USDG.

The outputs and outcomes created through the implementation of the USDG are designated in green and blue respectively. Further, underlying assumptions that are requisite for the above/below boxes to function effectively are designated in a light red. Similar to these are the grey boxes, indicating external factors beyond the control of the programme that have a contributing influence on the achievement of the outcomes especially.

Finally, the purple sparks throughout the flow chart are indicative of those areas of the programme theory that will be closely assessed with empirical data against their expected contribution. The grey spark with the question mark will not be investigated as part of the imple-





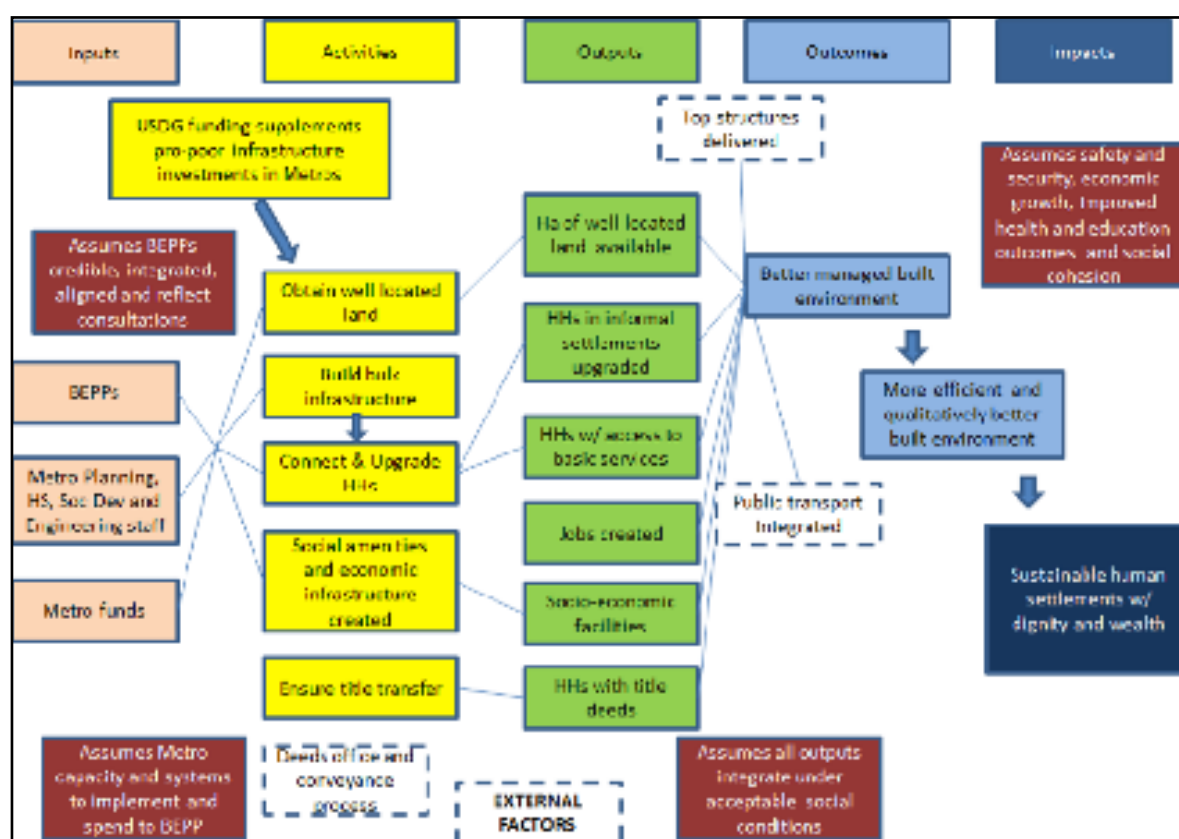
mentation assessment as it is beyond the scope of the evaluation.

**Figure 7: Process flow chart of USDG Theory of Change**

The Theory of Change presented below applies a more traditional logic model approach to the process by leaving out the detail and distinctions of the spheres of government, and some of the lesser activities. From this simpler representation it is clear how diffuse the key activities and outputs are that are expected to flow from the funding intervention.

Also critical in this regard are the assumptions and external factors which stand out. While the intended outcomes to impact (short to long term) of the Theory of Change in the light and dark blue boxes follow a fairly logical and clear process, the manner in which the preceding





activities and outputs are selected, delivered and integrated is less clear.

Figure 8: Logic model Theory of Change with assumptions and external factors

### 5.2.2 The Theory of Change as an analytical framework for the implementation evaluation

The elements of the Theory of Change are what the assessors have sought to test during the course of evaluation and each of these elements is expected to be present in the implementation of the USDG. A breakdown of the elements of the Theory of Change for the USDG comprises:

**Inputs-** BEPPs and metro planning documentation, human resources and organisational arrangements, and the USDG funds.

**Activities-** Funding supplementation, leveraging of capital finance, informal settlement upgrading, acquisition of land, bulk service infrastructure development, hiring of labour, development of social and economic amenities, and processing of title deeds.

**Outputs-** Households with service access, well-located land acquired by the metro, jobs created, socio-economic infrastructure and amenities built, title deeds transferred, and households in informal settlements benefitted from upgrading.

**Outcomes-** A better managed built environment leading to a more efficient built environment (not assessed in this evaluation).

**Impacts-** Sustainable human settlements with an improved quality of household life in the metro (not assessed in this evaluation).

The following underlying assumptions to the Theory of Change are critical realisation of the

desired outcomes and impacts:

- That the BEPP is consistent with and aligned to statutory planning at local and provincial level;
- That the BEPP Panel provides a constructive intergovernmental influence on the development of the plan;
- That the municipality has the organisational capacity to deliver on its existing capital works programme;
- That there is well-located land available for acquisition in the metro;
- That the municipality has accurate, reliable and timely administrative systems for processing of all outputs;
- That all of the grant outputs will integrate under acceptable social conditions; and
- That other outcomes related to health, education, safety, economic growth and social cohesion are realised through concurrent interventions.

Further to the above assumptions, there are also key intervening factors that occur independent of the grant intervention but on which its realisation is predicated. These include:

- Implementation of other housing programmes aligned to the BEPP;
- The provision of 'top structures' supported and funded through complementary initiatives; and
- Realisation of accessible and safe public transportation throughout the metro.

The research is intended to test whether these assumptions are valid and whether the key intervening factors are present to support the implementation of the USDG.

Additionally, there are three key process elements of the Theory of Change that have informed the design of assessment. These are presented below, along with a description of how these are intended to occur in the idealised implementation of the grant, which provides the benchmark against which the assessment was undertaken:

- **Built Environment Planning and the BEPP** - This is the process through which the Built Environment Performance Plan is developed, including its alignment and integration with existing statutory planning documentation. The grant design requires that the BEPP is fully aligned with other planning processes in the metro, including the development of the Integrated Development Plan (IDP), the Spatial Development Framework (SDF), Housing Sector Plans and city budget processes, and that there is internal coordination around these plans. The grant design also requires that there is coordination and alignment in the built environment planning processes at local, provincial and national government levels.
- **Selecting projects and allocating funds** - This refers to the process through which projects are conceptualised, proposed and selected for the allocation of the USDG funds. The grant design assumes that following the allocation of supplementary funds to the capital budget, a process of project selection occurs in which projects that are

consistent with the core activities identified in the Theory of Change (acquisition of well-located land, informal settlement upgrades, bulk and internal infrastructure construction, economic infrastructure and social amenity provision, and transfer of title deeds) are funded through the USDG allocation to the metro.

- **Leveraging capital finance** - This refers to using the supplementary USDG funds to attract additional capital funding for human settlements. The grant design assumes that the application of the USDG funds can draw in additional funds in any one of three ways: by attracting the allocation of the municipality's own funds to projects that have a human settlements orientation through co-funding of projects or spatial concentration of complementary projects; by attracting private sector capital finance through private-public partnership projects where the state pairs with a private developer to undertake a project beyond the means of either role-player individually; and by leveraging debt finance (borrowing) where USDG funds could be used as security to obtain external loans from commercial banks or Development Finance Institutions (DFIs).
- **Grant outputs and expenditure** - This refers to the process by which projects and the allocated funds are utilised and delivered in line with their desired intentions. The grant design has a clear expectation that funds will be spent to deliver a specific set of products and services necessary for a better managed built environment.

These key process elements shape the focus of the assessment, inclusive of the broader assumptions and external factors identified supporting them. This process focus is understood in conjunction with the primary and secondary features of the grant identified above. Thus, in progressing to the findings on the implementation they are viewed against this design, and assumptions presented above are tested in practice. Implementation findings

## 6. Implementation findings

### 6.1 Understanding and interpretation of the USDG

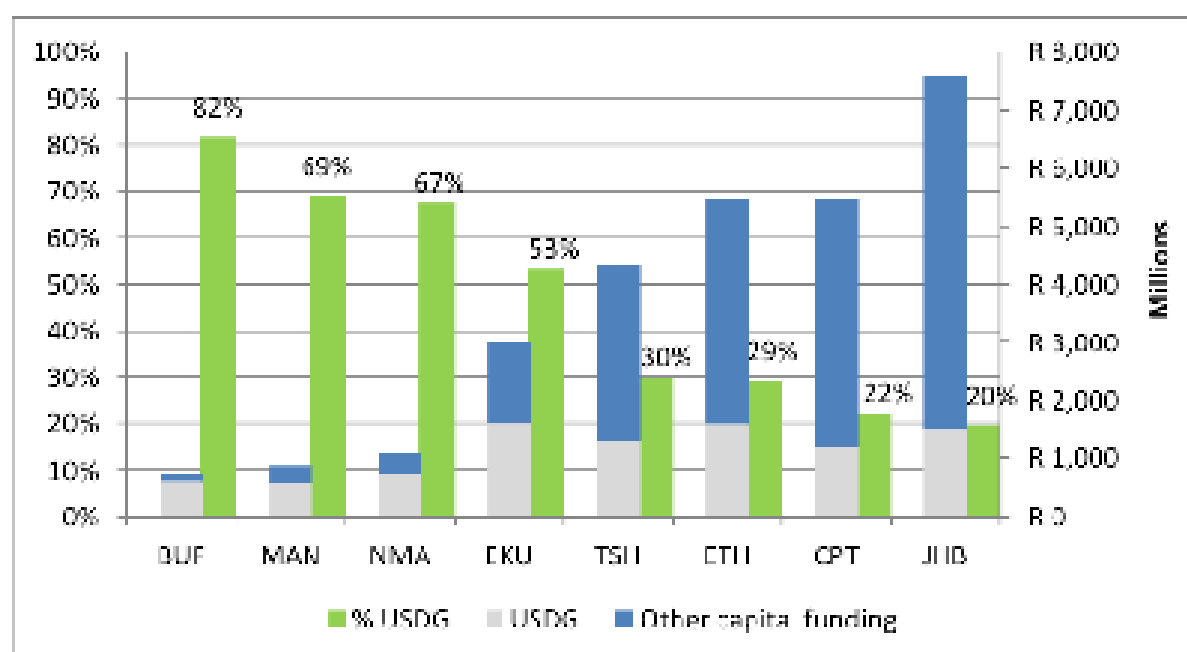
With slight variations across the metros, there was a consistent understanding that the grant is supplementary to the capital budget for the purpose of improving the quality of human settlements, primarily through the provision of bulk infrastructure. There were variations in focus on informal settlements, economic development, and spatial transformation.

The metro BEPPs included definitions directly from the various versions of the draft policy frameworks, and all ‘said the right things’. However, there was a noticeably broader interpretation by metro officials in the application of the grant than the intent stated in the BEPPs. This can be seen in the wide range of projects included on the project lists. In addition, the officials’ interpretations of the grant purpose varied depending on the particular interest of the person being interviewed. For example, planning officials would emphasize the spatial efficiency objective, while economic development officials would note the employment stimulation and economic development aspects. In general, the spatial transformation objectives were not well articulated by municipal interviewees.

Another key finding is that the municipalities with a greater dependence on the USDG as a capital funding source tended to interpret the USDG conditions as broadly as possible. Figure 9 shows that the level of dependence on USDG as a capital funding source in all metros is inversely proportional to the size of each metro’s capital budget. Buffalo City is the most heavily dependent on the USDG (82% of 2013/14 budget), while Johannesburg, with a budget ten times bigger (R7.5 billion), relies on the USDG for only 20% of its capital funding. The research found that Buffalo City and Ekurhuleni had the broadest interpretation of the USDG objectives, while Cape Town and Johannesburg had a more specific focus on disadvantaged areas and on bulk infrastructure to support housing delivery. This is confirmed by minutes of the Human Settlements Portfolio Committee meetings, where Buffalo City, along with Mangaung and Nelson Mandela Bay, were most heavily criticised for use of the grant on the ‘wrong things’<sup>11</sup>

<sup>11</sup> Minutes of meetings sourced from [www.pmg.org.za](http://www.pmg.org.za), for example, see <http://www.pmg.org.za/report/20130814-nelson-mandela-bay-and-buffalo-city-metros-201213-urban-settlements-development-grant-expenditure>,

**Figure 9: Metro dependence on USDG as a capital funding source for 2013/14 (Sources: DORA 2013, National Treasury municipal budget database, authors' own calculations)<sup>12</sup>**



The three provincial Departments of Human Settlements included in the research (Eastern Cape, Gauteng and Western Cape) see the grant as supporting the application of the roll out of housing delivery through the elimination of bulk infrastructure ‘bottlenecks’. This leads to frustration being expressed when municipalities spend the USDG on other things (roads, street lighting and social facilities were mentioned, for example) when there are still bulk infrastructure constraints. In two of the validation workshops the provinces raised the point that because part of the USDG funding was taken from the HSDG, the USDG spending should be more closely linked to implementation of the housing programmes. HSDG, the USDG spending should be more closely linked to implementation of the housing programmes.

This perspective is shared by the national Portfolio Committee on Human Settlements. Through an analysis of comments made at meetings held between 2012 and 2014 it is evident that the Portfolio Committee probably has the most clear, simple and consistent interpretation of the purpose of the USDG: to provide engineering infrastructure to support housing delivery and the provision of basic services in unserved areas. In addition, within this narrow

<sup>12</sup> Where national data is available for all metros, this has been used in the quantitative analysis for comparative purposes. Where data is specific to this study, only the four case study metros are analysed.

interpretation there is specific emphasis placed on eliminating the sanitation backlog in cities:

*“The USDG grant was availed for infrastructure so that houses could be built. Although the use of the grant on clinics and beautification programmes was welcomed, the Committee would rather see the money spent on infrastructure.” Minutes of the Human Settlements Portfolio Committee Meeting held on 19 June 2013*<sup>13</sup>

*“The Chairperson said that the municipality had to establish in clear terms what the purpose of the USDG was. The NMBM had always used the USDG for the wrong purposes. The USDG was solely for infrastructure intended to enhance sustainable human settlements.” Minutes of the Human Settlements Portfolio Committee Meeting held on 19 September 2012*<sup>14</sup>

*“The Chairperson asked if the matter relating to the confusion of what projects to use the USDG on had been settled. Community halls and soccer stadiums could not be built from the USDG grant; that was unacceptable. People did not have houses, but community halls were being erected. Could DHS confront the municipalities that prioritised community halls using USDG funding? “Minutes of the Human Settlements Portfolio Committee Meeting held on 8 October 2013*<sup>15</sup>

*“Ms Borman interjected and said not a cent from the USDG should be used for amenities or stadium construction. These things did not enable DHS to build houses; the USDG was an infrastructure grant.” Minutes of the Human Settlements Portfolio Committee Meeting held on 8 October 2013*<sup>16</sup>

*“The Chairperson agreed that the USDG money should be used for no other purpose other than housing infrastructure. The reason the grant was introduced was because there was no progress in human settlements development projects because of the lack of bulk infrastructure. Until DHS could proudly say it had adequately addressed bulk infrastructure in the country, then the grant could not be diverted.” Minutes of the Human Settlements Portfolio Committee Meeting held on 8 October 2013*<sup>17</sup>

A national respondent (Respondent N7) noted a contradiction between the Portfolio Commit-

<sup>13</sup> Available at: <http://pmg.org.za/report/20120914-ministerial-sanitation-task-team-report-and-update-recovery-plan-usdg>. Accessed: 10 May 2014.

<sup>14</sup> Available at: <http://pmg.org.za/report/20120919-human-settlements-nelson-mandela-bay-municipality-urban-settlements>. Accessed: 10 May 2014.

<sup>15</sup> Available at: <http://pmg.org.za/report/20131008-strategic-infrastructure-projects-sip-18-and-related-sips-briefing-department-human-settlements>. Accessed: 10 May 2014.

<sup>16</sup> Available at: <http://pmg.org.za/report/20131008-strategic-infrastructure-projects-sip-18-and-related-sips-briefing-department-human-settlements>. Accessed: 10 May 2014.

<sup>17</sup> Available at: <http://pmg.org.za/report/20131008-strategic-infrastructure-projects-sip-18-and-related-sips-briefing-department-human-settlements>. Accessed: 10 May 2014.

tee understanding of the grant and the grant framework in DORA, and that the conditions of DORA ‘differ from expectations’.

While there is slight variation between the interpretations of the USDG objectives at the local level, at the national level there is far greater divergence. Firstly, metro officials complained about different messages they were receiving from National Treasury and the DHS.

*“If the two national departments can really speak in one voice it would help us” (Respondent M15)*

Metros perceive National Treasury to have a broader interpretation to the grant, while they perceive the DHS to have a narrower interpretation.

Secondly, within the DHS there appear to be varying interpretations of the objectives of the USDG and what it may, or may not be used for. One national respondent believed that the DHS should not be prescriptive in terms of the grant and its allocation to the capital budget because the needs of the metros are different and the concept of human settlements incorporates bulk and social infrastructure (Respondent N16). This respondent also strongly supported the grant intent to support devolution and local autonomy:

*“Allow these guys to plan, and allow them to fund their plans. You don’t want to be telling them that we want to see more houses here; we want to see this and that. They know this space ...My view is let’s not patronise the local decision makers. I think they know what they are doing and they know what they are planning. But my colleague...there is always that tension...between national and local decision makers. But our colleagues at national and the portfolio committee they want to have control of what is happening. Because you want to have control you are going to put more stringent measures in place, but you don’t understand that you are creating unnecessary, cumbersome reporting arrangements for yourself and you have to jack up your monitoring systems yourself. So my view is, I think the grant is doing exactly what it is intended to do”*

(Respondent N16).

Another respondent emphasised the need to use USDG on bulk to unlock housing/upgrading of informal settlements:

*“It was specifically to prioritise and ring-fence funding, over and above what the cities and provinces earmarked for informal settlements, linked to Outcome 8...because there is a huge backlog in bulk, and basically all the money should go to bulk.” (Respondent N6)*

Another national respondent believed that the cities were not adequately addressing the key purpose of the grant, which was the availability of bulk services for informal settlement upgrading (Respondent N17). The respondent believed that, with the exception of EMM, the USDG has been ‘captured’ for other purposes, which, he believed, reflects an ideological contest in the metros between ‘city efficiency’ and assisting the ‘poor and vulnerable’. The respondent continued to explain that the replacement of MIG (Cities) with USDG had not been good for informal settlement upgrading because it was now more difficult to secure the funds



for bulk services (Respondent N17).

The research has shown that the metro interpretation of the USDG is broader than that of the DHS, and this has led to tensions between the transferring and receiving parties. An early quote from the Portfolio Committee suggests that this difference in interpretation related to the requirement to account for the grant outputs, which was more rigorously applied than was ever the case for MIG (Cities):

*“Municipalities had difficulty in understanding the grant, because they now had to account. He said there was a tension that existed as a result of accountability” and “Municipalities were using the USDG to plug the gaps that they could not fix; and that was wrong”.* Notes from a presentation the COO of DHS in Minutes of the Human Settlements Portfolio Committee Meeting held on 14 September 2012<sup>18</sup>

It is evident that the national DHS interpretation of the USDG has broadened in recent times, as is evidenced in the statement in the Minutes of the Human Settlements Portfolio Committee meeting held on 19 February 2014<sup>19</sup> that:

*“The USDG was a schedule 4 grant supplementing Metros capital budget. In terms of the Division of Revenue Act (DORA), metros were allowed to utilise the USDG allocations on any of their infrastructure projects for the development of human settlements. A performance matrix had been established for monitoring and reporting of the USDG.”*

There were other officials that held incorrect views about the grant. In an interview, a DHS official though understanding that USDG was not a conditional grant, was of a view that it was a ‘matching grant’. This understanding is not correct, as a ‘matching grant’ contains conditions of some set contribution by the receiving department. The official noted some initial concerns about the grant, and that in particular it was regressive because one is rewarding municipalities who could afford to borrow from the capital market:

*“In hindsight if you look at how it has performed, and you must go back and look at the performance of these eight metros that are receiving the USDG, the whole story of bulk infrastructure is now something of the past. You don’t have these eight metros complaining about bulk because they are dealing with all of those bulk challenges head on using the USDG grant...It makes things much easier for those of us who are involved in downstream activities – building a house. Because you can never build a house and provide infrastructure if you haven’t taken care of these bulk challenges.”* (Respondent N16)

It is interesting to note that at the Ekurhuleni validation workshop, an attendee requested that national DHS needs to be clearer on the rationale that was used to form the USDG, as this will help metros understand how to spend the funds more effectively. What was being implied in

<sup>18</sup> Available at: <http://pmg.org.za/report/20120914-ministerial-sanitation-task-team-report-and-update-recovery-plan-usdg>. Accessed: 10 May 2014.

<sup>19</sup> Available at: <http://pmg.org.za/report/20140219-progress-made-budget-review-recommendations-report-follow-meeting-nelson-mandela-bay-municipality-complaints>. Accessed 03 July 2014.

this statement is that because the grant emanated from the MIG (Cities) grant combined with part of the HSDG, the grant should continue to fund all the things that the MIG (Cities) grant funded, as well as internal services for housing. The lack of understanding of the rationale for the grant was also raised by an external national respondent (Respondent N17).

An external national respondent (Respondent N22) believed that context of the timing and speed of implementation had influence on the way the grant was received by metros. Because it was implemented so fast, the respondent believed that and it was not possible for metros to plan for its implementation in advance, so was instead seen as a 'windfall'. Either the metros allocated the grant to currently planned projects as choice was compromised by the speed with which decisions had to be taken.

Another national respondent (Respondent N17) noted that in practice what have emerged are two additional areas of focus: promoting economic growth (referring to the city efficiency perspective) and alleviating poverty (referring to the focus on informal settlements). However, the same respondent noted that what has remained consistent through both perspectives is the principle of a 'clear' grant, i.e. a direct transfer.

The above findings indicate that there are different understandings of the purpose of the USDG amongst the various stakeholders: amongst metros; between metros and the two key national departments; amongst the national departments; between metros and the Portfolio Committee; and within the DHS. The reasons for these differences in understandings are explored further in the analysis.

## **6.2 Perceived benefits and disadvantages of the grant design**

Key to understanding the relevance of the USDG is whether it adequately addresses the needs and priorities of the stakeholders involved, including the municipalities in which it is implemented, the provinces, and the national departments that were responsible for the grant design, and are responsible for oversight. To assess this, stakeholders were questioned about the perceived advantages and disadvantages of the grant.

The table below provides a summary of the responses given during the metro interviews. In some cases they represent the perspectives of individuals, but are provided here to illustrate the range of perceived benefits and disadvantages, as well as the consistency of the responses across the metros.

Table 7: Summary of metro responses regarding the benefits and disadvantages of the USDG

	Cape Town	Buffalo City	Johannesburg	Ekurhuleni
Benefits	Flexibility acknowledges differences in priorities	Flexibility	Flexibility	Flexibility
	Lack of restrictive conditions and specific output targets		Autonomy and control	
		Scale		Scale
		Three year horizon	Roll-over of funding	
	Forced inter-departmental collaboration around project planning	Promoted integrated thinking	Improved coordination between housing and infrastructure	Ability to integrate services
		Inclusion of land and opportunity to purchase buildings		Ability to purchase land
	Fills funding gaps – things that were not able to be funded in the past		Fast-tracking delivery of HSDG projects	
Disadvantages	Differences in interpretation of what the grant may be used for		Not flexible enough (e.g. top structures and rehabilitation)	Purpose too vague - leads to conflict
	Prohibition on the use of USDG to supplement top structure costs	Restrictions (e.g. electricity, social facilities, economic development)		Constraints put on use of the grant (e.g. sports and rec)
	Prohibition on the use of USDG for electricity infrastructure	Only for new infrastructure at the expense of asset renewal		Restricted to disadvantaged areas
	Lack of finality of the policy framework	Inconsistent evaluation	BEPP suggests limitations in ability to create sustainable human settlements	Reporting requirements are too onerous and duplicates existing reporting
		Other funding (energy and water) not aligned		
	Potential link with HSDG			Not connected enough to the HSDG

All metros clearly identified the flexibility of the USDG as its greatest benefit. However, the fact that the varying perceived restrictions on its use are also listed as disadvantages would imply that the metros would all like to see the flexibility of the grant increased. On this point,

there was some internal disagreement within certain metros. In some cases, metro housing/human settlements officials would like to see the USDG ring-fenced for human settlements purposes, while officials from other departments would like to see the scope broadened. The scale and security of the funding are also important benefits to metros. An interesting benefit mentioned by interviewees in all metros was that the grant and its planning processes was increasing coordination between different departments within the metro. This is discussed further in the later analytical sections.

The lack of finality of the policy framework came up explicitly as a disadvantage in Cape Town and Ekurhuleni and is the main reason for the differences in interpretation that were described as problematic in other metros. In the last row of the table, it is interesting to note that an official in Cape Town listed the potential link between the USDG and HSDG as being a disadvantage, while an official in Ekurhuleni stated the opposite – that it was not connected enough. This apparent contradiction can be explained by the respondents' different understandings of what may be constraining the implementation of the HSDG. The Cape Town official believed that the rigid structure of the HSDG was a problem, while the Ekurhuleni official believed that the lack of coordination of bulk infrastructure provision and new housing projects was causing delays.

In contrast, the provinces universally believed that the major disadvantage of the USDG is its flexibility and the freedom municipalities are given in its application to 'do their own thing'. Provinces strongly emphasised the need for a closer link between the HSDG and the USDG in order to ensure more coordinated development of human settlements. They believed that bulk infrastructure delivery is significantly constraining the delivery of housing opportunities through the housing programme. The provincial perspective is that the USDG was intended to accelerate the delivery of housing through the HSDG, and the USDG is therefore not performing as anticipated. While the provinces' views of the USDG were generally negative, they did mention the scale of the grant and its ability to unblock bulk infrastructure constraints as potentially beneficial for the poor.

A national stakeholder, external to government, noted that it should not be seen as a problem that municipalities are implementing the grant in different ways – this is the key: city innovation for their own priorities and sufficient latitude in application is required (Respondent N24). Another external national stakeholder believed that the USDG was conceptualised as an unconditional grant, but in practice had too many conditions (Respondent N22).

### **6.3 The role of the Built Environment Performance Plan**

A national interviewee claimed that despite the best intentions behind the BEPPs, the development of the first round of BEPPs was hardly a significant departure from the existing capital investment planning processes of the municipalities (Respondent N9). This view was also

shared by the municipal interviewees, this was in part due to the multi-year and long-term nature of the capital planning process which meant that much of the MIG (Cities) investment projects were still in process and occurring as part of the implementation of existing capital planning. This perspective was confirmed in the interviews. Metro officials admitted that the first BEPPs represented a steep learning curve and were hurriedly put together. There is consensus between national, provincial and metro views that the quality of BEPPs was initially poor, but has improved over time. The fact that the USDG was introduced into a framework of existing statutory plans to which the BEPP had to align meant that most metros duplicated much of these plans in the BEPP. One official described the BEPP as “at best a meaningful stitching together of other plans”. The Ekurhuleni BEPP states that it:

*“...is compiled from a range of current Ekurhuleni planning and strategy documents and is thus not a new plan as such, but is rather a re-packaging of existing plans and information into a quantifiable format as required by National Treasury” (EMM, 2013: 8).*

In Buffalo City and Johannesburg the BEPP was drawn from existing non-statutory plans: the Integrated Sustainable Human Settlements Plan in Buffalo City and the Sustainable Human Settlements Urbanisation Plan in Johannesburg. Officials in both metros noted that the plan was onerous to prepare and contained much duplication of other plans.

The BEPP was included as a condition for the release of USDG funds. As such, metro had a strong incentive to produce an acceptable plan. However, it has been suggested that this simply promotes compliance on the part of municipalities:

*“To be honest (the BEPP) is a food ticket to access the USDG grant. It’s drawing on other spatial planning policies, which are either legally required by the city or, like the GDS, have become central, focal points for developing strategy within the city. So essentially the BEPP is a combination of those documents and then re-focused to specifically focus on those projects that relate to the USDG.” (Respondent M33)*

A national interviewee agreed that the BEPP as a ticket to funding creates the wrong incentives and encourages the practice of uncritical compliance (Respondent N23). The same respondent noted that an additional plan is unnecessary: the gap is project identification, implementation and funding.

The metro responses indicate that the BEPP did not automatically find its place in the planning framework, and that its intended purpose or role within that framework has not been entirely clear. The responses to the plan have evidently been varied, with some metros finding it more useful than others.

In Johannesburg the BEPP is not seen as strategically valuable, but does include planning and prioritising of projects that align with the USDG objectives, which is presented in a USDG

‘Business Plan’ as an Annexure. In this way, the BEPP was reported to have provided the link between strategic planning and project planning. In Cape Town, an official believed that the value of the BEPP lay in the longer-term perspective, but as an annual plan was not adding much value. In this regard, the BEPP is intended to fulfil a number of functions simultaneously: the proactive planning of built environment interventions (projects); the coordination of the funding to achieve this; the setting of short-term output targets; and the reporting for historical performance against these targets. In Buffalo City it was reported that the strategic intent for the first BEPP was not clear, but it has now found an institutional home within the municipal planning structure. This view relates to the BEPPs in their current form (after the BEPP guidelines of 2013 (National Treasury, 2013) de-linking them from the USDG<sup>20</sup> and linking them to all built environment grants instead)<sup>21</sup> and not to previous versions that sought to guide the USDG specifically. Ekurhuleni also noted that the recent changes to the BEPP guidelines were positive. These comments would seem to indicate that it is only since the BEPP has been linked to the spatial objectives of the Integrated City Development Grants (ICDG) and the Neighbourhood Development Partnership Grant (NDPG) that the strategic purpose of the plan has been realised.

Each of the metros has a slightly different institutional mechanism for preparation of the BEPP. In Cape Town the plan is the responsibility of the Human Settlements Department, while in Buffalo City the BEPP is prepared by the EPMO. In Ekurhuleni it is the responsibility of Development Planning (despite there being an EPMO), and is finalised by an ad hoc committee. Johannesburg has formed a special inter departmental team to coordinate the BEPP, but the document is compiled by City Transformation (previously Development Planning).

The way that the document is treated in terms of internal approval was also found to vary amongst the case study metros. In Johannesburg the BEPP is approved prior to submission to the DHS, while in Buffalo City it appeared that the final BEPP was presented to the council ‘only for noting’ along with the IDP, even though council approval of the BEPP is a statutory requirement in terms of DORA. Ekurhuleni noted that the DORA requirement for council approval of the BEPP is ‘excessive and burdensome’ and for the BEPP to be approved by the Council in May it has to be submitted to the Council decision-making process in February, which defeats the purpose of having a draft and a final BEPP. In fact, the timing of the BEPP development and approval process was noted in two other metros as well, but for different reasons. In Cape Town it was pointed out that the timing of comments on the BEPP was too late to reallocate budget, while in Buffalo City the requirement to produce a draft BEPP before the draft IDP had been produced meant that intended alignment between the plans was not

<sup>20</sup> The DORB 2014 still mentions the BEPP in the USDG policy framework, but only as the location of the Performance Matrix against which the metros must report. It is no longer a condition for release of funds.

<sup>21</sup> These BEPP guidelines were issued midway through the research, and as such, the implications of the changes are beyond the scope of this evaluation. However, they are mentioned here in order to contextualise the comments, which were



possible. This issue was raised in 2011 in the National BEPP Report (DHS, 2011b), which recommended that the BEPP Panel be held in November, with a final assessment taking place in March.

Cape Town and Ekurhuleni noted the internal benefit that the BEPP produced in terms of improved inter-departmental coordination. The Cape Town BEPP 2013/2014 specifically indicates that the USDG has forced “integrated work across line function departments and new thinking on how to meet long known challenges within the constraints of existing resources” (CoCT, 2013: 18). A national interviewee believed that the BEPP has elevated the pro-poor developmental agenda in metros and enabled those departments with a developmental agenda to be given more credence within local government (Respondent N6). Another national interviewee noted the link between the quality of planning and the grant performance. Those metros that planned poorly were criticised for spending money on the wrong things: “If good planning is not in place, then that grant is not going to perform” (Respondent N16). The above findings indicate that the response to the BEPP has been varied. While there is significant overlap between the content of the BEPPs and other statutory plans, some metros have found the plan useful as an integrating planning tool.

#### **6.4 The BEPP panel and intergovernmental planning**

The process of developing a BEPP and its subsequent assessment by the BEPP panel is a key component of the implementation of the grant design. However, the research indicates that this process is not taking place as intended for three main reasons.

Firstly, provinces are not playing their intended role in the development of the BEPPs. Paragraph 6.3 of the 13th draft Policy Framework suggests a stronger role for Provincial governments than is currently being realised. For example it states that provinces will specifically ‘align provincial Human Settlement Plans with BEPPs and provide certainty through funding allocation/reservation ... to ensure coordinated planning and project implementation’ (DHS, 2012b: 26), which has not been the case in any of the case study provinces. There is no link to the IGR structures set up for the IDP. The 13th draft Policy Framework goes on to suggest that provinces should also ‘influence the development of the BEPPs by virtue of interacting with the municipalities through structured meetings facilitated by the NDHS as well as active participation during the BEPP Assessment Process via the BEPP Panel’ (DHS, 2012b: 26). These intended roles for the province (and for the NDHS in facilitating meetings between the province and the metro(s)) appear not to have been fulfilled. The perspectives from the metros and the provinces were relatively consistent in this regard, with both stating that there was very little, if any input from the provinces to the BEPPs. In some cases the relationship between the provinces and metros was tense, with provinces claiming to have been marginalised the USDG and BEPP processes. In Gauteng the provincial officials at the focus group even stated that they felt marginalised from the IDP process as well. The lack of intergovern-



mental planning and coordination in Gauteng is also noted in the Ekurhuleni Capacity and Compliance Assessment Panel (CCAP) report (CCAP, 2010b).

The poor alignment between provincial and metro planning is not limited to the BEPP, but relates to the HSDG planning as well, which then has implications for the interface between the two grants. While a Buffalo City official stated that the BEPP was aligned to provincial planning, none of the provincial planning documents assessed made any reference to the BEPP. This was also the case in the Gauteng provincial documentation, although the priority areas appear to align, and the Ekurhuleni BEPP does not draw on provincial or national plans. In Gauteng, officials in both the provincial and local governments expressed serious concern over the lack of coordination and alignment between the BEPP and HSDG. This is confirmed in the national BEPP Evaluation Report with states that ‘the link with the HSDG was worst in Gauteng’ (DHS, 2011b:6). This may be owing to the housing delivery model in the province where metros have played minimal roles in the past compared to the Western Cape and Kwa-Zulu-Natal, where metros have played a far stronger role in the administration of national housing programmes. Provincial respondents in the Western Cape stated that their planning is aligned to the City of Cape Town Integrated Human Settlement Plan instead of the BEPP. Similarly in the Eastern Cape the provincial planning is aligned to the IDP and the HSP, and not to the BEPP.

Secondly, the BEPP Panel process does not seem to have the intended impact in providing input to the BEPPs. As iterations of draft BEPPs were not provided, the impact of recommendations from the panel on the BEPP could not be assessed and this finding is based on the views of interviewees only. Three of the metros reported that the inputs from the panel were minor and did not result in any significant change in the document, however, one official in Buffalo City and one in Johannesburg stated that they found the process useful. In Ekurhuleni, an official at the validation workshop stated that the BEPP panel is ‘problematic and patchy’, and the comments given ‘depends on who attends the panel meeting’ (Ekurhuleni validation workshop). All three provinces noted that they were invited to the BEPP panel, but were not empowered to provide input. Respondent N22, who sat on the BEPP panel, stated that this had been a ‘negative’ experience for the following reasons:

- There was no proper briefing of panel members;
- The process not well managed;
- National Treasury dominated the panel; and
- The first two meetings went reasonably well but then it became “a shambles”

Another national respondent noted that the BEPP panel had improved some sub-standard BEPPs through providing comments, but questioned whether the panel would ever reject a BEPP (Respondent N17). A further external national stakeholder believed that the BEPP process is overly adversarial – it should be more interactive, constructive and focused on process, not product (Respondent N24).

The third issue is that all of the metros raised the lack of feedback on the BEPPs from the national DHS as a problem. Comments were either not provided, or these were provided too late to make changes to the BEPP. This raised questions as to the value of the BEPP as an inter-departmental planning tool if it was not being engaged with at provincial and national levels. A review of the national BEPP reports shows that they do not render judgement on the quality of the BEPPs against the criteria set in the draft policy framework. This may be because the BEPP guidelines and the draft policy framework have changed regularly. The only indication of a comment on BEPP quality is that the 2011 BEPP Report (DHS, 2011b) presents a table of 'Best Practice', which draws aspects of the BEPP from all the metros, except for Buffalo City.

The above findings indicate that the BEPP process does not support inter-governmental planning, as envisaged in the USDG 13th draft policy framework.

## **6.5 External engagement**

The metro respondents were unanimous in their perspective that, because the BEPP was aligned to the IDP, SDF and budget, all of which had undergone statutory public participation processes, there was no need to consult on the preparation of the BEPP. The BEPPs therefore do not contain specific public input, although one respondent in Cape Town stated that the second BEPP had been included in the IDP consultation processes. The adequacy of the IDP processes as consultative forums was raised in the interviews, but is beyond the scope of this evaluation.

None of the external stakeholders (civil society or business) in Buffalo City or Cape Town had heard of or seen the BEPP, whereas the developer interviewed in Johannesburg had engaged with the contents of the plan, but was critical of the fact that it neglected to address settlement level coordination.

An interesting indicator of the extent to which the BEPP is publicised, is whether the BEPP is published on the municipal websites. As at 01 July 2014, Cape Town, Buffalo City and Ekurhuleni have their current (2014/15) BEPPs on their respective websites, while Johannesburg only has the 2011/12 plan. These appear to be final versions and draft BEPPs are not published for public comment.

## **6.6 Allocation of funds and project selection**

### **6.6.1 Process of project selection**

The design review identified that key to the success of the USDG implementation was a process whereby cities identify sound projects, consistent with USDG criteria, and then manage a process of project preparation and implementation.

The BEPP Assessment Reports by the National Department of Human Settlements (DHS, 2011b; 2012c; 2013b) convey the expectation of “USDG project lists”, particularly the 2013 report. Implicit in this is the need for some type of project selection or identification process, for which the USDG policy framework makes no prescriptions. It is therefore not surprising that the method of project selection was found to vary between each of the case study metros. One common feature was that all metros select projects that are derived from the IDP and are already approved on the capital budget. How the USDG policy framework is then interpreted in project selection differs in each case.

In Ekurhuleni, a committee, comprising the EPMO, Human Settlements, and Finance departments, evaluates approved projects for USDG funding against the policy framework. Metro interviewees noted that there was confusion around what could or could not be funded. One respondent stated that the process of budget allocation was one in which the municipality: ‘retrofitted (the) budget to see which projects already identified in other processes best fit Outcome 8; if they do then we allocate them to USDG’ (Respondent M31). Projects that qualify are allocated funds at the earliest opportunity to ensure USDG funds are spent first, before municipal funds. At the validation workshop, national government representatives pointed out, and weren’t significantly challenged in this by the Ekurhuleni representatives, that in practice the main criterion for prioritisation is ‘spade readiness’, and that there are not any criteria related to poverty, social problems, vulnerability, crime, etc.

Johannesburg has a well-developed capital budgeting and prioritisation process. Capital projects are then entered in to the Capital Investment Management System (CIMS) and are scored based on a set of criteria. The prioritised projects are then entered into the capital budget. At this point the budget office engages with the process to align projects with budgets and with the requirements of particular grants. This involves the assessment of which projects are aligned with USDG conditions. The criteria used for project prioritisation in the CIMS system overlap to some extent with the USDG objectives, particularly in the targeting of marginalised areas and transport corridors.

A Gauteng provincial interviewee criticised the project selection process of the metros, and specifically mentioned the funding of ‘MIG projects’ and the prioritisation of parks and cemeteries over disadvantaged areas:

*“For example, in Jo’burg they mostly use the grant for MIG projects. Not necessarily prioritise other projects. I am sure that 60% or 80% goes to these projects where there is a previous commitment”* (Gauteng provincial focus group attendee)

In Buffalo City high priority projects are identified from the existing capital budget at a workshop with all the directors with line department inputs for potential funding through the USDG.

These are assessed against a “general understanding” rather than a set of specific criteria for the USDG, with the EPMO being responsible for ensuring that the USDG grant conditions are met. Significant infrastructure backlogs mean that there is a long list of priorities, with one respondent commenting that the projects ‘prioritise themselves’ (Buffalo City respondent 7). Through this process there does not seem to be any systematic process for prioritising informal settlements or low-income areas.

The process in Cape Town is focused around a new institutional mechanism, the Project Review Committee (PRC). The PRC was initially established to prepare for the assignment of the housing function, but instead fulfils the function of reviewing and approving USDG project applications. The committee is an inter-departmental structure chaired by the Executive Director of Human Settlements. Submissions are received from line departments for USDG funding according to a pre-defined template and a set of known evaluation criteria. These criteria include alignment with the USDG objectives, but extend beyond these, to include criteria relating to project readiness, future operational implications and co-funding provided by the line department. The PRC maintains a credible database of applications and minutes of decisions, including evidence of instances where projects were rejected or deferred. The annual USDG Performance Evaluation Reports for 2011/2012 and 2012/2013 (DHS, 2012c; 2013b) both identify the PRC and associated project selection process as strengths associated with USDG performance in the City of Cape Town.

### **6.6.2 Allocation of USDG funds by sector**

An analysis of the allocation of USDG funds by department or sector depends on how departments are structured and how they account for the provision of internal services for housing projects. Some municipalities may allocate the expenditure to the line departments or relevant service, while others may include it in the housing budget. Analysis by service or sector is also made more difficult by the fact that the metros each use different categories to aggregate the USDG budget data. Figure 10 shows an attempt to compare the allocation of USDG funding by sector in each of the case study municipalities.

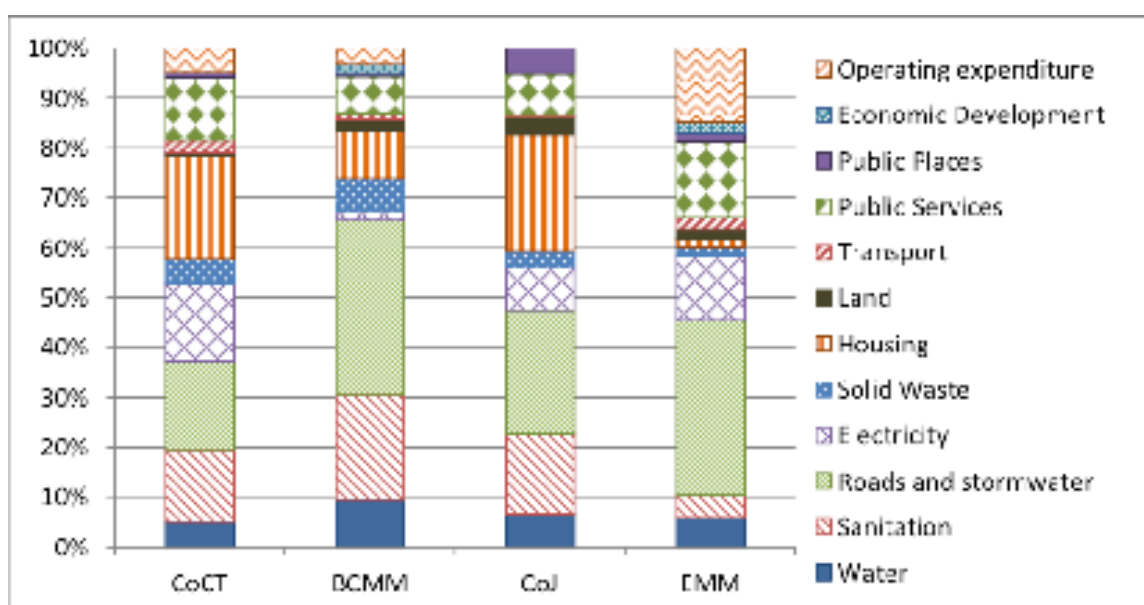


Figure 10: 2013/14 USDG budget allocations by service/sector (Source: Metro project lists and authors' own calculations)

The variation in allocation of the budget is dependent on the metros' capital priorities in any given year. The data used to generate the figure above is presented in Table 8, to unpack these differences. The highest percentage in each category is shaded.

Table 8: Percentage allocation of 2013/14 USDG budget by service/sector (Source: Metro project lists and authors' own calculations)

	CoCT	BCMM	CoJ	EMM
Water	5.0%	9.5%	6.7%	5.6%
Sanitation	14.4%	21.1%	16.0%	4.7%
Roads and storm-water	17.8%	34.8%	24.9%	34.9%
Electricity	15.6%	1.9%	8.4%	13.0%
Solid Waste	4.9%	6.6%	3.1%	1.9%
Housing	20.8%	9.6%	23.6%	1.5%
Land	0.5%	2.1%	3.4%	2.0%
Transport	2.7%	1.4%	0.3%	2.2%
Public Services <sup>22</sup>	12.6%	7.4%	8.5%	15.5%
Public Places	0.9%	0.5%	5.0%	1.5%
Economic Development	0.0%	1.8%	0.0%	2.3%
Operating expenditure	4.9%	3.3%	0.0%	14.8%
<b>TOTAL</b>	100.0%	100.0%	100.0%	100.0%

Buffalo City spends the highest percentage of USDG on water and sanitation. It is noted that Ekurhuleni and Johannesburg are heavily reliant on Rand Water for bulk water and therefore do not have this capital obligation. Buffalo City and Ekurhuleni both spend a considerable percentage, almost 35%, on roads and stormwater projects. Cape Town spends the highest percentage on electricity, and Buffalo City the least. The solid waste allocations are modest,

and are highest in Buffalo City at 6.6%. Johannesburg spends the highest proportion on housing (23.6%), although it is noted that a number of unspecified bulk infrastructure projects are allocated to housing in the capital budget. The very low percentage allocation to housing by Ekurhuleni is possibly due to the servicing of housing projects being recorded under the respective line departments.

The allocation to land acquisition by all metros is small, with Buffalo City, Johannesburg and Ekurhuleni all allocating around 2%, while Cape Town only allocated 0.5% in the 2013/14 financial year. It is noted that the allocation to land acquisition is erratic between financial years, depending on the land transfers anticipated for that particular year. In the interviews with the City of Cape Town officials, they noted the following difficulties in using the USDG to purchase land:

- Shortage of land to purchase in suitable areas;
- The high price of well-located land, which would mean that land purchase costs would take up too much of the available USDG;
- Delays with state land release; and
- Timing of land sale agreements being concluded is unpredictable and therefore difficult to budget for.

Two external national stakeholders supported the view that, while the focus on land is a good idea, the mechanics of the grant may not work for this purpose (Respondents N1 and N24). Specifically, these respondents are referring to the fact that the grant spending has to be budgeted for and spent as budgeted on an annual basis, which does not suit the unpredictable nature of land acquisition. Another external national respondent believed that the HDA could contribute to the success of USDG-funded initiatives in metros through supporting land assembly in areas that have been targeted for investment and development, particularly those where state land is expected to make a significant contribution (Respondent N22). The lesson that can be learned, and that would apply to the HDA's involvement in land assembly as well, is that any land acquisition funding needs to be flexible enough to accommodate the shifting of budget and the 'lumpiness' (large amounts in irregular patterns) of the purchases.

Given that the Theory of Change does not assume that USDG will be spent directly on transport infrastructure, it is understandable that transport allocations are small across the board, with the highest allocation being 2.7% in Cape Town, mostly comprising a regional taxi rank in Scottsdene.

The category of public services is made up of parks, cemeteries, community halls, sports and recreation facilities, libraries and safety and security. The allocation is highest in Ekurhuleni

<sup>22</sup> Includes parks, cemeteries, community halls, sports and recreation facilities, libraries and safety and security



(16%) and Cape Town (13%). Public places comprise public spaces that are not associated with the delivery of municipal services. The highest allocation is in Johannesburg (5%), which comprises the Nancefield Station, Orlando East Station and Kliptown Precinct Redevelopment projects. While Cape Town and Johannesburg do not allocate any of the 2013/14 USDG budgets to economic development, Ekurhuleni and Buffalo City allocate 2.3% and 1.8% respectively.

The differences in the portions of USDG used for operating expenditure are notable. Ekurhuleni spent R242 million<sup>23</sup> (15%) of its 2013/14 allocation on operating projects. The majority of this (66%) was spent on chemical toilets, and the remainder on bulk sanitation operations (ERWAT grant) and the EPMO. Cape Town allocated 4.8% of the 2013/14 budget to operating items, 40% of which on USDG staffing and the remainder on a provincial allocation<sup>24</sup>, the National Home Builders Registration Council, consultants for roads, fire kits and pre-planning. Buffalo City allocated R41 million (6.6%)<sup>25</sup> from the 2013/14 allocation, largely on funding the EPMO, but also on beneficiary education for housing projects, a waste management programme and roads and development planning. Johannesburg does not appear to spend any USDG on operating items, as the full USDG allocation appears on its capital budget. One national official believed that over the past three years, the bulk of the USDG funding (“More than 50%”) had been allocated to water and sanitation (Respondent N16). The above analysis, albeit only for four metros for the last financial year, suggests that this is not the case, and that road and stormwater are allocated a greater portion of the budget than water and sanitation.

The allocation of the USDG, as discussed above, is also presented in Table 9 in aggregate categories of engineering services, housing (mostly comprising internal engineering services on housing projects) and land, and ‘other’, comprising transport, public services, public places, economic development and operating expenditure.

<b>Category</b>	<b>CoCT</b>	<b>BCMM</b>	<b>CoJ</b>	<b>EMM</b>
Engineering services	58%	74%	59%	60%
Housing and land	21%	12%	27%	3%
Sub-total: Engineering services, housing and land	79%	86%	86%	63%
Other	21%	14%	14%	36%
Total	100%	100%	100%	100%

<sup>23</sup> This figure is calculated by adding all projects marked “USDG – Opex” in the USDG project list for 2013/14, supplied by Ekurhuleni metro.

<sup>24</sup> The description given to this item in the reporting is ‘PGWC USDG Allocation & PHP’, presumably for provincial projects, but recorded by the City of Cape Town as an operating item.

<sup>25</sup> This figure is different from that presented in Table 11. This is due to a discrepancy in the reporting between a budget figure and the detailed project breakdown.



This aggregation again highlights the variation in interpretation of the grant and what it can, or should be used for. While all metros spend more than 50% of the budget on engineering services, Buffalo City allocates the highest proportion to bulk and connector infrastructure and Johannesburg the highest proportion specifically to housing and land. When one combines engineering services, housing and land, Ekurhuleni is an outlier, with only 63% allocated to these services. However, if the operating allocation to chemical toilets and ERWAT are included as engineering services, this percentage increases to be 77%, which is only slightly lower than the other metros.

### **6.6.3 Assessment of type of USDG projects**

In terms of the BEPPs, municipalities are required to identify the specific projects that will be funded, whether partially or fully, by the USDG. These projects are expected to produce the outputs, and work towards the objectives, outlined in the USDG grant framework. The case study municipalities all fund between 100 and 200 projects per year using the USDG. An assessment of each project is therefore not feasible, but a high level assessment of the type and range of projects is presented here. In all metros the continuing emphasis on infrastructure, particularly bulk infrastructure, is evident.

In Buffalo City a wide range of projects has been allocated USDG funding. These 137 projects include housing projects, bulk infrastructure, internal infrastructure and interim services, roads upgrading, land acquisition, local economic development (urban agriculture, market cold rooms), community services (fire station, community halls, cemeteries, parks, sports facilities) and public amenities (aquarium, esplanade). In identifying flagship projects funded by the USDG, municipal respondents consistently referred to housing projects in Second Creek and Reeston, the upgrading of Gonubie Main Road and Fleet Street, the King William's Town Regional Wastewater Treatment works, informal settlement upgrading in Mdantsane and the purchase of a strategic land parcel in the CBD. It is interesting to note that the metro respondents did not focus on the Duncan Village Redevelopment Initiative – a DHS priority project which has been allocated dedicated HSDG funding, and which is identified as a priority in the SDF and IDP. This project is also noted in the national evaluation of the 2012/13 BEPP (DHS, 2013b). The project is intended to pilot high-density re-development, incorporating rental, but a provincial respondent stated that the project has been stalled with the result that R300 million of funding was taken away from the metro (respondent 16).

Similar to Buffalo City, Ekurhuleni also fund a range of types of projects using the USDG. A total of 198 projects were funded in 2013/14, covering bulk infrastructure (including electricity and landfill sites), internal infrastructure, land purchase, refurbishment of rental property, transport facilities (taxi ranks), community facilities (fire stations, police stations, clinics, cemeteries, parks, libraries, sports facilities, cultural facilities), seven economic development projects (enterprise hubs, industrial parks, trading stalls), tourist areas and environmental

rehabilitation.

In Johannesburg, there is a clear emphasis on infrastructure, although the 93 projects in the 2013/14 budget are spread, across a number of departments covering bulk and connector infrastructure (75%), internal infrastructure (4%), social facilities (community halls, recreation facilities, clinics and parks - 11%), economic facilities (precinct renewal - 5%), land purchase (3%), buildings (1%) and planning.

Cape Town is similar to Johannesburg in the large portion of the grant being allocated to infrastructure. However, the 150 projects listed as funded from the USDG in the 2013/14 BEPP span a cross an equally wide range of project types including bulk infrastructure, internal infrastructure to support housing projects and backyard shacks, land acquisition, upgrade of city rental housing, community facilities (sports facilities, cemeteries, parks, libraries, and clinics) and transport interchanges and non-motorised transport facilities.

On the question of whether the metros are spending on the 'right' things in terms of the grant intent, one national stakeholder commented that:

*"There are metros that are spending consciously, and I think you can see that what they are spending on follows exactly the plans – the deliberate plans they have put in place. There are metros that are spending so that the money does not come back to the fiscus. Sometimes they don't even check the deviations from what we have approved"* (Respondent N16)

This comment implies that the pressure to spend the money to avoid losing the funding means that in some cases it is spent wherever possible, and not necessarily strategically. One national respondent expressed frustration that there were no consequences for metros that spend money on the 'wrong' things, but also believed there was still a lack of clarity around what the 'right things' were, exactly (Respondent N22). However, the respondent felt that projects selected by the metros for USDG funding often missed the DHS objectives of promoting affordable access to shelter for the poor.

## **6.7 Use of the USDG to leverage capital finance**

The grant design assumes that the USDG can draw in additional funds. This is an inherited characteristic from MIG (Cities) that intended to increase the proportion of capital revenues sourced from user charges and development charges (RSA, 2009a). However, the USDG is assumed to 'gear in' capital finance in any one of three ways: by attracting the allocation of the municipality's own funds to projects that have a human settlements orientation through co-funding of projects or spatial concentration of complementary projects; by attracting private sector capital finance through private-public partnership projects where the state pairs with a private developer to undertake a project beyond the means of either role-player individually; and by leveraging debt finance (borrowing) where USDG funds could be used as security. A national respondent revealed that the initial intention was the latter of these three reasons (although this objective has been interpreted in all three ways), and that it had not

been realised:

*“The assumption was, if more money is given for capital, the more money they can borrow. This means gearing in for cities to make more money, but the result was the reverse”. (Respondent N5)*

While the USDG was intended to leverage additional finance, there is also the risk that the converse may occur: that the grant may displace other sources of finance. In order to assess the degree to which either of these processes is taking place, the historical funding mix was assessed, from 2006/7 to 2015/16<sup>26</sup>, and the impact of the introduction of the USDG in 2011/12 was investigated. Specifically, the changes in levels of borrowing and internal funding in relation to grant funding were assessed. While an aggregation of the funding mix for all the metros shows that both internal funding and borrowing increased in real terms between 2011/12 and 2015/16, along with a 20% increase in the proportion of grant funding as a percentage of total capital funding with the introduction of the USDG. However, this aggregation masks the significant differences between the individual metros. The results of this analysis are presented for each metro below<sup>27</sup>. It is noted that the trends in the use of internal reserves and borrowing are dependent on a range of factors – notably the municipal balance sheet and the operating account surpluses – and may be unrelated to the introduction of the USDG. The analysis is, however, instructive as it indicates the possibility of gearing or displacement.

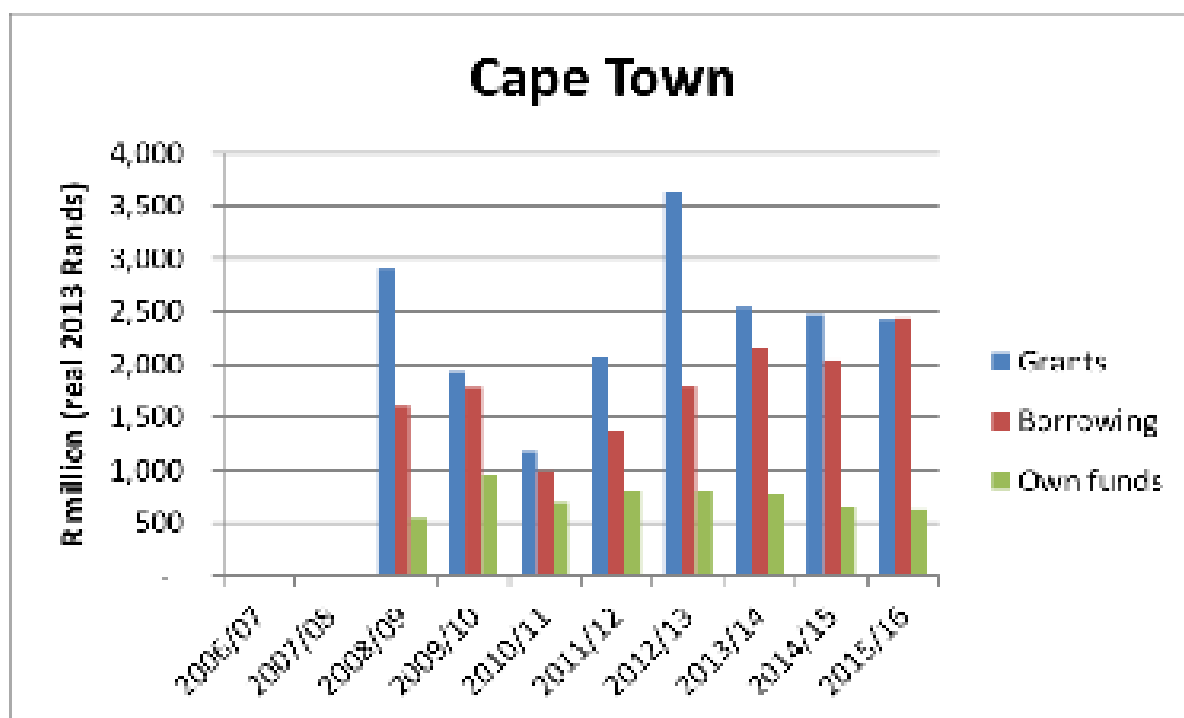


Figure 11: Cape Town capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

<sup>26</sup> Budget figures presented in the 2013/14 MTEF budgets.

<sup>27</sup> All metros are included in this analysis because the data was available from the National Treasury website, although detailed commentary can only be provided for the case study metros. akdown.

The capital funding mix for Cape Town indicates that borrowing increased significantly after the introduction of the USDG, while internal funding reduced slightly. This would seem to indicate either a neutral or positive impact of the USDG. However, Cape Town respondents indicated that borrowing was only undertaken in respect of revenue-generating infrastructure and is therefore unrelated to the USDG. It is notable that the Cape Town 2012 BEPP states that using the USDG to leverage other city funding for projects is a specific objective of the grant, and co-funding is also criteria against which USDG project applications are evaluated by the PRC. Interviews with officials confirmed that this was taking place, with the grant redirecting other city funding towards poor areas:

*‘At a macro-level, it also means that if we’re spending a billion Rand a year on USDG funding, probably with all the counter-funding, and I haven’t done the arithmetic, you’re probably looking at 20% of the other line department budgets being pushed into the same policy direction’ (Respondent M6).*

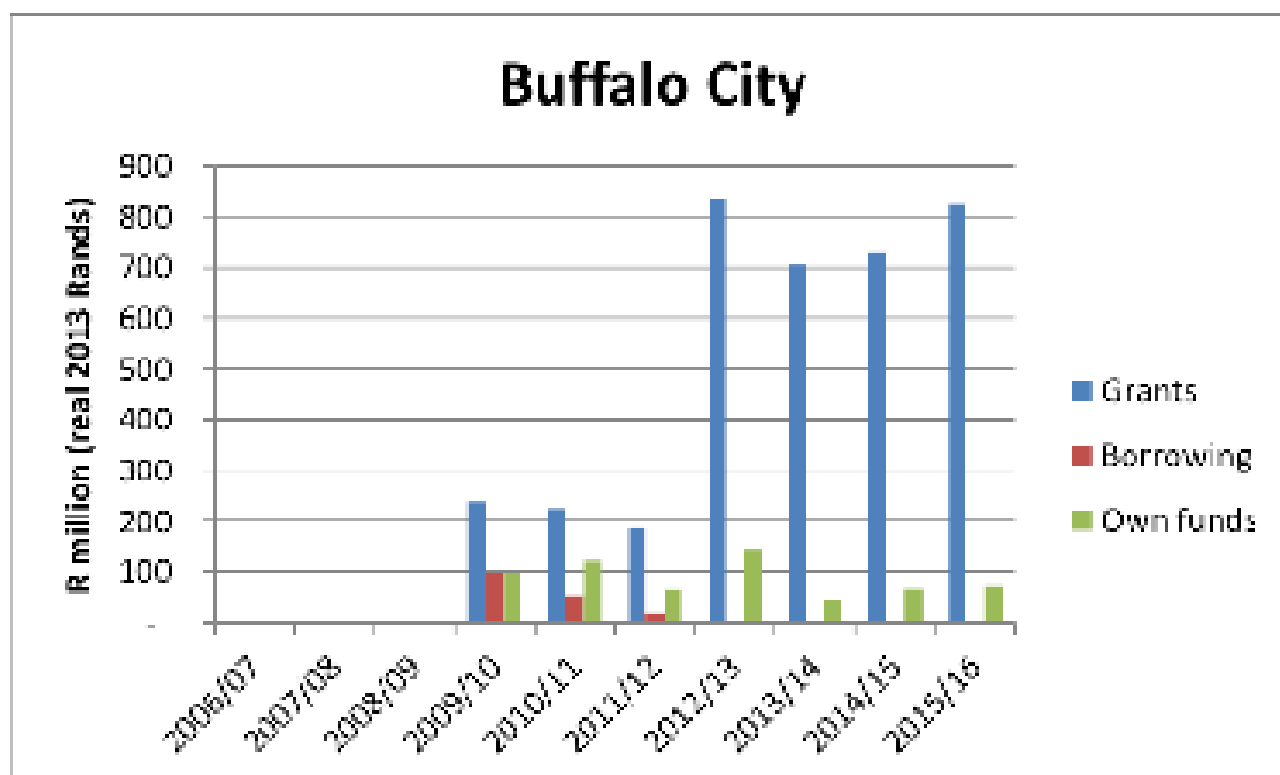


Figure 12: Buffalo City capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

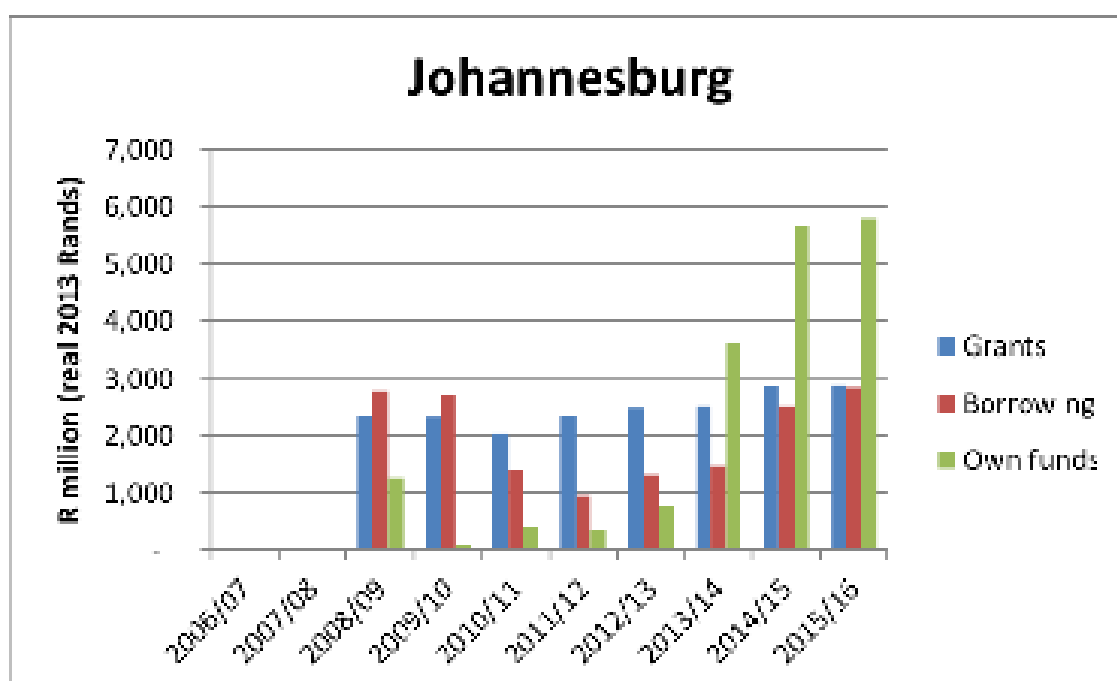
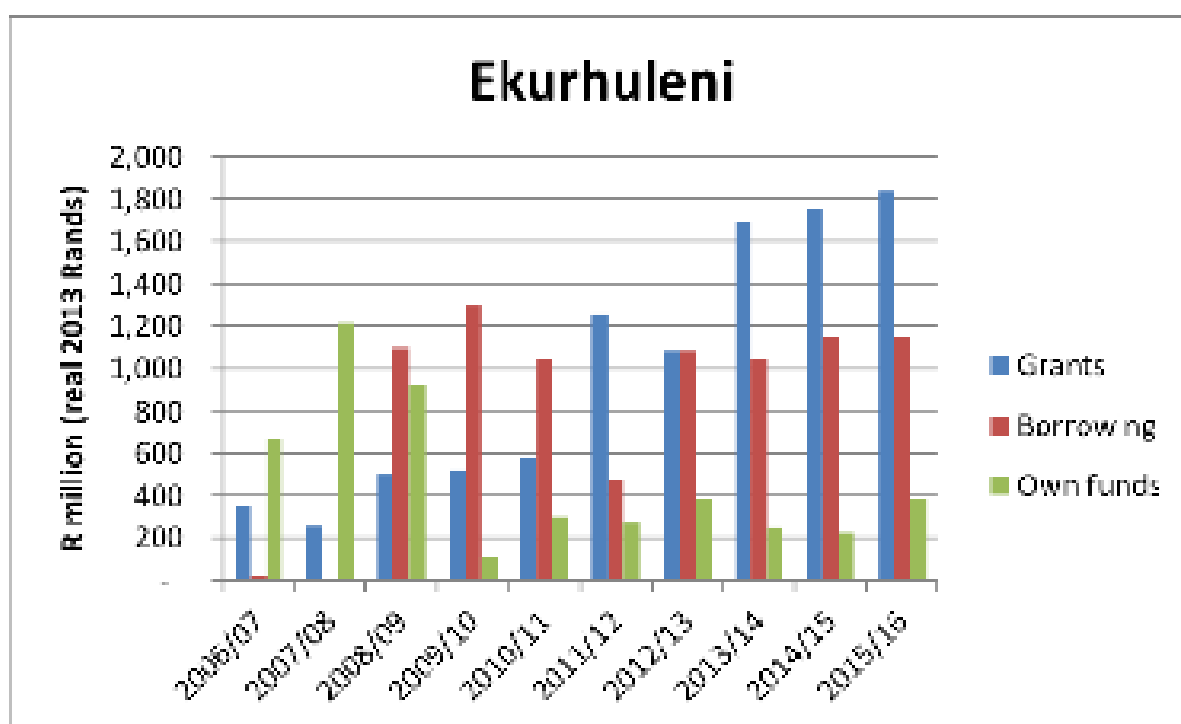


Figure 13: Johannesburg capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

Since the introduction of the USDG in Johannesburg, borrowing has increased consistently and internal funds have increased dramatically, which seems to indicate no displacement of funding by the USDG. As in the case of Cape Town, Johannesburg officials stated that the grant had redirected other city funding towards poor areas.

*‘The USDG has really changed the focus on how to do developments, number one, and secondly how to prioritise. It has forced cities on how to be synchronised. From a housing point of view it has given us more say over where to spend the money’* (Respondent M36).

This is significant in Johannesburg as only 20% of its 2013/14 capital budget is provided by the USDG, while 42% is from internal reserves.



**Figure 14: Ekurhuleni capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)**

The figure above shows that Ekurhuleni's borrowing has been consistently high since 2008/9 and the use of internal funds has been relatively constant since 2010/11. This would seem to indicate that the USDG has not displaced other funding, but has not necessarily geared in other funding. Ekurhuleni tends not to combine USDG finance with other sources of finance. Projects are identified specifically and wholly for USDG funding. A core view expressed by one respondent, and not disputed by other respondents, is that Ekurhuleni prioritises spending of the USDG and endeavours to spend the USDG first, before looking to other sources of finance.

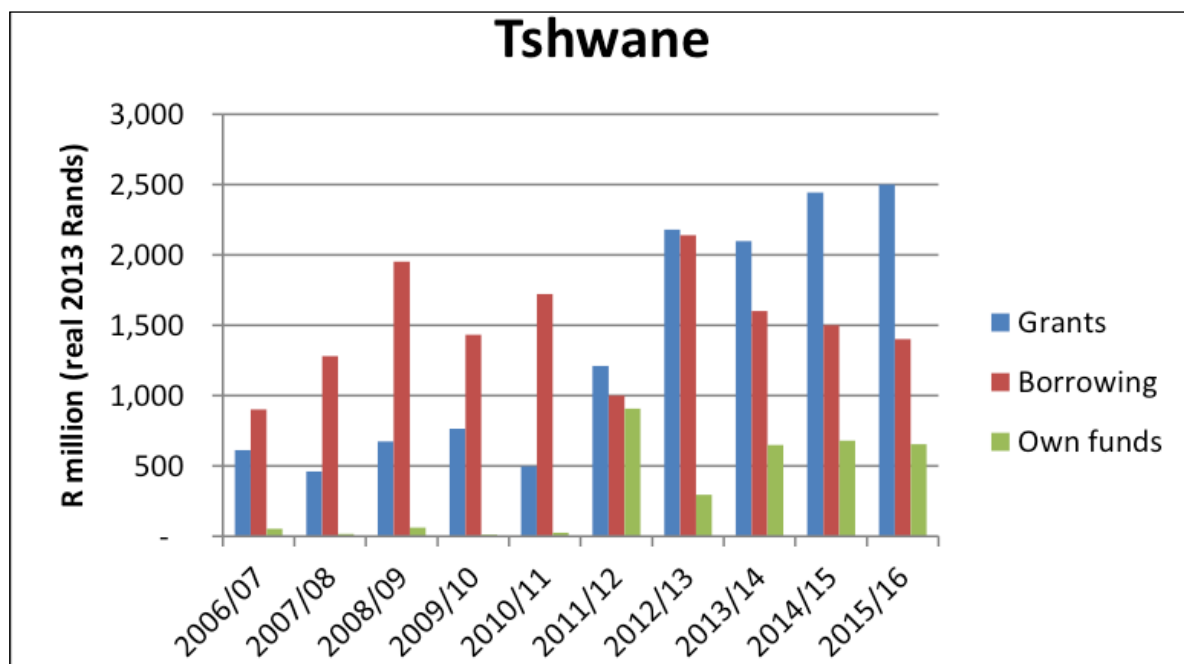
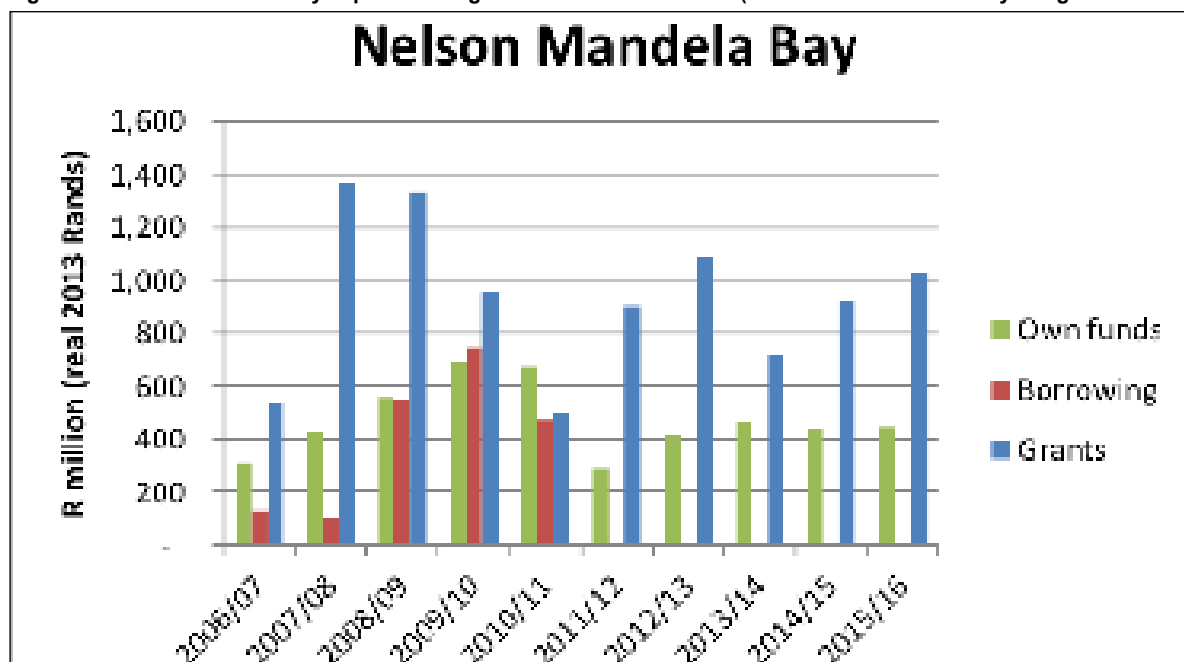


Figure 15: Tshwane capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

In 2011/12, when the USDG was introduced, borrowing decreased and internal funding increased from previous levels. However, the trend was reversed the following year. This seems to indicate that there are internal factors informing the financing strategy of Tshwane that are unrelated to the USDG.

Figure 16: Nelson Mandela Bay capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)



Nelson Mandela Bay illustrates the most dramatic change in capital funding mix after the introduction of the USDG in 2011/12. Borrowing reduced to zero in that year and internal funds reduced to less than half the previous value. This presents a strong likelihood that the USDG is displacing other funding in Nelson Mandela Bay.



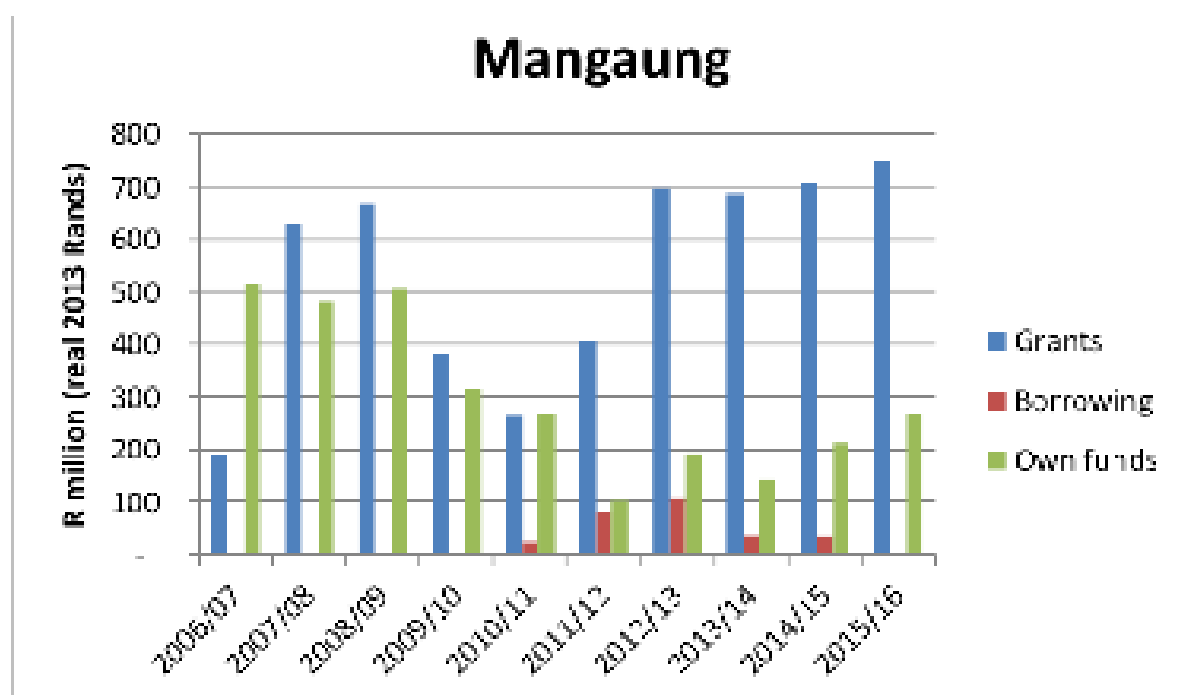


Figure 17: Mangaung capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

The figures for Mangaung indicate increased borrowing between 2010/11 and 2012/13. However, internal funding decreased dramatically in 2011/12, and has not returned to previous levels. This would seem to indicate that the USDG has displaced some internal funding in Mangaung.

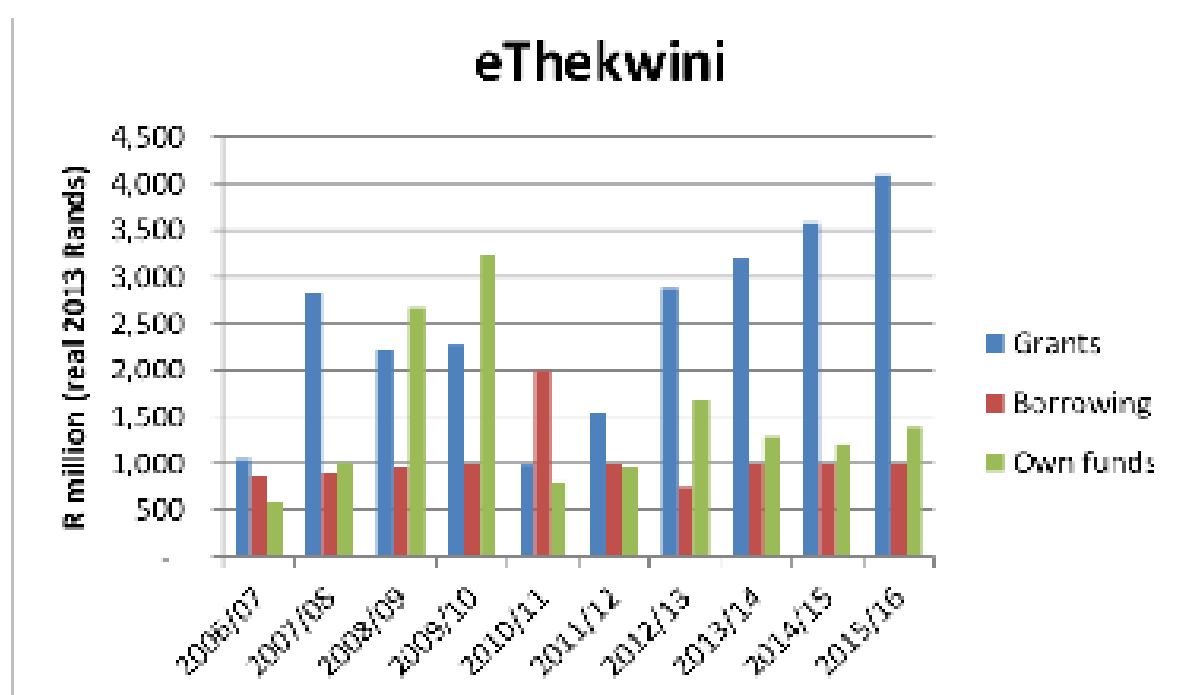


Figure 18: eThekweni capital funding mix – 2006/08 to 2015/16 (Source: National Treasury budget database)

eThekweni shows a consistent pattern of borrowing and the use of internal reserves. There is no indication that the USDG has geared additional funding.

In terms of the second mechanism for leveraging capital finance, that of attracting private sector investment, there were mixed results from the case study metros. Although private developers in Buffalo City had expressed a willingness to explore partnership opportunities, there are no Public-Private Partnerships in the metro and the USDG has not been used in this way. In Ekurhuleni there was insufficient evidence to determine whether USDG funds had been used in this way. In Cape Town, the first project involving the use of USDG in a private development is underway, but the developers reported that the process had not been easy. In Johannesburg the USDG is explicitly seen as a tool to leverage investment from private developers for mixed income developers (Respondent M43). However, the developer that was interviewed expressed great frustration at the use of the USDG in an integrated development, citing the lack of coordination of the USDG and other funding as a major constraint. At the validation workshop, a City of Johannesburg official noted that the grant has been pivotal in attracting private sector finance to human settlement developments, and cited the Diepsloot and South Hills projects as examples. Johannesburg has used the USDG on a number of these large-scale privately-implemented developments and is therefore implementing this aspect of the grant design.

In general, the USDG appears not to have achieved the leveraging of additional capital finance as put forward in the Theory of Change. On the contrary, it appears to have displaced other funding sources in the smaller metros; specifically in Mangaung, Nelson Mandela Bay and Buffalo City. A general finding is that the larger two case study metros applied more counter-funding and reported more influence by the USDG over other city funding than the smaller two metros. The USDG has only been used to complement private-sector funded projects to a limited extent and with limited success.

### **6.8 Grant expenditure**

Of the four metros sampled, Cape Town, Johannesburg and Ekurhuleni consistently spent more than 90% of their allocation in the first two financial years since the USDG was introduced. Buffalo City has clearly struggled to spend the grant, with expenditure of only 37%<sup>28</sup> in the first financial year, improving to 73%.

<sup>28</sup> 37% of the original allocation, but 42% of the adjustment budget.

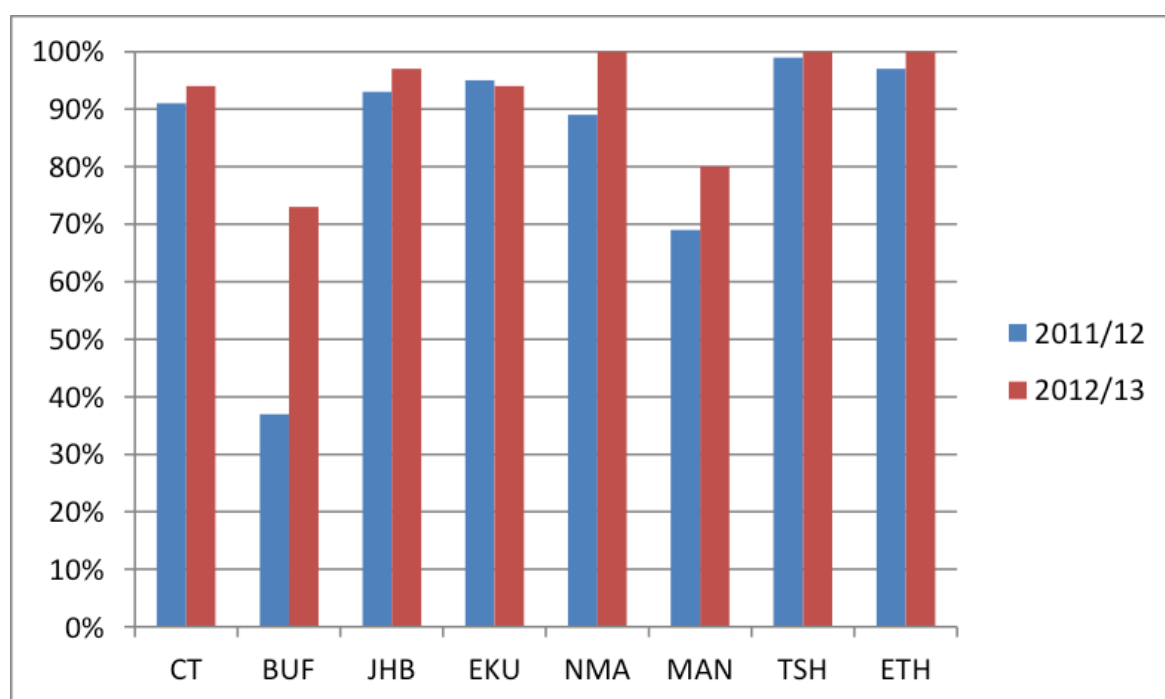


Figure 19: USDG expenditure as a percentage of allocation (Source: DHS USDG Performance reports)

Other than Ekurhuleni, all metros improved expenditure performance between the first and second year of the USDG's application. A national DHS official noted:

*"So if you look at how USDG has performed over the last year, they started slow, they struggled to spend in the first year, second year, but now...there is a positive indication that these guys are performing. There are two metros that are not doing ok these last three years, that are right now they are doing fairly well – very much ok – Mangaung and Buffalo City. Those two were always our 'problem children'. But right now I have visited both and I think they are doing amazing jobs."* (Respondent N16)

The DHS has taken the step to withhold funds due to lack of expenditure. An interviewee in Buffalo City noted that this action created much unnecessary tension, whereas a national interviewee believed that this action resulted in improved performance:

*"When we decided to withhold the funding, all of them started performing"*  
(Respondent N16)

The interview with Buffalo City officials and councillors revealed a range of reasons why the USDG expenditure has been so poor. These include: a culture of single-year and project-based budgeting making re-allocations and multi-year allocations difficult; MFMA procurement rules delaying the start of tenders; legal challenges to tenders; incompetence and corruption amongst officials; poor performance of service providers; and community protests. Municipal respondents believe that many of these issues have been addressed and internal progress reporting indicates that the 2013/14 expenditure will be much better than previous

years (Respondents M13, M15, M16, and M17).

However, a national stakeholder made the point that the problems with USDG expenditure are actually problems with overall capital expenditure, unrelated to the grant (Respondent N23). In fact, the USDG expenditure in metros has consistently been better than overall metro capital expenditure. This is certainly true in the case of Buffalo City, where the overall capital expenditure has historically been poor, and was worse than the USDG expenditure in 2011/12 and 2012/13, at 33% and 61% respectively.

One expenditure issue that was raised in the Western Cape focus group was the timing of the USDG expenditure. The metro spends a large portion of the USDG allocation in the fourth quarter, and the provincial officials cited cases of the metro claiming that all the funding was allocated, but in the last quarter USDG funds were suddenly made available to the province for their own projects (Respondent M56). The municipal officials claimed that the spending pattern was a result of the lags created by the procurement process. This issue of concentrated spending in the fourth quarter was confirmed by a national interviewee and the Ekurhuleni focus group. It is interesting to note that in Johannesburg the opposite accusation was made by two metro respondents – that the province applies a process of ‘fiscal dumping’ of the HSDG, allocating funds to projects late in the annual budget cycle in order to meet their expenditure targets. Ekurhuleni officials reported a marked improvement in smoothing out the timing of expenditure, largely through better planning and the beneficial role of the EPMO. In this regard it is noted that these changes in management arrangements were made in the national USDG Performance Report and subsequently adopted by the metro.

The findings indicate that the USDG expenditure is comparable to, if not better than, the overall capital budget. The problems experienced with expenditure rates, and timing of expenditure appear to be capacity issues within the municipality, supply chain management constraints, or both. While there is room for improvement, particularly in Buffalo City, the measures required for improvement are city management issues that are broader than the design and implementation of the USDG.

## **6.9 Spatial distribution of USDG projects**

The spatial mapping of USDG projects in Cape Town (Figure 20) illustrates that the spending is spatially concentrated in disadvantaged areas. The isolated pockets of peripheral spending relate to informal settlements. Some spending in more affluent areas relates to bulk infrastructure (e.g. a wastewater treatment works in Bellville) that has a wider area of impact. Location of projects is one of the criteria assessed in the USDG project application process and four respondents noted that the USDG and the BEPP development process have introduced a level of spatial coherence that was not evident with MIG or MIG (Cities).

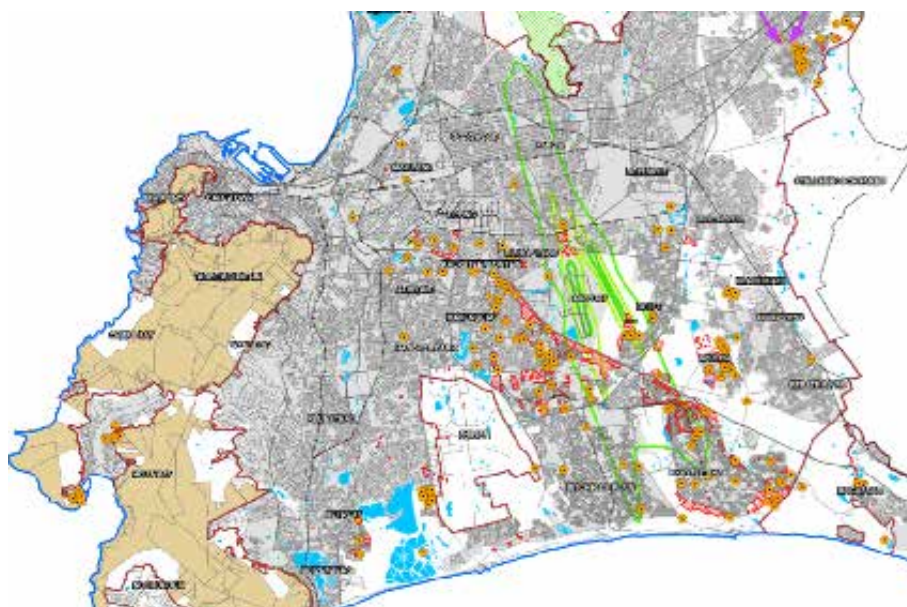


Figure 20: GIS map of approved USDG funded projects in Cape Town (Source: City of Cape Town Human Settlements Department)

The spatial allocation of projects in Buffalo City (Figure 21) illustrate the majority of projects in the established urban areas of East London, Mdantsane and King Williams Town, as well as a number of dispersed projects in the rural areas (mostly sanitation). Interviewees confirmed that USDG spending was fairly evenly distributed across the metro, partially a result of political pressure to spend the grant in each ward. At the validation workshop a private sector representative criticised the spending pattern as not being strategic, but rather, an ‘appeasement budget’. While the majority of projects are focused on disadvantaged areas, there are a number of projects (road upgrading, bulk sanitation, tourism facilities, etc.) that clearly benefit all residents of Buffalo City.

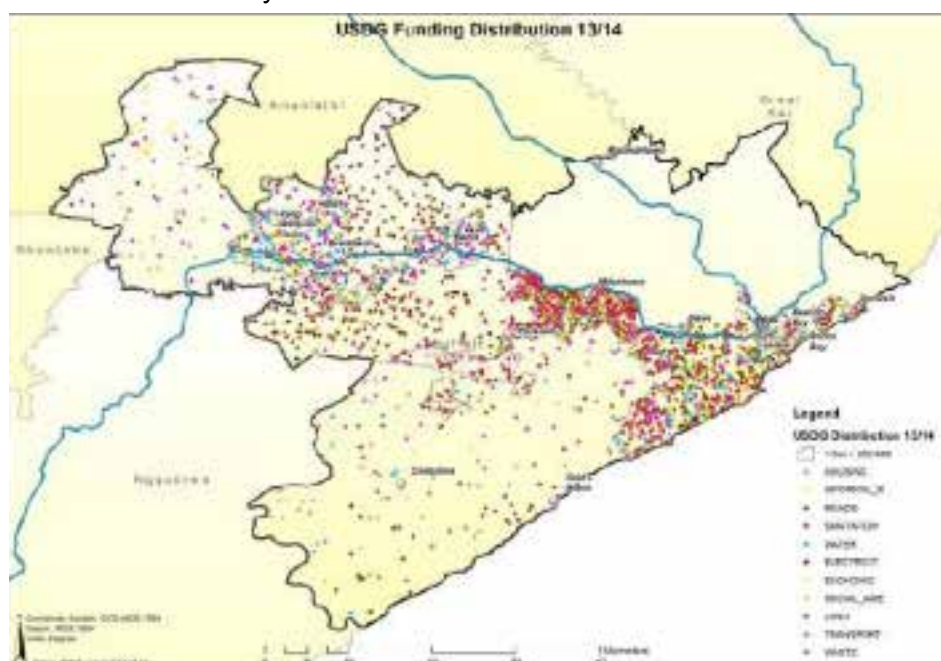


Figure 21: USDG funding distribution in Buffalo City for 2013/14 (Source: BCMM BEPP presentation 03 June 2013)

Johannesburg has considered spatial location in the prioritisation of its capital budget even before the USDG was introduced. The spatial location of USDG projects in relation to these CIPAs is shown in Figure 22. Although the City focuses USDG spending on Capital Improvement Priority Areas (CIPAs), which include both marginalised areas and development corridors, the majority of the projects, and 96% of the USDG budget, are in marginalised areas, with less in the inner city and transport corridors, as shown in Figure 23.

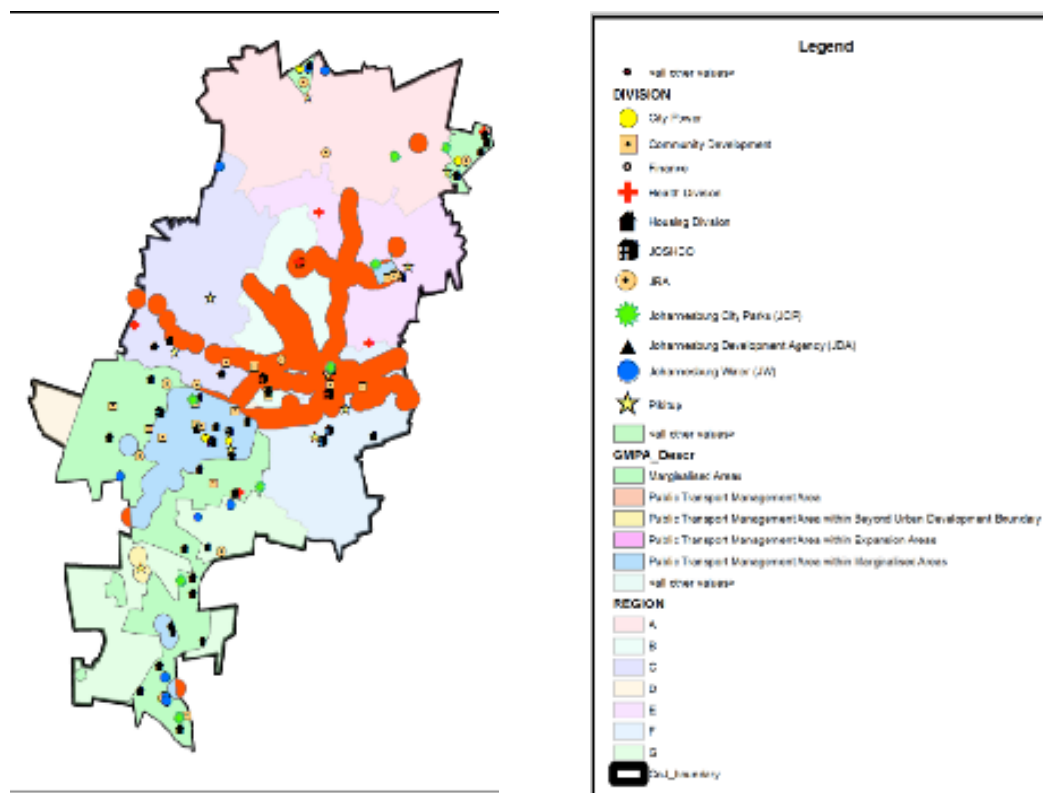


Figure 22: 2012/13 USDG projects in Johannesburg in relation to Capital Investment Priority Areas (Source: City of Johannesburg, 2013a)

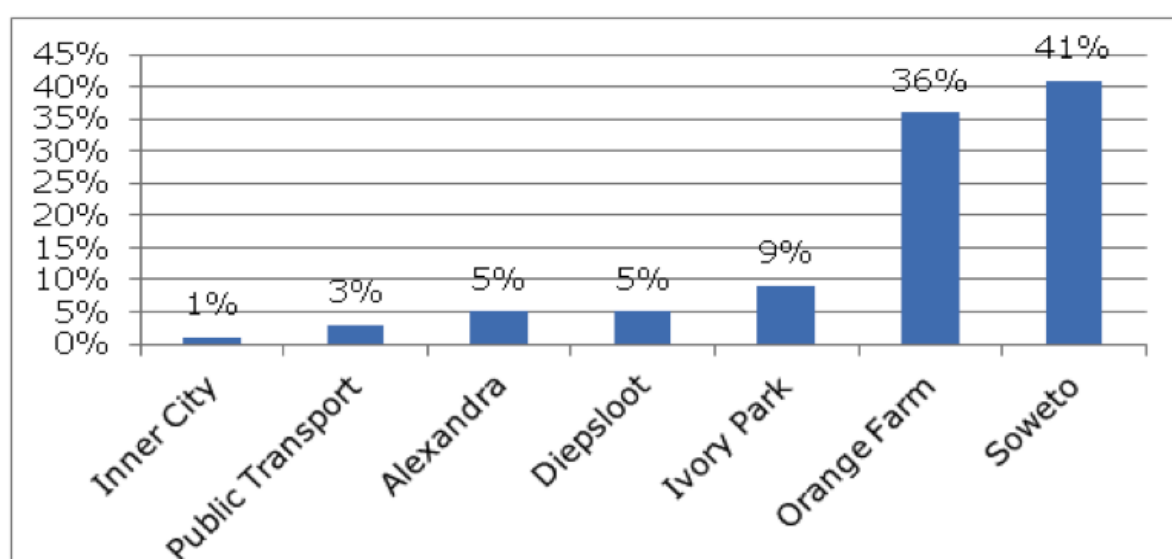


Figure 23: USDG budget per priority area in Johannesburg (2013/14) (Source: City of Johannesburg, 2013b: 81)



While the capital prioritisation process does prioritise specific areas, it is not detailed enough to allow for precinct-level alignment of projects, and the private sector developer was highly critical of the municipality and provinces ability to coordinate funding, specifically the HSDG and USDG, in space (Respondent M43). In addition, the need to complete older infrastructure projects compromises spatial transformation objectives.

While the spatial location of the USDG projects in Ekurhuleni broadly aligns with the spatial priorities identified in the SDF (Figure 24), Ekurhuleni reports that an average allocation of around 50% of funds were allocated to ‘undeveloped’ wards, with a significant increase of 10% to this category between 2012/13 and 2013/14 (EMM, 2013). Two metro respondents noted that the spatial targeting of the grant could be improved to focus on the inner city instead of continued investment on the periphery. However, at the validation workshop the tension between the short term service delivery needs of the poor on the periphery and the longer term objective of creating a more efficient city form was emphasised. In addition, the ‘reactive approach’ to project selection described previously means that the location of the USDG projects is determined by default, and not necessarily because of strategic motivations.

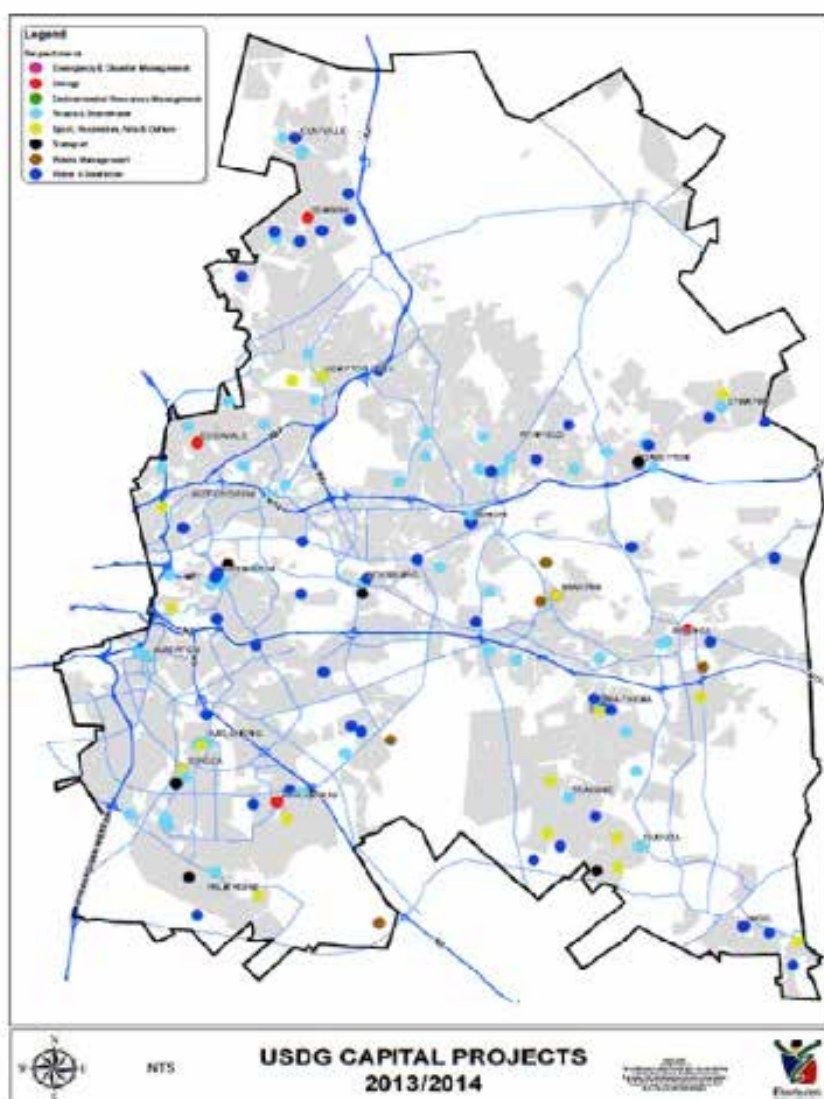


Figure 24: Map of current USDG projects in Ekurhuleni (Source: EMM, 2013)



A key finding from the metro case studies is that the USDG focus on disadvantaged areas means that existing spatial patterns tend to be entrenched, rather than being transformed. Very few projects in the metro project lists could be categorised as ‘catalytic’ or ‘transformative’, as they are largely aimed at extending basic infrastructure and social services to under-served areas. The one aspect of the USDG design that could be spatially transformative is the ability to purchase land in strategic locations for housing, but the use of the grant in this way has been limited in the metros surveyed. There is therefore a tension inherent in the Theory of Change, that plays out in the implementation, between the output of well-located land (to achieve the spatial efficiency objective), and the output of households with access to basic services.

### 6.10 USDG outputs: products and services delivered

Despite the performance matrix provided in the draft USDG Policy Framework and the commonly formulated indicators in DORA, metros have elected to report on outputs based on their own indicator formulations, which makes comparison difficult. The outputs provided here are taken from USDG metro reports and presented as reported, but structured around outputs related to the USDG.

#### *Housing opportunities*

Table 10: Housing related outputs contributed to by the USDG by metro

Housing outputs		2011/2012		2012/2013	
		Target	Actual	Target	Actual
<b>CoCT</b>	Number of housing opportunities provided in terms of serviced sites	3000	5072	6071	6391
	Number of housing opportunities provided in terms of top structures			3833	4300
	Number of housing opportunities provided in terms of Other provision (Re-blocking, CRU, backyards)			1224	1725
<b>BCMM</b>	Number of housing opportunities provided (top structures)	680	833	709	432
	Number of households allocated affordable rental housing units	230	344	160	528
<b>CoJ</b>	Number of households upgraded in informal settlements	1500	2542	12000	4055
<b>EMM</b>	No housing outputs reported	-	-	-	-

The above provides a breakdown of what housing related outputs the USDG has directly, indirectly or as part of the overall capital budget contributed to within each metro. The definition of household upgrades is particularly important to ensure that upgrades are not double-counted in terms of basic services.

#### *Water services*

The following table provides a breakdown of the water services distributed across each of the metros. The provision of water and sanitation was one of the priority basic service issues over the first two years of USDG and it is one of the outputs that was fairly consistently and evenly reported upon across all metros.

**Table 11: Water services outputs contributed to by the USDG by metro**

Water services		2011/2012		2012/2013	
		Target	Actual	Target	Actual
<b>CoCT</b>	Number of water service points provided	120	277	1000	599
<b>BCMM</b>	Number of water service points installed for informal settlement dwellers within a 200m radius	20	20	30	97
	Number of additional households (RDP) provided with water connections	3401	595	1105	1543
<b>CoJ</b>	Number of households provided with basic water services	-	-	1100	3827
<b>EMM</b>	Number of households provided with water services	6038	13235	7872	5216
<b>CoJ</b>	Number of households upgraded in informal settlements	1500	2542	12000	4055

There is a clear desire from the portfolio committee that the USDG fund water and sanitation bulk infrastructure. The above provides a clear indication that this is something that is consistently occurring, albeit with some underperformance and differing in the nature of provision (public service point vs. household connection) at different metros.

### **Sanitation services**

The table below provides a breakdown of the sanitation outputs reported on in relation to the USDG across each of the four metros.

**Table 12: Sanitation outputs contributed to by the USDG by metro**

Sanitation services		2011/2012		2012/2013	
		Target	Actual	Target	Actual
<b>CoCT</b>	Number of sanitation service points (toilets)	1000	3354	3000	8035
<b>BCMM</b>	Number of sanitation service points (toilets) installed for informal settlement dwellers	5500	4154	150	346
	Number of additional households (RDP) provided with sewer connections	-	-	1850	77
<b>CoJ</b>	Number of households provided with sanitation services	-	-	1100	2879
	Number of toilet stands constructed	-	-	1290	1290
	Number of Ventilation Improve Pit Latrines installed	350	584	-	-
<b>EMM</b>	Number of households provided with sanitation services	6038	13235	7872	5216

The above table indicates that metro contributions to sanitation provision can be differentiated by household sewer connections, public service point toilets and Ventilation Improved Pit Latrines, most of which have performed well against the overall targeted output over the past two years. However, it should be noted that the quality of sanitation with each of the three types of sanitation is highly variable and distinctions are important.

### **Electricity services**

The following table provides a breakdown of electricity connections funded through the USDG across each of the four metros.

Table 13: Electricity outputs contributed to by the USDG by metro

Sanitation services		2011/2012		2012/2013	
		Target	Actual	Target	Actual
	Target	Actual	Target	Actual	8035
<b>CoCT</b>	Number of electricity subsidised connections installed	650	1050	2200	918
<b>BCMM</b>	Number of additional households (RDP) provided with electricity connections	315	342	1500	1473
<b>CoJ</b>	Number of additional households provided with electricity connections	-	0	3200	1532
<b>EMM</b>	Number of additional households provided with electricity connections	10000	10048	8000	916

The table above demonstrates that with the exception of Johannesburg in the first year of the USDG's introduction, household electricity connections have been delivered across all of the metros. Again, performance has been uneven but it is clear that these connections are more or less uniformly measured in terms of household connections, as opposed to the other outputs which are less consistently measured.

### **Refuse services**

The following table provides a breakdown of refuse services provided using the USDG funds across each of the four metros.

Table 14: Refuse services contributed to by the USDG by metro

Refuse services		2011/2012		2012/2013	
		Target	Actual	Target	Actual
<b>CoCT</b>	Number of informal settlements receiving door-to-door refuse collection and area cleaning services	-	-	204	204
<b>BCMM</b>	Number of informal settlements with access to refuse removal	1050	378	2000	900
<b>CoJ</b>	No refuse outputs reported	-	-	-	-
<b>EMM</b>	No refuse outputs reported	-	-	-	-

The following table demonstrates that refuse removal is one of the basic services that is least funded by the USDG in terms of end users. Other more substantial investments around bulk infrastructure provision for refuse are noted by the metros, but the implications of this for end-users are not indicated. As a result, refuse service provision is uneven and accounted for at the "settlement" level rather than on a household basis in relation to the targeted beneficiaries of the USDG.

### **Work opportunities**

The following table provides a breakdown of work opportunities reported on by metro in relation to the USDG.

Table 15: Work opportunities contributed to by the USDG by metro

<b>Job opportunities</b>		<b>2011/2012</b>		<b>2012/2013</b>	
		<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>
<b>CoCT</b>	Number of Expanded Public Works Programmes opportunities created	11000	22500	35000	35556
<b>BCMM</b>	Number of jobs created using the Expanded Public Works Programme guidelines and other municipal programmes	364092	116063	-	-
<b>CoJ</b>	Number of jobs created using the Expanded Public Works Programme guidelines and other municipal programmes	60000	54228	35000	36588
<b>EMM</b>	No job opportunities reported	-	-	-	-

From the above it is clear that firstly, there are significantly variable labour absorption capacities across the metros and that these are reflective of the entire capital investment programme. It is notable that both Cape Town and Johannesburg have comparable annual targets for the most recent financial year with actual performance just surpassing this target in each, while the Buffalo City targets seem out of proportion in comparison to the other larger metros.

### ***Land, community facilities and other outputs***

The above presented tables are but a small sample of the actual outputs to which the USDG has funded across the metros. Notable by their absence here are land acquisitions, bulk water and sanitation infrastructural investments, community facilities and others. All of these outputs were found to be delivered to some extent across each of the metros but on a largely uneven, sometimes unquantified basis, and often as the result of a delayed reporting process. Their omission here is on account of the challenge of comparability across and between the different contexts, the length of time it takes to complete these types of projects, as well as the nature of their location and priority within the human settlements value chain.

The key finding in relation to outputs is that the outputs produced and reported on by metros are highly variable, and only a small number of outputs are reported upon consistently. The inconsistencies between the indicators reported upon and the format of the data makes any comparison between metros impossible. There are no discernable trends in output performance, with under- and over-achievement of targets occurring in a random pattern from year to year and between metros for the different outputs.

### **6.11 The USDG and the housing accreditation process**

Although the function of housing is currently in the process of being devolved to metropolitan municipalities, the current reality is that the shared functions and competencies between the different spheres place certain expectations on the USDG in terms of how local, provincial

and national government will cooperate. The national Department of Human Settlements, in its Strategic Plan for 2013/14, indicated that the biggest challenge posed by USDG to date has been a lack of coordination and alignment within metropolitan municipalities which has caused poor service delivery coordination (DHS, 2013c).

The capacity assessments of the case study metros, undertaken between 2009 and 2011, all recommended Level 2 accreditation (CCAP, undated; CCAP, 2012, CCAP, 2010a, CCAP, 2010b). By March 2014, Level 2 assignment had been granted to three of the four case study metros (the exception being Buffalo City), while none of the metros had been assigned the housing function, as had been intended (DHS, 2014). This missing of deadlines for accreditation and assignment has created understandable uncertainty and tension. It was a consistent finding across all metros that they understand the USDG to be associated with the devolution of responsibility for the housing function, and are frustrated that this was not yet complete. While the majority of metro respondents felt prepared to manage the HSDG in addition to the USDG and believed that this would accelerate housing delivery, there were isolated respondents in two of the metros who voiced apprehension around their municipalities' capacity to take on this additional role.

It was also a consistent finding that the three provinces surveyed were resistant to the accreditation and assignment process, most often citing lack of municipal capacity as the reason. Issues of capacity are discussed further in section 6.13. This was particularly true in Buffalo City, where there appears to be a case to support the province's claims. One metro official suggested that this resistance was a result of provinces not wanting to lose the power that is vested in the housing function and associated resources. The CCAP report for Johannesburg (CCAP, 2010b:9) notes that "provincial support for accreditation post-2008 has been limited". A respondent at a validation workshop noted that the performance of metros under Level 2 accreditation is not currently being monitored or enforced by the provinces, so how does one assess whether they have the capacity, and how will we know this if the function is assigned? This point raises the issue of the continued responsibilities that provinces will have to account for performance (i.e. the primary mandate to provide shelter) under assignment.

Officials in Buffalo City and in Cape Town suggested that the USDG and HSDG should be combined into a single grant, administered by the metros, to aid with project funding coordination. It is interesting that an interviewee at the Eastern Cape Province also suggested combining the two grants, but instead being administered by the Province.

What is clear from the research is that the split in responsibilities for the planning and administration of the USDG and the HSDG is impeding service delivery. Metro officials are positive that accreditation and assignment will streamline processes and improve efficiency, but prov-

inces remain sceptical. This has resulted in a deadlock that creates tension and discourages cooperation. One of the defining features of the USDG is to support the devolution of built environment responsibilities to cities, and the accreditation process is the key mechanism for it to do this. The delays in accrediting municipalities and assigning the housing function have prevented this design feature of the grant from being realised.

### **6.12 Interaction with the Cities Support Programme**

Few of the metro respondents were aware of the Cities Support Programme or how it might relate to the USDG. Those metro officials that were engaging with the CSP commented on the technical support and the proposed outcome indicators, rather than its relationship to the USDG. One respondent in Johannesburg went as far as to say that 'Coordination between USDG and CSP is missing' (Respondent M33). A national stakeholder suggested that this could be related to the timing of the interviews, which took place at the beginning of a process of managed engagement with the metros, and that awareness of the programme has increased substantially since then (Respondent N1). This perspective was confirmed at both the Buffalo City and Cape Town validation workshops.

One national respondent believed that problems arose from exactly the processes that should have complemented the USDG: firstly from the CSP because of the bewildering guidelines and requirements; and secondly from the accreditation process because of delays, confusion and mixed messages (Respondent N22). However, another national respondent felt that the CSP implicitly supports the city efficiency objective of the USDG, but at the expense of the pro-poor objective (Respondent N17). However, the main finding on this subject remains that there was limited to no interaction between the USDG and the CSP at the time of the evaluation.

### **6.13 Institutional roles, challenges and gaps**

#### ***Roles***

The first input in the Theory of Change is an integrated, holistic, and credible plan. In addition, a key assumption is that all the various grant outputs will integrate under acceptable social conditions. These two aspects of the Theory of Change imply that considerable inter-departmental coordination between housing, engineering, finance and spatial planning disciplines is required. In addition, the shift of the focus of the grant, in the transition from MIG (Cities) to USDG, implies a greater role for metro human settlements departments.

In the City of Cape Town this assumption was found to be true, with metro respondents noting that inter-departmental cooperation around planning has improved as a result of the grant. In addition, the grant has resulted in an organisational change in the establishment of the PRC, with a concomitant shift in the role and power of the human settlements department, which has been placed in a central coordinating role through the grant. However, it is notable that the administration of the MIG (Cities) grant also fell under the Human Settlements Executive Directorate.

In Johannesburg the transition from MIG to USDG has influenced a shift in responsibility for spending on human settlements with the Department of Housing taking increasing responsibility. Evidence suggests that this shift has not been particularly problematic and is generally positively perceived within the city, even though the Department of Housing does not coordinate all human settlements activity in City. A shift in responsibility for the management of capital projects has also taken place from Development Planning to the Budget Office – a move that was intended to improve performance.

In Ekurhuleni, the EPMO plays a central and growing role in the administration of the grant. The role of the City Planning Department has also grown, as it is responsible for the compilation of the BEPP. There are some frustrations among the Department of Human Settlements concerning a perceived loss of control over the implementation of what are generally understood to be 'human settlements' projects.

One national respondent implied that the departmental control of the grant or the relative power between departments may influence the way in which the USDG was spent by each metro:

*"Human settlements departments have not competed well with the engineering departments, which have been able to formulate compelling arguments for use of the USDG for projects that promote city efficiency". (Respondent N17).*

This perspective was reiterated by another respondent:

*"Engineers may have disproportionate influence. Engineers are focused and when they come to the table, they know what they want. They always come prepared and they will go for it and fight for it. Maybe they negotiate better than the other departments." (Respondent N7)*

In terms of inter-governmental roles and responsibilities, the grant was designed to support increased local government responsibility for built environment functions. This was found to have been the case, with metros having a greater amount of control over a larger funding pool, and a large degree of autonomy in determining how the grant is spent. A national respondent noted that the USDG has expedited thinking on roles and responsibilities within metros and has reinforced the argument for accreditation (Respondent N17).

However, this increase in the role of the metros has coincided with a decrease in the role of the provincial departments. In section 6.4 it has already been established that the provinces are not playing the role specified in the draft policy framework, and during the focus groups there were requests from all three provinces that their role in relation to the USDG be clarified. An external respondent (Respondent N22) believed that the USDG threatened both the



provincial and National departments of Human Settlements because of their decreasing role in relation to the metros.

There is also confusion at the metro level around the relative roles of the national DHS and National Treasury. While metro officials understand that DHS is the transferring department and that metros are accountable to DHS, the evidently strong involvement of National Treasury in the process has been confusing:

*“I do not know the motive of the allocation to Human Settlements as the transferring department, because each time there are problems, then National Treasury will rise and say: ‘By the way, you are not allowed to do 1,2,3...’”* (Respondent M15)

This comment indicates that National Treasury is taking a more active role in the implementation of the grant than is envisaged in section 6.2 of the 13th draft policy framework, which limits their role to participation in the BEPP panel and sharing financial results with the DHS.

### **Challenges**

Other than particular capacity gaps that were experienced in each of the case study metros, and are reported on in the next section, difficulties in coordination of project implementation between multiple departments was reported as a challenge in Buffalo City and Johannesburg, and is confirmed in the CCAP (2010b) report for Johannesburg.

The MFMA and Supply Chain Management (SCM) regulations were also frequently mentioned as institutional challenges. These complaints have two dimensions. Firstly, the MFMA regulations were cited as the reason that spending had to be concentrated in the latter part of the year, because procurement could only proceed on the basis of an approved budget. Secondly, internal municipal SCM processes were seen by metro officials to be delaying the implementation of projects, resulting in the under-spending of budgets. Both of these issues can be managed through better internal systems and indicate the need for municipalities to provide increased and strengthened human resources and financial management systems in order to facilitate the implementation of the USDG

In Buffalo City a particular institutional challenge existed in the delay in finalising the organogram, and hence the appointment of senior management staff. While this was cited as a contributing factor to the poor grant expenditure, it is not related to the introduction of the USDG. One interesting impact of the grant, however, was that National Treasury required the appointment of a permanent CFO as a condition of the grant, which was expedited as a result, while all the other senior management positions remained vacant.

The challenges of intergovernmental planning alignment have been dealt with under section 6.4.

## Gaps

A critical assumption in the Theory of Change is that the metropolitan municipalities possess the management capacity in order to effectively plan, administer, implement, track and report on the suite of projects and initiatives necessary to advance the objectives of the USDG.

A national respondent (Respondent N22) cited the biggest institutional gap as the capability of metros to initiate and run 'huge projects'. The respondent believed that In-house teams in the metros are competent but small, and too dependent on outsourcing of project management, which leads to perverse outcomes and inefficiencies. Respondent N17 confirmed that the biggest need was 'generalist' project managers in metros.

Certainly, in Cape Town the lack of sufficient skilled project managers to implement projects was noted as a capacity gap, but this is partially mitigated through the use of the 'OPSCAP' portion of the grant to employ project managers. This was also the case in Buffalo City where the EPMD was established as a relatively direct result of the grant, using the operating 'top slice' of the USDG, and by all accounts has helped to build and support municipal technical capacity. However, metro respondents consistently reported that the EPMD was an interim measure to improve capital spending, and the substantial capacity still had to be built in the line departments. The lack of technical expertise, and qualified engineers in particular, was described as a 'crisis' by internal and external respondents. Capacity in the supply chain management and housing departments remains a problem. The lack of technical expertise, specifically engineers, was also raised in Johannesburg and prompted the establishment of the Engineering Centre of Excellence, focusing on mentorship of internal staff and oversight of consultants.

One useful source of relatively objective data in assessing the capacity of metros is the reports compiled by the independent Capacity and Compliance Assessment Panel (CCAP) as part of the housing accreditation process. While these reports looked at capacity from the perspective of administering the housing programme, there are sufficient commonalities with the USDG process to justify using the assessments as a proxy measure. In summary, and in relation to capacity, the reports found the following:

Cape Town (CCAP, undated): The capacity assessment, conducted in 2009, found that the City of Cape Town had the existing capacity, or had planned for it, to perform the housing function. Although the assessment focused on the Housing Directorate, it concluded that the municipality had the key technical skills in place across a range of disciplines, with a plan to incrementally increase this if accreditation was granted.

Buffalo City: (CCAP, 2012): The assessment report noted the unstable institutional structure with multiple senior officials in acting positions. The challenges in project management

and applying its supply chain management policies, identified in 2009, had not been addressed by 2011. The report notes that if an additional five project managers are appointed, the municipality could undertake Level 2 housing functions. There is also no monitoring and evaluation system and no tool to measure, record and report on progress with programme and project implementation. The findings of the CCAP's 2009 assessment that the municipality has limited capacity for providing and funding bulk infrastructure were not adequately addressed by 2011. The assessment also found that there was poor management of, and limited compliance with, the Municipality's SCM Policy. The high turnover in technical staff was confirmed. The financial plan to address the audit disclaimer was noted as a positive development. Despite all the above findings, it is somewhat surprising that the panel recommended that the municipality be accredited for Level 2, albeit with a number of conditions.

Ekurhuleni (CCAP, 2010a): While there was inadequate project management capacity at the time, it was noted that this would be enhanced through the EPMO. Financial management capacity was deemed to be adequate. The panel concluded by recommending Level 2 accreditation, with certain conditions.

Johannesburg: (CCAP, 2010b): The report noted some institutional instability at senior management level. There was consistent performance measurement and reporting. The report provides evidence of planning and financial management capacity, but did note some serious financial viability issues at the time. Although there were a number of unfilled posts, there was a clear plan in the organogram to build capacity once Level 2 accreditation had been granted. The panel noted concern over the sizeable number of vacancies within the housing programme implementation unit, where only 12 certified project managers had been appointed. The panel recommended Level 2 accreditation, but with the condition that certain capacity-building activity takes place to fill the identified skills gaps.

#### **6.14 Monitoring framework**

##### **Evolution of the monitoring framework**

The approach to monitoring the USDG is informed by both the national shift to an Outcomes Based Approach, and the results-based approach taken by MIG (Cities). Over the course of the USDG's implementation there has been considerable revision to the departmental monitoring frameworks, both in structure and scope. One of the key distinctions here is between the draft USDG Policy Framework and the USDG grant framework included in DORA. The following table provides an indication of how the monitoring framework has been revised/changed between DORA and the USDG Policy Framework from 2011-2013:

Table 14: Refuse services contributed to by the USDG by metro

<b>Monitoring framework components</b>	<b>DORA Feb 2011</b>	<b>USDG policy v8, Oct 2011</b>	<b>USDG policy v13, Oct 2012</b>	<b>DORA Feb 2013</b>
Impact <sup>29</sup> and Outcomes identified	1 impact statement and 4 supporting outcomes	1 impact statement and 1 outcome statement	1 impact statement and 1 outcome statement	1 impact statement and 9 supporting outcomes
Outcome indicators	4 outcome indicators	None	None	None (outcomes not in measurable terms)
Outputs identified	19 outputs identified	5 outputs identified and applied in performance matrix	4 summary outputs, 9 outputs identified in performance matrix	7 outputs identified
Output indicators	19 outputs formulated as indicator measures	51 indicators listed in performance matrix	45 indicators listed in the performance matrix	7 output indicators
Financial measures	1 financial indicator included under outputs	1 financial output, 11 financial indicators	0 financial outputs and measures	0 financial outputs and measures, but two financial measures listed indirectly
Total indicators (incl. implicit)	23 indicator measures	51 indicator measures	45 indicator measures	10 indicator measures

The table above illustrates a lack of coherence between the various policy frameworks. In the DORA grant frameworks there is an overarching goal, supporting outcomes and comprising outputs, as well as a more select set of output measures, whereas in the two draft USDG policy frameworks produced by DHS there is an emphasis on tracking a comprehensive selection of output measures that do not necessarily align with the DORA output measures.

The reporting that is required of, and undertaken by, metros can be divided into financial and non-financial reporting.

### **Financial reporting**

Metros are required to report expenditure in accordance with the requirements of section 71 of the MFMA (Section 71 reports) on a monthly basis. These reports cover the entire municipal budget and report expenditure by vote, as well as expenditure against budget for each allocation. In general, metros reported that the financial reporting aligned with existing systems and was not problematic.

Progress on capital spending was reportedly monitored constantly in Buffalo City and Ekurhuleni. As these are two metros that have experienced difficulties in spending their USDG budgets to date, this is evidence that the close monitoring of this indicator at national level has resulted in action at the municipal level prompted by remedial issues raised in the 2012 Performance Evaluation Report of the national Department of Human Settlements (DHS, 2012c).

<sup>29</sup> Impact is taken here to be equivalent to a strategic goal, whereas an outcome is considered subordinate to the impact of goal.

### **Non-financial reporting**

In terms of the DORA grant framework, municipalities were required to report monthly non-financial performance against their total capital budgets in the Section 71 reports. The DORA grant frameworks also required that performance targets be set in the BEPP according to performance indicators specified in a performance matrix laid out in the draft policy framework. The 8th and 13th drafts of the policy framework (in section 9.2b)) clarify that the non-financial indicators that are reported on by metros need to be drawn from the list of generic indicators included in the BEP Performance Matrix. The indicators were also allowed to be adapted for specific municipalities. This means that the municipalities were not required to report on the full list of indicators, and these need not be consistently defined. This allows some flexibility to municipalities as to how they report non-financial information. The indicators were to be incorporated into the municipal SDBIP and reported on a quarterly basis.

A new template was developed by the Grants Management Directorate of DHS with National Treasury in 2013 to ensure more standardized reporting of output performance indicators expected to be included in the SDBIP. However, there were still no indicator protocols provided for the approximately 50 output level indicators.

In addition to the legislated reporting requirements, the need for specific project level reporting arose out of a concern from the national DHS that municipalities were not spending the USDG on the right things.

*“Ms Matlatsi said that DHS had agreed that there was a need for a detailed framework that could be used for reporting on projects. A template had been developed and shared with most municipalities and they had to indicate where the projects were, progress and variations.”* Minutes of the Human Settlements Portfolio Committee Meeting held on 14 September 2012<sup>30</sup>

A national respondent clarified that initially the DHS asked for detailed business plans for each project, but this was met with resistance from the metros and was reduced to the performance matrix in the BEPP (Respondent N9). However, metro respondents in Buffalo City and Cape Town provided the researchers with project level reports that were being submitted to DHS. It is not clear whether these reports were being submitted by all metros.

Cities reported considerable frustration with the requirements for reporting. In all case study metros, respondents indicated that the reporting requirements were onerous, and seemed

<sup>30</sup> Available at: <http://pmg.org.za/report/20120914-ministerial-sanitation-task-team-report-and-update-recovery-plan-usdg>. Accessed: 10 May 2014.

to be being done simply for compliance, rather than any strategic use. Municipal compliance with reporting requirements was confirmed by a national respondent:

*“Cities are masters of compliance, and considering that they running with multi-billion rand budgets. 85% they’ve been compliant, both in terms of submission of plans and subsequent reporting.”* (Respondent N9)

One metro respondent believe the BEPP Performance Matrix was overly complex, and includes inappropriate indicators (Respondent M19), while another believed that the indicators did not capture the concept of spatial efficiency and built environment (Respondent M33).

### **Provincial oversight and reporting**

Provincial respondents claimed that they were being bypassed in the process of reporting on USDG. However, this was contradicted in the case of Gauteng, where officials from both Johannesburg and Ekurhuleni claimed that they sent quarterly reports to the Province. Nevertheless, it is clear that the provinces feel excluded from the USDG monitoring process, but still feel their mandated responsibility to perform oversight of the grant as a component of human settlement development:

*“You cannot account for something you have no control over”* (Respondent M65)

Provinces evidently undertake far more oversight and reporting in relation to housing programme implementation than the USDG. However, provinces are still required to report to the national DHS on the achievement of the Outcome 8 targets. USDG is explicitly a contributor to these targets through the servicing of informal settlements, and the purchase of land. A Rapid Appraisal of Outcome 8 (PDG, 2014a) found that the degree to which the provinces include the metro delivery figures or not varied from province to province. In some places the reporting was consolidated, while in other provinces the metros reported their Outcome 8 contributions directly to DHS.

### **National oversight and reporting**

A DHS official detailed how the system of monitoring and evaluation consisted of reviewing provincial housing plans, discussions with provincial officials and visiting a few selected projects, with the findings consolidated into a report. The respondent admitted that the DHS is under-resourced for M&E and undertake monitoring at a very high level looking only at around 10% of projects, and focusing at a programme, rather than a project level (Respondent N16). The capacity constraints at a national level mean that the department has to rely on the integrity of plans and the credibility of reports to gauge performance (Respondent N9).

*“[Monitoring] is limited, but we are still doing it. It is more compliance than a true M&E system, but it will help you to come back and let you say ‘Let’s change the way we are doing things now’”* (Respondent N16).

Another national respondent stated that the DHS does quarterly reviews and one-on-one sessions with metros to identify issues and blockages and propose remedial action (Respondent N7). In addition a monthly report on metro spending is submitted to the Executive Manage-



ment Team. On a quarterly basis, a report on both expenditure and non-financial performance is prepared.

The annual performance evaluation reports produced by DHS (DHS, 2012c; DHS, 2013c) focus heavily on levels of grant expenditure, and this is the first issue presented in the report and repeated later in the reports. Much of the evaluation report appears to be taken from metro submissions rather than a judgment made by the national department, although there is reflection on the reasons for under-achievement of targets. It was striking that some aspects of the 2013 BEPP Assessment Report were identical to the 2011 BEPP Assessment Report, indicating that over two years the feedback had either failed to be taken into account or conditions remained unchanged, particularly around the SWOT Analysis.

The critique of the national oversight from the metros is that monitoring is only being done on specific projects and not on how they fit into the BEPP and the suite of other plans. At the Buffalo City Validation Workshop, an attendee noted that the DHS was ‘fixated’ on project reporting. While some respondents complained that there was no feedback from DHS on the reports submitted, others believed that DHS was ‘micro-managing’ the metro implementation of the grant. This latter perspective is linked to the need to report progress and expenditure on a project-by-project basis. The City of Cape Town SWOT analysis in the 2013 USDG Performance Report (DHS, 2013c) states that micro-management is a threat to the success of the grant.

*“The intent of the USDG for integrated human settlements in the built environment must be kept. If it becomes overregulated and reported to death, and people don’t understand outcomes and outputs, it will kill it” (Respondent M4).*

At the national level the USDG monitoring framework indicators are included in DHS’s Annual Performance Plan (APP) and Annual Report through multiple indicators including: Number of hectares released for human settlements development; Number of sites serviced by year; and Number of households upgraded in well-located informal settlements with access secure tenure and basic services. The first and latter indicators are also tracked as part of the Programme of Action for Outcome 8. The metro level reporting is aggregated with the provincial delivery (where they are known to be exclusive) to provide a report on performance at national level.

### ***Difficulties in monitoring outcomes related to a supplementary grant***

Many of the difficulties experienced in monitoring performance in relation to the USDG are related to its status as an outcomes-focused supplementary grant. There are a wide range of possible grant outputs, as reflected in the Theory of Change, and metros are not required to direct the grant funding into any specific one of these outputs in any specified proportion. This is most clearly articulated in the 2013 USDG Performance Report (DHS, 2013c), which states that:

*“USDG as a Schedule 4 Grant (specifying allocations to municipalities to supplement the*



*funding of functions funded from municipal budgets) does not require detailed reporting by the Metropolitan Municipalities that links targets in the plans, to outputs and expenditure that relates to the USDG allocation. However DORA expects the transferring National Department to compile and submit a Grant Evaluation report within two months after the end of the financial year. As previously raised in the 2011/12 financial year performance report, this expectation of a detailed evaluation report is unfortunate [sic] in direct conflict with the approach adopted by Schedule 4 Grants of DORA which prescribes minimal performance obligation on the part of the receiving Metropolitan Municipalities.” (DHS, 2013c; 146)*

However, national DHS is still required to account for the grant expenditure and performance, and so have relied on the numerous output indicators specified in the BEPP Performance Matrix to do so. This has led to the perception, both nationally and at the metro level, that the national department is ‘chasing the numbers’:

‘What I’ve got a problem with is that there is such a focus on numbers. Especially when you are talking about spatial development and the built environment. ... For example with respects to numbers of sites serviced, a number of our projects are not about freestanding houses ... I’ve got a block of flats of say 100 flats. They all get completed at the same time. You can only talk about percentage completion’ (Respondent M39).

*“At the end of the day, it is about chasing numbers. It is about chasing numbers.” (Respondent N9)*

*Much of this perception was related to the DHS’s historical focus on housing delivery targets, which it was believed was being superimposed onto the monitoring of the USDG:*

*“We are a little bit spoilt because we are used to housing. And now there is a different way of reporting when it comes to USDG, and what I would argue very strongly is that we don’t want to adopt the same approach as housing because housing it is a serviced site or a top structure – that’s all that you want to buy. ...it is easy to account. But in the case of municipalities you are investing in public spaces, you are investing in a number of areas so you want to see whether this grant is helping you to achieve all of these spatial goals that you want to achieve...so the measure for USDG is completely going to be different from housing. You are not going to use the same tools and the same instruments that you are using for housing to measure USDG. My view is, first let’s assess the plans, and if the plans make sense, then you look at how the grant is performing to help us achieve those plans. And then we can monitor the plans, we can monitor the performance of the grant.” (Respondent N16)*

There is no consistent and agreed approach to monitoring the diverse outputs associated with the USDG, let alone the outcomes to which the grant contributes:

*“To measure outcomes is difficult. What is the outcome? The outcome is that the person sitting with their feet in water is now dry. That’s a good outcome. How do you measure that?” (Respondent M4)*

*“It is maybe a 5 year window before you realise your final result. So it is difficult to say in terms of ‘did you get value for money?’. No, but it is a longer term project.” (Respondent M23)*

The solution to the problem of inadequate tools to monitor the performance of the grant in its current form, as proposed in both USDG Performance Reports (DHS, 2012b; 2013c), is to increase the grant conditions as well as the re-classification of the grant from Schedule 4 to Schedule 6<sup>31</sup> (specifying specific-purpose allocations to municipalities). It is believed that this will ensure that the DHS “is better placed to monitor the USDG in respect of the developed plans as well as the preparation of the evaluation reports.” (DHS, 2013c:146).

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<sup>31</sup> Specific purpose grants are now contained in Schedule 5 of the latest DORA.

## 7. Analysis

### 7.1 Approach

This chapter seeks to explain and interrogate the research findings with a view to informing the research conclusions. It draws from the policy and legislative context, the literature review and a synthesis of the research data to understand the reasons behind observed phenomena and perspectives gathered on the design and implementation of the USDG. The chapter is structured into two main sections. The first section evaluates the grant design (captured in the Theory of Change and the ‘defining features’) in relation to the policy intent, public finance principles and international best practice. The second section analyses the research findings around implementation of the grant in relation to the Theory of Change.

### 7.2 Evaluation of the USDG design in relation to international best practice

The Municipal Infrastructure Investment Framework (MIIF) (DBSA, 2010) indicated that all categories of municipalities in South Africa face a shortage of capital funding. Although metros are proportionately better off than smaller municipalities, they face far higher numbers of service and housing backlogs. As the urban poor are not expected to, or able to, repay the cost of infrastructure, this cost is covered by the South African State. However, metros have limits to own source revenue, and tax revenue is centralised. This reflects the existence of what Slack (2007) terms a ‘vertical fiscal gap’, for which a national transfer is justified. According to UN-HABITAT (2009) the solution to a vertical fiscal gap is an unconditional grant for the municipality to spend as it deems appropriate. This is the approach followed in the supplementary design of the MIG (Cities) and USDG.

While the USDG, like MIG (Cities), is supplementary, it is not unconditional and therefore does not follow this international guidance exactly. However, the conditions currently attached to the USDG are almost entirely procedural and relate to reporting requirements as a pre-requisite to the release of funds. The outcome statement, and even the outputs, are relatively broad and open to interpretation. This is assumed to be an intentional aspect of the grant design and illustrates a high degree of trust in metros to plan in such a way that fulfils the grant intent, and then select and fund projects that realise the plan. This approach that exhibits confidence in the ability of local government is evident in the five principles underlying the MIG (Cities). It is notable that the grant design of MIG (Cities) was specifically aimed at increasing accountability through relaxing grant conditions: through requiring metros to take ownership of their use of grant and then account for the outcomes. This shifting of responsibility onto metros is continued in the original USDG grant framework that sought to “...[provide] large municipalities with appropriate resources and control over the selection and pursuit of investment programmes in the built environment” (RSA, 2011:167 – emphasis added). It is notable that this statement was removed in subsequent grant frameworks.

Both the MIG (Cities) and USDG were conceptualised as performance-based grants. Early drafts of the USDG policy framework included explicit statements about the grant serving as a catalyst for built environment performance improvement. This outcomes and performance focus is consistent with the national policy shifts to an Outcomes Based Approach. The intention was that evaluation of the grant would be evidence-based, informed by an intervention logic, and advanced overarching results objectives in the sector. In the case of incentives to perform, international experts favour ‘tournament grants’ which provide for additional funding to those cities which perform well. While a performance-based requirement has never actually applied to the USDG, a performance improvement approach has informed the accountability arrangements of the USDG in which non-financial performance is reported.

The table presented in the literature review comparing traditional conditional grants with output-based (performance-oriented) grants is reproduced below to assess how the USDG fares.

**Table 17: Assessment of USDG as a traditional or output-based conditional grant**

Criterion	Traditional conditional grant	Output-based grant	Assessment of the USDG
Grant objectives	Spending levels	Quality and access to public services	Output-based
Grant design and administration	Complex	Simple and transparent	Output-based
Eligibility	Recipient government departments/agencies	Recipient government provides funds to all government and non-government providers	Traditional
Conditions	Expenditures on authorized functions and objects	Outputs –service delivery results	Output-based
Allocation criteria	Program or project proposals approvals with expenditure details	Demographic data on potential clients	Output-based
Compliance verification	Higher level inspections and audits	Client feedback and redress, Comparison of baseline and post-grant data on service quality and access.	Traditional
Penalties	Audit observations on financial compliance	Public censure, competitive pressures, voice and exit options for clients	Traditional
Managerial flexibility	Little or none. No tolerance for risk and no accountability for failure.	Absolute. Rewards for risks but penalties for persistent failure	In between
Local government autonomy and budgetary flexibility	Little	Absolute	In between
Transparency	Little	Absolute	In between
Focus	Internal	External, competition, innovation and benchmarking	In between

Accountability	Hierarchical and to higher level government, controls on inputs and process with little concern for results	Results-based, Bottom-up, client-driven	Traditional
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The analysis indicates USDG is a hybrid: it illustrates characteristics of both a traditional and output-based conditional grant. Many of the features of the USDG that are characteristic of a traditional grant relate to the way the grant is monitored, while the original design is largely an output-based grant.

The USDG complies with best practice in terms of being one of several sources of funding available to cities, with cities expected to source a substantial proportion of funding themselves. However, in relation to countries in Latin America and East Asia little emphasis is placed on private participation in infrastructure finance. There is some question over whether the USDG is actually a ‘supplementary’ grant if it funds more than 50% of the capital expenditure of a municipality, as is the case in four of the eight metros. The definition of a ‘supplement’ is “a thing or part added to remedy a deficiency; and addition; an auxiliary item or means”<sup>32</sup>. Although there is an implication that the supplement is smaller than the item being added to, the dictionary definition does not confirm or dismiss this interpretation. However, if one extends the ‘vertical fiscal gap’ argument, then the larger the gap, the larger the transfer should be. In this case, ‘supplementary’ refers to supplementing the municipal budget rather than supplementing alternative funding sources. Provided there are some alternative funding sources, then the USDG, by definition, will always be a supplement.

The danger with this approach is that grant funding can displace alternative funding sources, which is evident in some South African metros. This calls into question the manner in which the quantum of the transfer is calculated. In the case of the USDG, the quantum is based on the formula employed by MIG, which itself is based heavily on service backlogs. The USDG grant framework states that:

*“The base allocation [of the USDG] is derived from the Municipal Infrastructure Grant formula explained in part 5 of annexure W1 in the bill. The formula incorporates backlog and poverty-weighted data” (RSA, 2011:168).*

In terms of the methods of revenue sharing discussed in the literature review, this is an appropriate mechanism for an essentially redistributive grant. However, the logic was somewhat dissipated with the addition of a portion of the HSDG funding. This has meant that the MIG formula could no longer be used, and it appears that the relative amounts of the USDG have

<sup>32</sup> The New Shorter Oxford English Dictionary, 1993”

simply been escalated annually according to the growth of the overall pool of funding made available for the grant, and the relative split between metros has remained constant. Although the quoted allocation criteria quoted above is correct for the MIG (Cities) portion of the USDG in the first year, it does not state how the HSDG portion was allocated. In addition, the backlog figures used for MIG (Cities) allocation would have been based on the 2001 Census, and did not incorporate the latest 2011 Census figures. The net effect is that the relationship between the USDG allocation and the underlying “backlog and poverty-weighted data” is becoming more distant over time.

Only one respondent (Respondent N4) raised the issue of the allocation formula, stating that it needed to be more transparent and updated. The issue was not raised by any of the metro respondents. However, the fact that there is evidence of possible displacement of own source funding in some metros suggests that the allocation mechanism may need to be reviewed, based on a closer relationship between the grant objectives and the basis for allocation. For the MIG (Cities) allocation, it is understandable that the basis for allocation was “backlogs and poverty-weighted data”, but with the shift in the grant objectives and the inclusion of a portion of the HSDG, there is motivation to include a wider range of factors in the allocation formula. The ten principles set out by Shah (2007, cited in UN-HABITAT, 2009:39) are used to evaluate the design of the USDG:

Table 18: Assessment of the USDG according to criteria set by Shah (2007)

<b>Criteria</b>	<b>Measure</b>	<b>Assessment of the USDG</b>
<b>Efficiency</b>	Efficiency is achieved if the grant is neutral with respect to local government decisions on the allocation of resources to different activities, except where the grant corrects existing distortions in expenditure practices.	The grant is efficient in that the allocation is relatively unaffected by local government decisions around how it is used, but there is no incentive for metros to increase expenditures to the optimal level. To correct this weakness, a ‘matching’ component to the grant could be considered.
<b>Fairness (equity)</b>	All municipalities should be able to provide an adequate level of service without resorting to unduly high tax rates. The transfer to municipalities should vary directly with the fiscal need and inversely with the fiscal capacity of the municipality (capacity to raise own-source revenues).	The origin of the grant in the MIG formula means that the relative allocations to metros are based (roughly) on fiscal need and inversely with the fiscal capacity of the municipality.
<b>Clear Objectives</b>	Grant objectives should be clearly specified.	The grant objective is clearly specified, but is broad enough to result in different interpretations between stakeholders.

<b><i>Fairness (equity)</i></b>	All municipalities should be able to provide an adequate level of service without resorting to unduly high tax rates. The transfer to municipalities should vary directly with the fiscal need and inversely with the fiscal capacity of the municipality (capacity to raise own-source revenues).	The origin of the grant in the MIG formula means that the relative allocations to metros are based (roughly) on fiscal need and inversely with the fiscal capacity of the municipality.
<b><i>Clear Objectives</i></b>	Grant objectives should be clearly specified.	The grant objective is clearly specified, but is broad enough to result in different interpretations between stakeholders.
<b><i>Accountability</i></b>	The donor government should be accountable for the design and operation of the grant program. The recipient government should be accountable to citizens and the donor government for the use of the funds.	National government is responsible for the grant design and operation and local government is accountable to national government, both in terms of regular reporting and in regular presentations to the Portfolio Committee on Human Settlements. However, the accountability mechanism of the local government to citizens relies on the local government democratic process, which is therefore indirect and relatively weak.
<b><i>Transparency</i></b>	Transparency is enhanced when the recipient government and citizens/taxpayers have access to information about the grant formula and the allocation of funds.	The public has access to information on the allocation of the funds, but not to the grant formula. It is therefore not entirely transparent.
<b><i>Stability and predictability</i></b>	Revenues should be stable and predictable so that municipalities can budget and plan for future expenditures.	The USDG is relatively stable over a three year period
<b><i>Revenue adequacy</i></b>	Municipal governments should have adequate revenues to discharge their expenditure responsibilities.	This was not specifically assessed, but the MIIF suggests that metro revenue (including the USDG) is adequate but would be severely lacking without the USDG.
<b><i>Autonomy</i></b>	Municipal governments should have autonomy and flexibility to set their priorities and not be constrained by grant funding.	Metros currently have a large degree of autonomy and flexibility to set their priorities.
<b><i>Responsiveness</i></b>	The grant formula should be flexible enough to allow municipalities to respond to changing economic circumstances.	The grant formula is not flexible and therefore not responsive to economic conditions, except that the total pool of available funding does vary according to the size of the fiscus.



<b>Simplicity</b>	The grant formula should be based on objective factors over which local governments have limited control. The formula should be easy to understand.	The original grant formula was based on backlogs, which is a suitably objective factor. However, this is no longer used directly.
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## 7.3 Analysis of implementation of the USDG in relation to the Theory of Change

### 7.3.1 Understanding and interpretations of the USDG

There were three informants to the design of the USDG: the grant's fiscal design was inherited from MIG (Cities); the renewed focus on human settlements and informal settlement upgrading was driven by the BNG policy and closely linked to the achievement of Outcome 8, and the devolution of responsibility for implementation to metros was part of a broader devolution of built environment functions to local government. These three informants emanated from different national departments: the first from National Treasury; the second from DHS; and the third from various departments at different times and through various policies and legislation. There is no indication that one informant was dominant, but these were blended into the design of the grant in somewhat of a compromise. However, the differences in interpretation that emerge are related to how the respondents viewed the origin of the grant and the relative importance of each of these three informants, which varies considerably. This is also possibly the reason behind the lack of finalisation of the USDG policy framework.

At the heart of the contestation and differences in interpretation of the USDG are the concepts of what constitutes 'human settlements' and the 'built environment' and how each of these are intended to be funded. While 'sustainable human settlements' is defined in the BNG policy, the diagram in Figure 25 is intended to present a simplified model to define these concepts in more tangible terms in order to analyse the emerging narratives around the purpose of the USDG.

It is best to explain the diagram from the housing **top structure** (top left of the diagram) outwards. The top structure (house) is located on a serviced site, which in turn is located within a city block that is provided with internal services. This city block is located within a **human settlement** (neighbourhood) that includes municipal public services (parks, clinics, community halls, libraries, etc.) and social services (schools and hospitals). The human settlement is situated in the built environment that includes non-residential services and buildings, public places, transport networks (higher order roads and public transport facilities) and transport interchanges. In addition, the built environment, human settlements and individual sites are all served by **bulk infrastructure** (which may be the same or different pieces of infrastructure serving these three different components). Finally, the built environment is situated within the **natural environment** (land). A small sub-set of land is identified as **land for housing**.

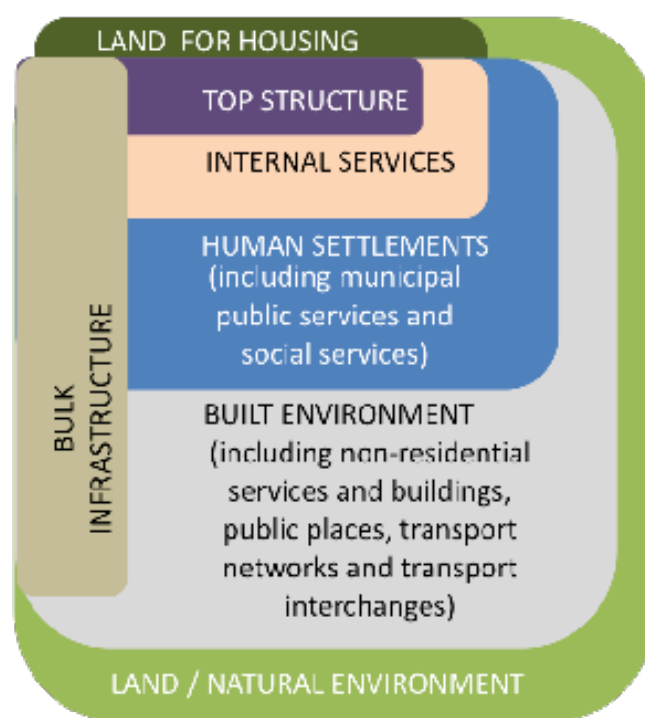


Figure 25: Conceptualisation of the components of the metro environment

Figure 26 illustrates the metro capital grant funding arrangements in 2010. The MIG (Cities) is shown funding bulk infrastructure for the entire built environment, as well as municipal public services within human settlements. The HSDG is used to fund land for housing, services and top structures. It is also possible to use the HSDG for municipal public services, but it not known the extent to which it was used in this way. The Integrated National Electrification Programme (INEP) funds bulk electricity to serve housing, and the Public Transport Infrastructure and Systems Grant (PTISG) and NDPG fund specific components of the built environment.

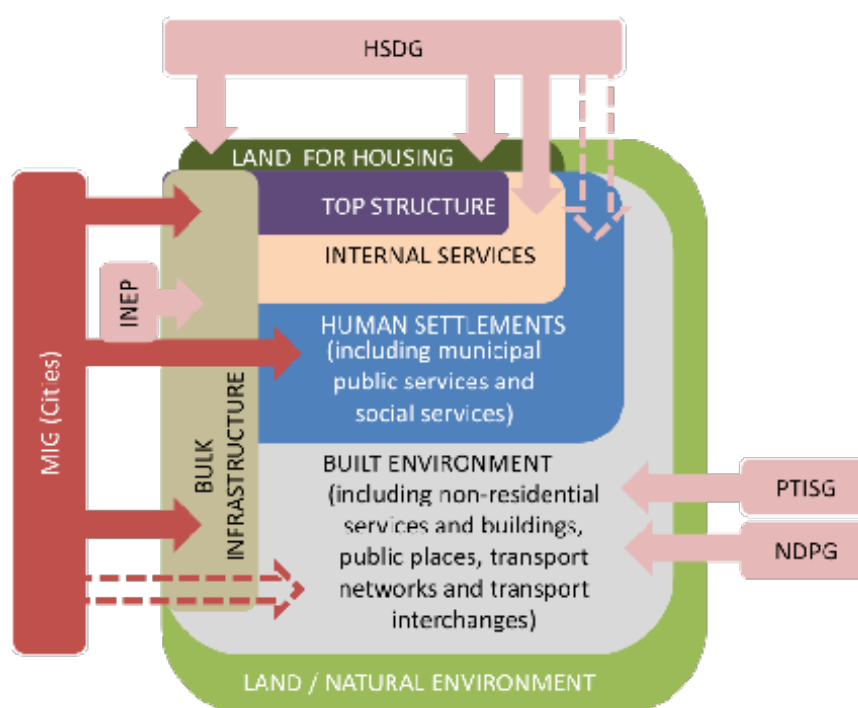


Figure 26: Grant funding environment in metros circa 2010

Figure 27 illustrates the changes that occurred with the introduction of the USDG and the subsequent introduction of the ICDG. In addition to what was funded by MIG (Cities), the USDG now funds land and internal services for housing. It is unclear whether the USDG was intended to fund land for other built environment purposes, hence the dotted arrow in the diagram. ICDG has been added to the funding of the built environment. In other respects the funding environment is the same as in 2010.

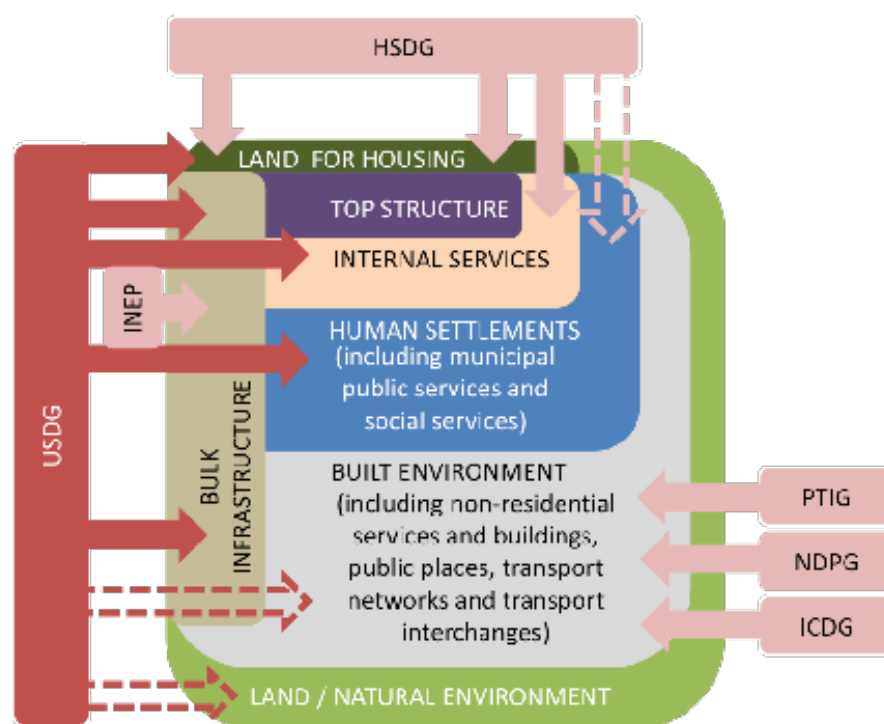


Figure 27: Grant funding environment in metros circa 2013

The findings on the interpretation of the USDG in the previous chapter are dominated by two distinct narratives surrounding the evolution of the grant. The first narrative, told by provincial DHS and the Portfolio Committee, is that money was taken away from the HSDG to provide for infrastructure because this was stalling the delivery of housing. The second narrative, told by metros, is that the USDG is a natural progression from MIG, through MIG (Cities) to provide an ever more flexible grant for infrastructure provision that supports the devolution of built environment functions to cities by allowing them to set their own priorities.

In relation to the two diagrams above, the first narrative focuses on the changes that occurred to MIG (Cities) to focus on land and services for housing, while downplaying or ignoring the fact that the USDG still needed to fund all the things that were funded by MIG (Cities). The second narrative is stuck in the paradigm of the first diagram (but acknowledging the addition of funding for land) while ignoring the shifting policy intent of the grant through the specific provision for services to support housing development. National DHS can be characterised (although the perspectives of individuals within DHS varied considerably) as sitting midway between these two perspectives, as they acknowledge the necessity of funding human settle-

ments from the USDG, but generally exclude the possibility of funding the built environment. National Treasury appears to take a broader built environment perspective that links between urban settlements formation, spatial efficiency and the transformation of the apartheid spatial form and the relationship between this grant and others like the PTIG, NPDG and ICDG. In this way, the National Treasury perspective is supportive of the metro narrative. However, this broader interpretation is also responsible for the wide and varying outcome and output statements in the DORAs that in turn have influenced the metro interpretations and created unrealistic interpretations of what the grant may be able to achieve.

The conditions included in the draft policy frameworks that exclude the use of the USDG for electricity services and the supplementing of top structure subsidies for densification, are motivated on the basis that there are existing grants to fund these two items (INEP and HSDG, respectively) and grant overlap, or ‘double-dipping’ should be avoided. However, if one takes the built environment efficiency perspective (i.e. greater densification through expensive multi-storey units being a prerequisite condition for greater efficiency) then more expensive top structures and the funding of electrical connections to backyard shacks would appear to be justified. The reason that municipalities use the USDG to fund expenditure that could be funded by other grants is simple pragmatism: the USDG is relatively unconstrained, while other grant processes are onerous, slow and place too many restrictions on the municipalities. This indicates that the USDG’s lack of conditionality is a great advantage to municipalities, but which could also be abused if not regulated. It also indicates that other grant conditions may be too onerous and may need to be re-evaluated. The consolidation of municipal infrastructure grants would be one solution to this issue.

It is noted that the metros have an incentive to interpret the policy intent of the USDG as widely as possible, as it provides them with a larger pool of funding with unlimited flexibility. On the other hand, provincial and national DHS have an incentive to interpret the USDG narrowly as it facilitates the achievement of their primary performance indicator: the delivery of housing opportunities towards Outcome 8: Output 1. While the national and provincial policy documents all reflect a conceptual shift from ‘housing’ to ‘human settlements’, there is little evidence of the department facilitating human settlements creation beyond housing delivery. Both narratives described in this section can be labelled as somewhat myopic and ignore the full set of informants and precedents to the USDG: the broad view ignores the deliberate shift in policy intent to focus specifically on human settlements, while the narrow view ignores the fact that human settlements comprise a wide range of infrastructure components beyond just housing and the services that support it.

<sup>33</sup> The 2014 BEPP Guidelines (National Treasury, 2013) explain the difference as being one of scale with the CIF focussed on metro-wide priorities, and the BEPP operating at a lower level: “The BEPP approach is based on spatial targeting at a sub-metro scale which requires prioritisation within the CIF to trigger spatial integration for the longer term”. However, it is not clear whether there is sufficient difference between these two to justify two plans. .

### 7.3.2 The Built Environment Performance Plan and planning process

#### ***Rationale for the BEPP***

The BEPP's place within local government development-planning has certainly evolved since its introduction in 2011/2012 when it was completed mostly for compliance purposes in order to access the USDG. When one considers the value of the USDG as a financial incentive (R6.26 billion in 2011/2012 across eight metros) in relation to the timeframes (a few months, without a clear benchmark or refined guidelines) to produce the first BEPPs, it is fairly obvious that regardless of their purpose, metro municipalities would produce the BEPPs to meet the conditionality of the grant in order to access the funds.

One of the challenges of the BEPP has been in the awkward space it occupies between a rationalisation for the capital programme of the municipality; the strategic integrated development intentions of the IDP and SDF; the existence of a number of infrastructure sector plans; the operations of project pipelining and prioritisation; and reporting on grant performance. In practice this has meant that the plan depends on other mandatory plans such as the IDP, SDF, and Housing Sector Plan, before identifying a sub-set of the total capital projects listed for USDG funding. In trying to distil the core purpose of the BEPP from these multiple functions, the value of the BEPP expressed by metros has been in relation to two potentially opposing uses. The first is as a long-term rationale for the capital investment programme of the metros, and the second is to inform project selection.

The long-term rationale for the capital investment programme of the metros would make it more strategic in intent. At the moment, producing a yearly plan for capital projects (that often take years in terms of pipelining and delivery) is of limited proactive value, whereas a longer term BEPP could be of much greater value if it sets out a broader framework for the capital programme that is guided by efficiency considerations and spatial transformation objectives. However, this function would seem to be duplicated by the long-term Capital Investment Framework (CIF) required as a mandatory part of the SDF, through the SPLUMA<sup>33</sup>.

The second area where the BEPP is of value and could be of greater significance is in providing a framework to inform project selection and funding allocations by introducing broader spatial and built environment considerations to the planning process, which manifests itself in the understanding of the BEPPs as 'Business Plans'. In this sense the BEPPs motivate for the capital projects included in terms of broader strategic and spatial imperatives and allow for the identification of a sub-set of capital projects in relation to the USDG. However, because of the length of the value chain and the lead time for the planning and completion of capital projects, this is proving fairly reactive on a yearly basis rather than more proactive and transformative over the medium to long term.

***Other planning across spheres***

Generally, the BEPPs were conscious to acknowledge and speak to the policy imperatives of provincial and national government. Thus, to some degree the BEPPs were informed by provincial planning, if at the very least by virtue of being derived from other planning documents (like the Human Settlements Plan) that considered provincial plans more explicitly. However, in terms of upward planning there was little documented evidence of any considered alignment or complementarity between the Provincial Human Settlement Planning and the BEPPs, as assumed in the various iterations of the USDG Policy Framework (DHS, 2011a; 2012b). Provincial planning is not consistently aligned to metro planning, and the absence of any reference to the BEPP in any provincial APP is indicative of a failure of this document to break the ceiling of internal metro development planning. It is certainly not something the provinces are using to inform their planning, in part because they are still unclear on what their role is in relation to the USDG and the BEPP. This is also a result of a less than optimal BEPP Panel process and some issues that remain in terms of the best timeframes for compiling the document in terms of each metro's planning calendar.

Where there is policy alignment between the BEPPs it is with regard to national policy matters pertaining to the built environment and cities. There is a clear policy imperative to spatially transform cities and ensure that the built environments become more efficient so as to unlock growth and reduce opportunity costs for the peripheral, marginalised and urban poor. In this sense the BEPPs align to these imperatives both directly and indirectly. This reflects in references across the BEPPs to the National Development Plan in particular, but again, often through the indirect references derived from other planning documents, such as the SDF and IDP (see for example, BCMM, 2013; 49, 95).

Another point to consider is with which national and provincial plans the BEPP are intended to align. Given that the BEPP deals with investment at a sub-metro scale, and as municipal spatial planning is now firmly a municipal responsibility, it is not clear why the BEPP needs to align with any plans of other spheres, notwithstanding the implementation of government policy. It is more a case of provincial (and potentially national) housing plans now having to align with the spatial priorities of the cities. This type of upward alignment is clearly not taking place at present.

***Redundancy in the municipal planning framework needs to be addressed***

The BEPP was introduced into a fairly complex, but well-established municipal planning context – an IDP closely linked via its capital investment framework and SDBIP to the municipal budget - without a clear indication of how this plan was intended to relate to the other plans. It has emerged that the BEPP was introduced to address the failure of existing statutory plans to function as intended. As a result, the initial BEPP guidelines required municipalities to duplicate the content of pre-existing plans, to produce a new plan, probably, but not necessarily,

with more detail but without enjoying the same legal status as those plans.

While the USDG draft policy framework intended that the BEPP be the ‘central plan’ guiding capital spending in urban areas, this was not realistic given the existing planning framework and is not surprising that this has not been realised. The BEPPs appear to act at a distance from other planning processes (other than drawing heavily from them) and lack a strategic intent despite being derived from other strategic documents. As the BEPP is derived from the statutory plans, strictly speaking it should not, provide any strategic guidance not already contained within those plans.

The BEPPs are also short-term in nature, having to be produced every year like the SDBIPs, while they are required to speak to long term built environment objectives, and at the same time, report on USDG spending and output performance. The BEPPs are therefore trying to do too much in too short a period of time, with the result that they are onerous to compile, and municipalities failed to see how they integrate with other plans.

However, since this research was commissioned, the BEPP guidelines were amended significantly to rationalise the objectives of the plan and to link it to all the infrastructure grants (USDG, PTIG, NDPG, ICDG, HSDG and INEP). The limited observations since this development indicate that these have been welcome amendments to the original BEPP concept that have focused the plan on performance of the built environment that can be achieved through the integration of a range of instruments. The purpose of the BEPP has therefore evolved from being a justification of USDG expenditure to setting out how various funding sources integrate to achieve a longer term spatial objective.

### **7.3.3 Allocation of funds and project selection**

All of the metros have understandably sought to make use of their existing project prioritisation and identification processes and layered on some additional consideration for USDG funds. In the case of Cape Town, this involves the PRC which doubles in its function for the approval of HSDG related projects and thereby provides a complementary link. In Ekurhuleni and City of Johannesburg an extra step is added on top of their project prioritisation models for USDG project selections. In Buffalo City a decision is taken through management consensus from a list of existing projects and existing funding allocations. In no instance did any of the metros indicate this process as being delayed, held up or slowed down on account of USDG related requirements or considerations and therefore a judgement can be reached that this process happens relatively efficiently across the metros under assessment.

One area of policy uncertainty is the use of USDG for operational expenditure. While these proportions are relatively small, and are generally used to increase project management capacity in order to accelerate implementation, there is no official policy basis for this expen-



diture. The DORA (RSA, 2013b) and the Draft National Policy are explicit that the USDG is a capital grant. It is assumed that this expenditure is based on the fact that the HSDG and MIG policies both contain a 5% OPSCAP provision. This expenditure has a direct impact on the efficiency and effectiveness of the grant, but policy clarity is required to describe the circumstances in which this may be acceptable, so that all metros are treated equally and that this provision is not abused. There is a risk that a ‘top slice’ of the USDG for capacity building may duplicate the funding provided for this purpose within the HSDG and the Human Settlements Capacity Building Grant. However, the HSDG portion is intended for use at provincial level and the Human Settlements Capacity Building Grant is intended to improve capacity to administer the housing function in anticipation of assignment. The USDG ‘top slice’ currently fills existing capacity gaps in infrastructure project management, and is therefore believed to have a different purpose to the other capacity-building funding sources.

#### **7.3.4 Spatial distribution of projects**

The grant is generally being directed to the poorest and peripheral areas of the cities or along corridors or nodes. The extent to which this is a rigorous spatial prioritisation process is variable. The indications that not only the poorest households are benefiting from the grant would indicate that it is not efficiently targeted.

The value of the grant in terms of its contribution to spatial transformation therefore appears to be questionable.

The USDG as it is currently designed and implemented does not appear to be giving rise to the spatial transformation that was envisaged, but at least it is not a negative influence on the urban form, as has been alleged of the HSDG.

#### **7.3.5 Outputs: Products and services delivered**

The nature of products and services delivered through the USDG does not lend itself to consistent or uniform processes that produce outputs within certain comparable timeframes. As a result of this any judgement of efficiency in this regard is very difficult to make on a generalised basis.

However, across the metros there were common issues that delayed or held up the delivery of outputs: namely capacity issues and inefficiencies within the existing financial administration and management systems. These included, but were not limited to:

- Delays in supply chain management in terms of procurement of contractors and service providers to deliver the products or services;
- Too few, over-burdened and/or under-skilled project managers within the metros to ensure delivery within timeframes and budget; and
- Inconsistent project implementation monitoring and close-out to ensure delivery of proj-

ects to standards as intended.

Output measurement is important when considering value for money, which is usually calculated on the basis of the unit cost per output, or based on the more commonly-accepted evaluation practice in relation to outcomes (Fleming, 2013). With the USDG producing such a wide range of outputs (or partial outputs in any given year), there is no way of saying that one metro, which may have delivered one set of outputs provided better value for money than another, which produced an entirely different set. For example, the first metro could have purchased a reservoir, 15km of road and provided 200 toilets for a total of R600 million, while the second metro could have upgraded four informal settlements, constructed the first phase of a wastewater treatment works and purchased 5 hectares of land for a total of R750 million. While unit costs for each individual project could be calculated, there is no meaningful way to say that Metro A performed better than Metro B.

Establishing value for money in terms of a unit cost comparison for outputs, or outcomes, across metros is beyond the scope of this evaluation. Nor is there sufficient data available at this point to do this. Furthermore, different contexts, proximities, supply conditions, existing infrastructure arrangements and environmental considerations all contribute to making such comparisons less meaningful. A full Expenditure Performance Review would be required to make this type of judgement, and even then, innovative ways would have to be found to derive a common basis for comparison across metros and outputs.

The best approximation that can be proposed for addressing the evaluation question around value for money is whether the 'best' use is being made of the available resources. In such a complex environment, there is no simple measure of this. Two questions that could be asked are: are the projects needed; and, are they being provided at the best price? The answer to the first question lies in the project selection, which is a combination of the respective City's priorities defined in the IDP and whatever project prioritisation models or professional judgements were made by municipal officials. In the current context of significant service backlogs, and needs that are greater than available resources, it is unlikely that the metros will prioritise a project that is not needed. However, this point places a spotlight on how projects are selected and prioritised. The answer to the second question lies in the Supply Chain Management process, which is closely regulated, and therefore the only way for the City to procure services. One exception to this is the process of purchase of land on a 'willing buyer, willing seller' basis. The perverse incentives to spend more on land acquisition in order to spend the allocated budget, does not seem to impact on metros gaining the best prices that they can. This is an important issue for consideration as it pertains to obtaining best value for money more broadly.

### 7.3.6 The USDG and the housing accreditation and assignment process

The BNG policy initiated a process of accreditation of municipalities to undertake the housing function themselves, further advancing the principle of subsidiarity and the devolution principle set out in the Housing Act. At the time of the introduction of the USDG in 2011, six of the metros were already at Level 2 accreditation, while two were still at Level 1 accreditation. This was still the case in 2014. It was not a coincidence that the intention to fully devolve the housing function to the eight metros by March 2014 (as set out in the Outcome 8 Delivery Agreement) coincided with the completion of three years of implementing the USDG. The grant was intended to provide a 'bridge' to support the devolution process through granting the metro additional resources to develop administration and management capacity to undertake human settlement projects.

There is a clear inter-relatedness between the USDG and the accreditation process as a feature of the grant's design, but implementation of this aspect of the design varied considerably between metros. For instance, in the City of Cape Town there has been clear progress to integrate HSDG and USDG-related project administration and approvals through a PRC which has been implicitly and explicitly acknowledged as a 'test for accreditation'. Meanwhile in other metros such as Buffalo City, fraught relationships with the provincial department and a perceived need to 'build capacity' delayed accreditation to Level 2 and there has been a continued separation of the administration of HSDG and USDG, despite these intentions. Capacity concerns have also been stated by role-players in City of Johannesburg and Ekurhuleni, and Gauteng Province clearly has reservations about whether accreditation will lead to better delivery based on its experiences to date.

Metros are pushing relatively hard for assignment, and believe they are ready. Coovadia (2013:83) also notes that "the enthusiasm of municipalities for accreditation is driven more by the need for funding certainty and full administration and management of national housing programmes, than how accreditation can contribute to more integrated planning and land-use management". On the other hand, provinces are strongly resisting assignment, citing concerns over capacity. It is somewhat ironic that provincial departments have been mandated to develop capacity in municipal human settlement departments, but, by their own admission, this has not taken place.

This impasse highlights the importance of the contested notion of 'capacity', how this is measured, and whether one can have capacity prior to having the responsibility to perform a function. It is also noted that capacity is a relative concept. In most assessments of metro capacity, this is not compared to the alternative, which would be provincial capacity. From the delays subsequent to the capacity assessments undertaken in 2009 and 2011, it is clear that the CCAP process was inadequate to convince the provinces to agree to assignment, either because of technical flaws in the process, or because the technical argument did not

outweigh the political resistance to what amounts to an erosion of provincial power.

Regardless of the context, it would appear that there is a need for national department support for municipal capacity and better communication and coordination of engagement between metro and provincial stakeholders in the process. The new Human Settlements Capacity Grant for metros in 2014/15 is a clear indication that this is already being addressed by the national DHS. Direct support of the kind envisaged by the CSP as well as an agreed, uniform and shared interpretation of the USDG Policy Framework will also greatly assist in this regard.

### **7.3.7 USDG and the Cities Support Programme**

At the time of undertaking data collection there had been limited progress and engagement by metros with the Cities Support Programme. However, this changed during the analysis and write-up phase. The validation workshops provided a source of new information on how the CSP processes were unfolding and subsequent developments have indicated a growing interface between the USDG processes and the CSP as a programme. The CSP has more recently been involved in assisting the metros with the BEPP preparation, as well as facilitating better grant management and spending.

The limited interface between the USDG and the CSP to date should be understood in light of the increasing clarity around the BEPP and its intended outcome, which is consistent with the CSP's outcome focus on "the transformation of the built environment into a more compact city that is liveable, integrated, inclusive, productive, and sustainable" (National Treasury, 2013:4).

### **7.3.8 Shifting institutional roles**

Amongst the different role-players involved in USDG implementation there have been a variety of changes to their respective roles and responsibilities. Some of these changes have been positive, while others have proved to be more challenging for the different actors to accept. Emergent indications of how these changes are affecting delivery are reflected upon based on the evidence available.

#### ***Metropolitan municipalities***

At the level of the metropolitan municipality the USDG has helped to bring about some fundamental organisational shifts in how the multiple responsible line departments approach human settlement development. In the case of Cape Town, this has put the Human Settlements Department at the centre of planning of the built environment and interdepartmental coordination, drawing human settlements considerations and perspectives into projects that might otherwise have been implemented in isolation. In other cases like Buffalo City and Ekurhuleni, capacity demands have necessitated the building of organizational capacity in the form

of EPMOs to support efficient capital investment. In Johannesburg the finance department takes the lead in USDG allocation, while development planning handles the BEPP process.

There is no consistent location for the administration of the USDG as this varies between the case study metros, and is known to vary in other metros as well (in eThekweni the engineering department administers the grant allocation). There are a range of arguments for which department should manage the grant: human settlements because of the transferring department and grant objectives; finance because it is a supplementary grant; engineering because they are allocated the largest portion of the grant; or planning because of the cross-cutting nature of the interventions. It would appear that the most important consideration is that there is a fair representation of all the relevant parties in the process of project selection to ensure that allocations are not skewed. There is evidence that suggest that in some cases the engineering departments dominate to 'capture' the funds in a continuation of the status quo under MIG (Cities) and that human settlements departments may be marginalised in some cases. This is concerning because the human settlement department officials are the ones that are accountable for the human settlement outcomes, and specifically for the housing delivery programmes in terms of the Housing Act. However, there is evidence of involvement of the human settlements department in all metros and this department is generally responsible for reporting on the grant the national DHS.

The end result of this has inevitably been a bolstering of human settlements influence within the metros, and an emphasis on planning and management capacity to deliver against budgets, with Buffalo City's recent performance an example of where an EPMO has strengthened the overall capital programme of the metro.

While metros have to build new lateral relationships across their existing organisational designs for human settlements, they are also advancing a broader institutional shift that will allow them greater agency in terms of human settlements decision-making relative to provincial departments.

### ***Provincial Departments***

One group that the USDG has undoubtedly affected negatively is the provincial departments of human settlements. The creation of the USDG was only possible through the combination of MIG (Cities) funds with a 15% cut for infrastructure and services from the HSDG. It is therefore understandable that the provincial departments would have wanted to retain some influence over how this funding was spent and/or see some benefit in the reallocation of funding. The cut in funding negatively affected provincial housing delivery for financial year 2011/2012, and provincial departments have no say over the planning and spending of the USDG.

Although challenges of bulk and connector infrastructure were inhibitors to optimal housing

programme performance, the USDG has yet to initiate a process that provincial departments believe will unlock the kind of projects that were envisaged when the USDG was conceptualised. Instead, the representatives of all three provinces participating in this assessment expressed concern that contrary to the grant's intention, the metros are less likely to complement and integrate with, for example, the HSDG spending rather than more likely, because of their new-found capacity to do their own prioritization in relation to the range of needs they have to address.

Lastly, the USDG has contributed to a shift in the power dynamics between provincial departments and metros in terms of who sets the human settlements agenda. While every metro addressed the “politics” of the matter in either implicit or explicit terms, provincial respondents were less willing to do so. All the objections to the USDG raised by the provinces were couched in terms of metros misusing the funding, or deliberately excluding the province from involvement in the USDG process. This provincial perspective is understandable given the significant loss of resources and influence over the human settlements agenda as a result of the introduction of the USDG. In a sense, it was the expectation of assignment of the housing function, created through Outcome 8 and the National Framework for Accreditation and Assignment, and their associated targets, that negatively affected the province-metro relationships. Metros expected to be assigned the function and therefore did not ensure the substantive consultation and inclusion of the provinces in long-term planning, while provinces still retained the financial resources necessary to complete housing projects.

There are two problems evident at the provincial sphere. Firstly, the provincial paradigm seems not to have shifted from housing to human settlements, with many of the provincial comments around the USDG focused on housing delivery. The second problem is that provinces have not yet fully realised their important constitutional role to provide support to, and to build capacity in municipalities. This is evident in the inability of the province to build sufficient capacity in metros to be confident in assigning the housing function. These two problems have important bearing on the future role of provinces in relation to the USDG.

### ***National Department of Human Settlements***

As the transferring department responsible for the USDG, the grant introduced new responsibilities for the national DHS and a new relationship with metropolitan municipalities. With its introduction occurring relatively quickly, the national DHS relied on assistance from National Treasury to assist with the transition and to build capacity around the management and oversight responsibilities associated with the grant. In particular, the sections responsible for Grant Management, Programme Monitoring and Evaluation and Policy Frameworks all took on new USDG-related responsibilities in their functional areas. While this would have been challenging in any context given the new direct relationship with metros, there were further complications. Firstly, these responsibilities were transferred after the grant had already been



introduced. Secondly, the capacity building programme to the department was incomplete. Thirdly, there were inconsistencies between the official DORA grant framework and the draft policy framework. Fourthly, the supplementary nature of the grant brought a greater degree of complexity to this nascent oversight responsibility. These factors all put the department at a disadvantage from the outset.

Evidence from the metros has indicated a need for certainty and clarity with regard to the grant's policy framework and provisions. This has not curtailed metros' ability to spend the USDG, but it has led to confusion and conflicting understandings of what the grant can and cannot be used for.

In terms of the monitoring and evaluation responsibilities of the national department, they have been stretched by the USDG reporting demanded from the metros. As part of DHS's primary responsibilities, greater coordination and technical support <sup>34</sup> is needed to set out a common set of monitoring protocols, definitions and data management arrangements for the sector to ensure a common basis for the utilisation of credible information. The lack of monitoring protocols and definitions has been found to be a key weakness of monitoring and evaluation in the human settlements sector in general (PDG, 2014b).

### ***External role-players***

The shift in roles and responsibilities of external role-players has been more limited than for the aforementioned actors, in part because many of the external role-players had little existing knowledge of the USDG prior to this assessment. Nevertheless, there are some clear indications of changes that have occurred with implications for human settlements delivery. In the case of private sector developers in particular, the USDG provides the opportunity for them to access a more flexible form of funding for bulk, connector and internal infrastructure that is not constrained by the provisions of MIG or HSDG. While this has happened in Johannesburg and, to a lesser extent, Cape Town, these developments have been frustrated by lack of information available to external stakeholders on the USDG. If the potential benefit of these new roles is to be maximized, it is important to convey clearly how the USDG can and cannot integrate with HSDG funding and other housing programmes, and this will push the metros to improve their own coordination and integration around the HSDG and USDG, while requiring some kind of awareness-raising or consultation process.

In the case of civil society, a lack of information on the USDG has also limited civil society's ability to play its external oversight role. Metros have the potential to make use of existing platforms for citizens to highlight challenges and propose solutions to challenges in the built environment which could be enabled with USDG funds. It is perhaps telling that civil society

<sup>34</sup> As the USDG is used primarily on infrastructure it is important for the department to have the necessary technical (engineering) capacity



and the role that it could play, is not mentioned in any versions the draft policy framework, and external engagement does not feature in the BEPPs.

### 7.3.9 Institutional challenges and gaps

Where there has been an inability to spend the USDG this would appear to be consistent with a challenge of spending the capital budget in general, and not the USDG specifically. The commonly-cited shortcoming is the lack of project management capacity to ensure that capital projects are delivered to the agreed standards within budget and on time. This seems to be one of the biggest challenges in terms of capital expenditure, and it is further frustrated by varying degrees of planning capacity in the different metros. However, through the use of the USDG for operations (OPSCAP), the USDG has certainly helped to address this by building or appointing additional project management capacity and allowing the metros flexibility in identifying their respective weaknesses and using the USDG to supplement or support them as appropriate. This has enabled Cape Town, Ekurhuleni and Buffalo City to all increase their spending considerably over the course of implementation. In addition, the CSP, through the revised BEPP process, is assisting municipalities to plan better and to spend capital budgets.

One of the issues that has also been raised, which is beyond the scope of what the USDG can achieve, is supply chain management and procurement challenges within the metros where a combination of a lack of capacity and strict MFMA constraints result in procurement challenges and project delays. The specific concern relating to the MFMA<sup>35</sup> was that the ability to advertise tenders is constrained by the timing of the approval of the capital budget at the end of June. While the MFMA Circular 62 of July 2013 and 5.8.3.1.1 of the Supply Chain Management Guide may be interpreted this way, a review of the legislation on this matter shows that there are no express provisions that deal with the advertising of tenders prior to the approval of the capital budget. While there is nothing unique to the USDG in this regard, it is nevertheless an issue across the different metros that will need to be addressed if metros are to be unencumbered to deliver their full capital investment programmes. This may be less an issue with the legislation, than how it is applied or interpreted in practice.

The USDG has also helped to assert the importance of organisational structure in the effectiveness of grant administration, particularly around project selection and prioritisation for the USDG. While there were different practices across all of the different metros with varying degrees of efficiency and value in each, it would certainly seem that the examples provided in Johannesburg and the City of Cape Town provide contrasting, yet interesting cases. For instance, whereas project selection for USDG funds in the City of Cape Town rests with the PRC established and comprised of Human Settlements Directorate staff (and can be motivated in relation to any project that meets the city's applied criteria), the City of Johannesburg

<sup>35</sup> Raised explicitly in Buffalo City, but implied in other metros as well

employs a project prioritisation model called CIMS which produces a project list from which USDG projects are identified by the Budget Office in light of the funds available. The end result of this has been that the organisational locale of the USDG project allocation decision-makers plays an important role in determining which projects get selected, particularly in light of the overall objectives and considerations informing the grant and this can bias, incorporate or disregard important perspectives in relation to the grant.

Lastly, where there are difficult relationships between the provincial department and the metro, there are serious shortcomings in the coordination of USDG and HSDG expenditure. This appeared to be a serious problem which ultimately influences the effect and outcomes of the products that are delivered to beneficiaries.

## **7.4 Monitoring and evaluation**

### **7.4.1 Performance indicators**

There are inconsistencies in both in the number and focus of indicators included in the versions of the draft USDG Policy Framework Performance Matrix and the Outcomes and Outputs provided in the DORA USDG Frameworks (some of which have been formulated as indicator measures). Although the USDG Performance Matrix is more closely reflected in the various iterations of the template used for USDG reporting of late, it does not have the legal standing of the DORA framework, which causes policy incoherence.

While the initial USDG policy implied reporting was limited to the Section 71 reports and SD-BIP indicators, this has been interpreted to mean a separate level of assessment on USDG specific performance, which is not appropriate. Further, attempting to distinguish between USDG results and the results of the overall capital programme in a municipality is of limited benefit.

If one takes the indicators included in the Performance Matrix of Version 13 of the USDG Policy Framework (which is fairly similar to Draft 17 and the current template circulated by the Directorate: Grant Management) and applies Shah's (2009: 100-101) three data requirements for results-based grants, they are not suitable for the stated policy purpose of the USDG because:

- There is no rationale for the performance indicators provided beyond them representing the whole spectrum of possible capital products and services that can be bought with the USDG. Importantly, there was an absence of backlog or useful baseline information (four backlog indicators have been added to the reporting template and performance matrix since Version 13) relevant to the service population for the indicators so in the absence of a rationale there is no sense of delivery relative to the service need of the population;
- Although accountability data on outputs is necessary, the current indicators do not distinguish between USDG outputs and expenditure and that of the total capital programme,

thereby conflating the USDG's contribution to a sub-set of outputs with attribution of the outputs of the entire capital programme to the USDG; and

- None of the performance indicators in the current matrix are at outcome level or provide an indication of whether changes for beneficiaries (results) are actually being effected beyond the materials the state is buying. It is insufficient to deliver an output to the population and simply assume it is used yet each version of the performance monitoring matrix has included approximately 50 indicators at output level.

The intent of the USDG is to supplement metro capital budgets to enable infrastructure development and better built environment performance and for poor urban households specifically. This intention has a clear spatial orientation, yet the monitoring framework makes no provision for measurement of this nor does it give any indication of how these areas might be distinguished from areas without any immediate service needs. In addition, none of the indicators relate built environment performance to improvements in quality of life. If built environment performance is to remain an objective of the grant, then its causal linkage to quality of life needs to be shown and indicators defined in a way that enables this impact to be measured.

As for how performance indicators are captured in other government frameworks, it should be noted that USDG reporting has implications across all three spheres of government, and in some instances may be contributing to redundant and duplicate reporting. Across the three spheres of government there is a general failure to define and identify the data elements comprising the indicators, as well as their sources. This, combined with the shortcomings noted previously, means that there is a heightened risk of duplicated or redundant reporting. The two indicators referring to serviced sites and households upgraded are examples of this, as it is unclear where the distinction is between a count for a serviced site and one for an upgrade of an informal settlement household. Other indicators that are reported upon may be duplicated with the reporting required by other national departments (number of households with access to piped water supply, for example). This is a more general problem with municipal reporting that needs to be addressed through a standardised reporting framework, but is beyond the scope of this evaluation.

#### **7.4.2 Monitoring frameworks and oversight**

The difficulties that the national DHS have experienced in monitoring the USDG can be summarised as:

- Difficulties in defining output indicators for a supplementary grant;
- An evolving policy framework that makes the specification of grant conditions difficult;
- Inexperience in outcomes-based monitoring of the broader built-environment;
- Complexity of monitoring and evaluation in the context of multiple grant systems across different spheres, each with different management systems;
- Pressure to produce performance reports for long-term outcomes; and

- Lack of capacity to undertake monitoring and evaluation.

The considerable challenges mentioned above have caused the Department to default to the type of output monitoring used for monitoring housing delivery. This has created a heavy reporting burden for metros, and a monitoring task that is beyond the current capacity of the DHS.

The USDG was introduced swiftly in 2011 and the monitoring of a grant implemented directly by metros was a new function for the grant. It has been noted that the lack of any hand-over between DCoG and DHS meant that there was no opportunity to draw lessons from the outcomes-based monitoring of the MIG (Cities). The national DHS administration has had to adjust to this new role and it is understandable this will take time. At the time of the evaluation, the department had only been monitoring the grant for two and a half years and still needs to make the fundamental shift from output monitoring to outcomes monitoring. However, there are certain elements of the monitoring framework that should have been set out correctly from the outset. These include clear definitions associated with the terms used in the broad outcome statements. Such terms include 'sustainable human settlements', 'secure tenure', 'well-located', 'spatial efficiency', 'built environment', 'upgrading' and 'suitable shelter'. In addition, although indicators for each of the original outcomes were provided in the DORA grant framework, these were never adopted in a standard format by metros and were not properly defined.

Shah (2009) states that one difference between a traditional conditional grant and an output-based grant is that the former uses inspections and audits, while the latter compares baseline and post-grant data on service quality and access. The current monitoring regime falls in to the former category, which is inappropriate for monitoring an outcomes-based grant like the USDG. To draw from Shah's observation would imply that the monitoring of the USDG should be concerned with generating baseline data around the intended grant outcomes such as quality of life and access to basic services, and then focus the indicators on measuring changes in these parameters.

Reporting on individual projects may have been introduced by DHS for three possible reasons:

- To assess whether the USDG was being spent on the 'right things';
- To keep a tighter watch on spending patterns and reason for delays in expenditure; and
- To be able to match expenditure with outputs.

The focus on trying to get metros to spend the USDG funds on the 'right things' is confounded by the lack of specific output definition in the grant framework. As a result, the DHS is unable to justifiably impose any form of sanction that can be imposed if the conditions attached to the grant are not adhered to. This encourages metros to 'push the envelope' around grant inter-

pretation and simply makes the conditionality ineffective and a cause of unresolved conflict. This is not to say that there is not, or shouldn't be any sanction for misuse of the funds. International best practice requires that conditionality be imposed through some form of sanction. In the case of the USDG, the sanction specified in DORA is the withholding or withdrawing of funding. In addition, any type of non-compliance with grant conditions or deviations from the MFMA regulations is likely to be picked up by the Auditor-General. The threat of an adverse audit opinion is sufficient sanction to ensure metro compliance, but this requires that the grant conditions are clear, coherent, and consistently applied.

The issue of project-level reporting was a source of much unhappiness from the metros. The principles of outcomes-based monitoring would suggest that this level of monitoring is not appropriate; provided that the adequate planning is in place and that the metros are ultimately accountable for achieving the intended outcomes. If this were the case, then it raises the interesting question of whether there should be any such thing as a 'USDG project'. Because the USDG is supplementary, there is a strong argument to be made for doing away with the identification of USDG projects. However, as long as there remains some element of conditionality on the grant outputs, then this is inevitable. This contradiction can only be mitigated by requiring the identification of projects that are part- or fully-funded from the USDG for the purposes of assessing: a) targeting of the grant to specified beneficiaries; and b) compliance with the provisions of capital investment planning. Project identification should not be used for project progress tracking or output monitoring of 'USDG outputs', as it has been established that there can be no such thing.

While most of the monitoring challenges relate to non-financial performance, there is a point to be made about the financial reporting. The annual Performance Evaluation Reports conducted in terms of the DORA requirement by DHS have only reported expenditure against budget. The focus on spending levels is another one of the characteristics of a traditional conditional grant as described by Shah (2009). While grant expenditure is still a useful indicator, this should be seen in light of the finding that the expenditure problems are caused by structural issues that affect the municipality as a whole. The USDG expenditure should therefore not be seen in isolation from the broader capital spending patterns of the metros.

The problem with the current approach is that it is trying to apply a conditional grant monitoring framework to a grant that is intended to be relatively unconditional. The solution proposed to this problem by DHS of making the grant more conditional is in opposition to the intent of the original grant design. This cannot be pursued if the original intent of the grant design is to be retained. An alternative option would be to re-design the monitoring framework to focus on monitoring process and outcomes, and then hold the metros accountable to these outcomes.

## 7.5 Evaluation against the derived Theory of Change

The findings from the evaluation indicate that the intergovernmental coordination objectives of the USDG have failed and that there continue to be different interpretations and expectations across the three spheres of government for the USDG. This opportunity is not being used optimally to involve national, provincial and metro governments in the planning process to ensure integration and alignment of initiatives. Notably, provincial governments are unclear on their role or feel they are consulted too late or without a genuine willingness from metros to accommodate their inputs. Further, the national department feedback and engagement in the planning process appears to have become of less value over time, in part because of the lack of clarity around the policy intentions of the USDG and because the greatest value of DHS feedback on the BEPPs seemed to be in the first and second years of its introduction. As such, the USDG alone does not prompt the kind of intergovernmental cooperation necessary to drive the integration, complementarity and shared vision that will lead to the selection of projects and outputs necessary to deliver a sustainable human settlements outcome.

In the four metros included as cases for this study, only Johannesburg showed evidence that the USDG is being used to leverage any additional capital finance towards human settlements. Any funding that is being 'leveraged' is a result of the USDG serving as a beacon for other funds, as is the case of Johannesburg and Cape Town. However, there are indications that the grant may be having the opposite effect and is displacing municipal own source funding. This would indicate that there is a problem with either the grant allocation formula, or an unintended consequence of not including any incentives for municipal co-funding in the grant design.

When it comes to the actual projects and activities funded by the USDG, the reality of the planning process has shown that projects are merely selected by the metros in accordance with their own criteria, whether guided by a 'general understanding' of the USDG conditions (as in Buffalo City); existing systematic project selection and prioritisation models followed by USDG considerations (Johannesburg and Ekurhuleni); or by management consensus around the USDG (the Buffalo City approach). Thus, given the backlog of unfunded projects in municipalities, it is difficult for the USDG to give rise to new or innovative projects. Currently, it is simply enabling projects already within the capital programme that were proposed but unfunded, meaning the spectrum of projects being undertaken with the USDG is actually much broader than even the core activities intended, and they deliver a broader range of outputs than the already extensive performance matrix provides for. Notably, land purchases were recorded but infrequent. This was due to difficulty in budgeting given delays in the sales process, and the unavailability of well-located land suitable for settlement. This means that the specific grant objective of increased availability of serviced land is not being achieved through the USDG. In addition, one of the motivations for the shift from MIG (Cities) to the USDG was to allow for the purchase of land, and this has not been realised at scale.

There was not any indication that the USDG was prompting any additional or sustained activity around the transfer of title deeds as formal recognition of security of tenure. Thus, when it comes to the expected activities and outputs the USDG is expected to deliver, the project spread is indicative of bulk service infrastructure being delivered, household basic service connections, socio-economic public infrastructure creation and some upgrading of informal settlements in line with the grant's design. However, the evidence of these project outputs are for the entire capital budget, so it is difficult to distinguish how much of this is actually enabled as a result of the USDG versus what would have been done without it.

Even where the outputs are being generated as per the design, there is not a common basis for comparing and ensuring that these outputs are being delivered in the right area or to the right beneficiaries. Thus, because outputs are reported for the whole capital budget, it is unclear if, for example, Buffalo City measures "number of sites serviced", all of those are sites to the benefit to the urban poor, or whether they include serviced sites as part of other residential areas and developments outside of under-serviced areas or informal settlements. Further, the inconsistency in reporting of these figures and a failure to properly define these output measures means that what is reported is hardly comparable between metros.



## 8. Conclusions

### 8.1 Historical context

#### 8.1.1 What informed the theoretical framework and development of the USDG?

Given the flux in the USDG policy framework prior to this evaluation, the theoretical framework that is being evaluated here is the Theory of Change constructed as part of the design review. There are three main informants to the design of the USDG: differentiation, grant flexibility and the outcomes focus of the MIG (Cities); the renewed focus on human settlements and emphasis on informal settlement upgrading; and a broader process of devolution of built environment functions.

The structure of the grant is inherited directly from MIG (Cities), which was in line with international best practice for an outcomes-based grant in that it was performance oriented and advanced the ideas of a differentiated local government fiscal framework and fiscal decentralization. The idea of a grant having the ability to impact on spatial form and city efficiency was also derived from concepts contained in the MIG (Cities) grant framework and continued into the CSP Framework.

The focus of the USDG on sustainable human settlement and improved quality of life in metros can be seen as the culmination of a range of post-apartheid human settlement policies and programmes, starting with the National Housing Programme in 1994, progressing through a paradigm shift from housing to human settlements as illustrated in the Breaking New Ground policy, to the Housing Code. The emphasis on sustainable human settlements was further focused in Outcome 8 and the specific output targets. Given the many of the outputs of the USDG are the same as those of Outcome 8, it can be concluded that the USDG was intended to support the achievement of the Outcome 8 targets.

The outcome of the 'built environment managed for human settlement creation, coinciding with devolution of housing and transport function to metros' as described in the Theory of Change, was informed by a series of legislation and policy advancing the principles of subsidiarity. These include the Housing Act, the Municipal Systems Act, the Housing Code, the National Land Transport Act and the Spatial Planning and Land Use Management Act. There is an implicit assumption in the design of the USDG that metros will be assigned the housing function and that this will increase the efficiency of built environment interventions.

#### 8.1.2 What are the factors that informed the transition from MIG (Cities) to USDG?

In light of the above informants, the main motivation for the transition from MIG (Cities) to USDG was the view that MIG (Cities) did not place sufficient emphasis on upgrading informal settlements and did not provide for the purchase of land. The backlog of bulk and connector infrastructure constraining housing delivery and compounding the growth of informal settle-

ments was a key factor that necessitated a shift away from general infrastructure provision towards infrastructure provision specifically for human settlements provision. This is implicit in the re-allocation of funding from the HSDG to USDG and the shifting of the grant administration from DCoG to DHS. Although the grant is explicitly not a 'housing grant', it was seen as central to unlocking housing opportunities either through bulk and connector services for 'greenfields' development, or through the expansion and connection of services to existing informal settlements. Thus, rather than being a general urban bulk and connector infrastructure grant, emphasis was placed on human settlements more broadly, beyond the narrow understandings of housing, so that urban infrastructure and land production had the end goal of benefiting the lives of households, particularly the urban poor.

Given that one of the main differences between MIG (Cities) and USDG was the increase in the grant quantum through the addition of the internal servicing portion of the HSDG (approximately 15% of the HSDG amount), it must also be concluded that the shift assumed that metro control over this portion of the funding would accelerate the delivery of basic services, whether accompanied by a subsequent top structure through the HSDG or not.

## **8.2 Conceptualisation and design**

### **8.2.1 Is the theoretical framework that informs the USDG valid?**

Prior to addressing this question, it is important to qualify the theoretical framework itself: it is a product of a dynamic and continuously evolving process of which this assessment reflects only a brief period. Pinning down a defined theoretical framework was made difficult by the changing grant framework formally adopted in DoRA and the lack of the coherence with the DHS draft framework that also changed constantly. Thus, judging the validity of the theoretical framework is to state an object's proximity to a moving target, one which was temporarily paused at the time of this assessment in order to serve as the basis for this evaluation.

This assessment concludes that there are some critical flaws in the overall intervention design and logic which should be addressed:

- The USDG as an intervention is only a financial instrument and does not actually entail the coordinated set of activities and processes necessary to constitute a "programme". In fact, the metro implementation studies have shown just how disparate and varied activities in relation to the USDG are, outside of the commonality of the BEPP and performance matrix reporting requirements. Therefore, the USDG should not be conceptualised in programmatic terms. The focus of the grant should not focus extend beyond what it buys and how this contributes to (not causes), along with other programmatic interventions, the desired human settlements and built environment outcomes. In light of the recent separation of the BEPP, the only remaining activities prescribed by the USDG include the identification of USDG projects and the reporting against them, thus depriving it of any coordinated set of activities across the metros and it therefore does not constitute a programme.

- The USDG conflates built environment management and efficiency objectives with human settlements objectives. Although the two are related, there is a clear conceptual distinction between them and human settlements outcomes are actually achieved within the context of the broader built environment (see Figure 25), and not vice-versa as is currently reflected in the USDG Theory of Change and the draft policy framework.
- Additional activities un-related to what the USDG buys have been included in the design as accompanying the USDG despite no tangible or meaningful provision of what should be done differently for these to occur (e.g. transfer of title deeds and leveraging of capital funds).
- If a separate conceptualisation and theoretical framework for the USDG is to exist distinct from other built environment grants, they can be better refined to articulate how the USDG, in tandem with other mechanisms, best enables:
  - o The value chain of human settlements creation;
  - o Better management of built environments; and
  - o More efficient built environments.
- This can in turn inform a better monitoring and reporting framework in line with human settlements priorities first, and then monitoring of broader built environment outcomes. Broader built environment outcomes, and specifically the way that changes to the built environment impact on quality of life are difficult to measure and there are currently no satisfactory metrics to do this.
- Since the USDG as an instrument funds a sub-set of the overall capital investment programme, its implementation is characterised by the same set of conditions for human resources, supply chain management, and project management and monitoring for the overall capital programme. Therefore inefficiencies, gaps and shortcomings in existing processes are the same for the USDG and these should not be treated separately in terms of intervention logic.
- The latest USDG monitoring framework is inappropriate and of limited use in terms of the intention of the grant, as it dilutes the focus of the grant across the entire spectrum of possible built environment outputs rather than sharpening a focus on service delivery to households in informal settlements, peripheral, under-serviced or historically marginalised areas. A revised monitoring and reporting framework is required in light of the above.

For the above reasons, it is concluded that the current theoretical framework for the USDG is not valid. Therefore, without introducing some programmatic changes to the current grant framework, it is not appropriate to expect the grant to produce the desired outcomes.

The USDG was introduced as a fiscal instrument before there was a coherent theory of change and a consistent policy framework. The fiscal instrument was therefore driving policy to some extent. While the grant was a 'new' grant, the lack of a coherent theory of change and consistent policy framework meant that what was 'new' about the grant was not fully understood. This had the effect that things were done in much the same way that they have done

in the past, evidenced by the USDG expenditure profiles in the case study metros. To complicate things further, the USDG was an evolution of an existing grant, the MIG (Cities), which meant that it was treated by metros in much the same way as MIG (Cities). There are two lessons to be learned through this experience. Firstly, any new fiscal instrument either needs to be explicitly linked to an existing programme or programmes that it is meant to fund, or needs to constitute a programme in itself, complete with its own, agreed-upon, programmatic theory of change that explains the link between the instrument, the activities, the outputs and the intended outcomes, before the instrument is introduced. Secondly, where one fiscal instrument replaces another (in the way that the USDG replaced the MIG (Cities) and some of the HSDG), the policy framework or grant framework needs to indicate whether or not the new instrument is intended to fund what the existing instrument was funding, and if not, how these things will be funded in future.

There is currently no single existing programme that the USDG is intended to fund; it contributes to general municipal service provision, and complements existing housing programmes. Currently all human settlements functions, except for the provision of housing top structures are municipal constitutional mandates. To conceive of a single, codified 'human settlements programme' aligned to the USDG would either require acceptance of the institutional status quo and require joint implementation of the programme by provincial and local government (which has been shown to have failed with the USDG), or would require a shift in institutional responsibility. It is not feasible for all the municipal functions incorporated into human settlement development to be shifted to the provincial sphere, so the logical shift would be completion of the housing assignment process, leaving metros as the sole implementing agents of a 'human settlements programme'. Such a programme would be broader than the current provisions of the Housing Code, and would require its own programme logic or 'code'. Key to the debate around what a 'human settlements programme' constitutes is an adequate and acceptable definition of 'human settlements' which has yet to be resolved. No recommendation on this issue is proposed, as this is a matter for debate and resolution through current and future human settlement policy development processes.

Given that the USDG does not constitute a single programme, then it is necessary to identify clearly the programmes and associated outcomes to which it contributes. This is currently not done in either the grant framework or the draft policy framework. Neither are these documents explicit about what should have happened to the outputs previously funded by the MIG (Cities) and the reallocated portion of the HSDG. The theory of change needs to take into account the impact that the introduction of the USDG has had on pre-existing funding sources, so as to not disrupt planned built environment development.

The DORA grant framework, in specifying grant outcomes, creates the impression that the USDG is a single programme with a set of coordinated activities to achieve specific outcomes,

when this evaluation has shown that in fact it is not. This is the reason that the evaluation constructed a theory of change for a coordinated programme, which has been found to be invalid. The conclusion that can be drawn is that grant outcomes are appropriate for specific-purpose grants that constitute programmes in and of themselves, but are not appropriate for supplementary grants that inherently contribute to multiple programmes. Supplementary grant outcomes can only ever be the outcomes of the programmes to which the grant contributes, or a specific subset of these, which is the case with the USDG.

### **8.2.2 Does it provide an appropriate response to human settlements challenges facing urban areas?**

Given the critique of the theoretical framework provided above, the USDG should not be seen as a programmatic response to human settlements challenges. It is simply a financial instrument that supports existing housing, human settlements and built environment programmes to address the challenges facing urban areas. The critique of the theoretical framework is not a critique of the grant design i.e. the fact that it is a Schedule 4B supplementary grant transferred to metro municipalities. This section therefore examines whether the grant is appropriately designed to support the (other) programmes that respond to the human settlements challenges in urban areas, rather than assessing whether the grant is structured to do this directly. As a fiscal instrument it is not possible for the grant to produce the intended outcomes on its own, without correctly formulated and coherent programmes in the built environment. If the grant is intended as a financial tool to support a wide range of built environment interventions, as it has been found to be in the evaluation of the grant design, then the grant design is appropriate because it is sufficiently large in quantum to address major capital projects and is sufficiently flexible to enable municipalities to determine their own priorities within the general grant conditions, given the wide range of outputs that can contribute to achieve the current grant outcome statements.

If the principle of fiscal autonomy for metros is genuinely supported, and sufficient accountability is possible through the monitoring framework, then it may even be possible to extend the benefits of flexibility and the successes of the USDG through consolidating all capital infrastructure grants into a single grant. However, this scenario requires two preconditions: firstly, that the metros receiving such a grant have illustrated sufficient transparency and financial management capacity to allocate capital funding appropriately to fulfil both the municipal and national imperatives adequately; and secondly, that sufficient conditions remain to ensure that the national objectives of whatever grants are consolidated can be simultaneously achieved. However, if the grant is intended to have a more specific focus on informal settlements and supporting housing interventions, then a more rigid, conditional grant with more specific outputs and a different set of outcome statements would be more appropriate. This option would make the USDG similar, if not identical to, the HSDG and it would be difficult to argue for both grants operating in the same physical space. In this case it would make sense to merge the

two grants, but the HSDG grant conditions would need to be broadened to include some of the infrastructure outputs of the USDG, and the Housing Code, as the policy governing the housing programme, would need to be revised to allow for metros as a special case with a slightly different fiscal instrument.

The USDG in its current form is innovative by international standards because of its flexibility of application. The grant design qualifies broadly as an output based (performance-oriented) grant, but is somewhat limited in the monitoring framework that is applied. While the grant was found in Section 7.2 to wholly fulfil Shah's (2009) recommended capital grant design criteria of fairness, stability and predictability, revenue adequacy, autonomy and simplicity, it only partially fulfilled the criteria of efficiency, clear objectives, accountability and transparency. The USDG was found not to fulfil the criteria of responsiveness because the grant formula is not flexible to economic conditions. Using this framework, the grant design could be improved through:

- Addition of a 'matching' component to incentivise use of own funds and efficient use of the USDG;
- More specific grant objectives: to ensure that the grant is used as intended and to eliminate disagreement;
- Greater accountability to citizens through inclusion of municipal programme performance indicators in the statutory municipal reporting to the public (although this is beyond the scope of the grant design); and
- Revision and publication of the grant formula: Questions have been raised as to whether the grant is displacing own source funding. Publication of the formula would improve transparency and simplicity.

There continues to be a lack of clarity about the nature of the USDG. Is it a supplementary grant that supports the idea to fiscal autonomy and decentralised local government to be spent as municipalities see fit? Or is it a centralised conditional grant to achieve specific human settlement outcomes through specific outputs? At present it is neither. While it could be re-structured to become one of these two extreme versions of a grant, the ideal position of the grant is one that both supports local government autonomy to determine its capital investment priorities, but that simultaneously ensures accountability to national government for the outcomes the grant was meant to achieve. This evaluation concludes that the solution lies not in increasing conditionality and reducing metro autonomy, which would weaken the grant design in terms of international best practice. Rather, the solution lies in increasing accountability relating to the municipal outcomes, both to national government and to citizens, through developing a specific, clear and closely scrutinised monitoring framework.



### 8.2.3 Is the grant structure appropriately targeted?

In the absence of a programmatic logic to the grant, the USDG is just a conditional financial transfer supplementing existing capital financing and therefore targeting can only be understood in terms of the current grant conditions. Although these ideas are contested, the grant conditions incorporate two types of targeting:

- Targeting the 'right' grant outputs; and
- Targeting the right beneficiaries.

#### *Targeting the 'right' grant outputs*

The supplementary nature of the grant means that metros are free to determine the outputs that are contributed to by the grant. Therefore, it is not possible to determine whether the 'right' outputs were produced without assessing how the outputs related to the overall plan (the BEPP) to achieve the broader outcomes. There is no agreement in policy documents or between stakeholders as to what the grant should or should not be used for, as this depends on the particular understanding of the origin of the grant.

However, given the history of the grant and its stated policy intent, it is concluded that there is a wide range of possible outputs that could contribute to the desired outcomes, which are not limited to servicing informal settlements. The extent to which funding of built environment infrastructure (public transport infrastructure or bulk infrastructure to promote economic development) can achieve the policy intent is not yet agreed. The issue of where these outputs are located in space is dealt with later in this section in relation to spatial targeting.

While the international experience suggests that restrictive conditionality should be avoided, the flexibility needs to be matched with appropriate accountability mechanisms to avoid abuse of the grant.

#### *Targeting the right beneficiaries*

Another dimension of the targeting is the focus on poor households, which is a primary feature of the grant. While this has been found to be generally true in the metro case studies, the grant does also benefit non-poor households. The grant is therefore not exclusively targeting poor households. This is because of the nature of a bulk infrastructure grant that funds the types of infrastructure from which the whole city benefits, such as roads. This is not necessarily a result of inadequate targeting of the grant, but is a symptom of the lack of a clear requirement for municipal co-funding (as in a 'matching' grant), as well as an inadequate monitoring framework. This has to be taken into account when considering the difficulty in accounting for and monitoring the incidence of the grant. The monitoring framework focuses too much on outputs, to which it is difficult to attach specific beneficiaries, and not enough on the changes that benefit the target group as a result of spending the grant.



#### **8.2.4 Is the direct transfer of funds to municipalities the suitable solution to the challenges of creating efficient urban spaces?**

Since the enactment of SPLUMA, municipalities now have control over municipal spatial planning, in addition to the pre-existing constitutional powers over other municipal planning. The logic behind this legislative development is that municipalities are best placed to determine spatial investment priorities. Integrated Development Plans are intended to be integrated and consider all components of the built environment, and an integrated funding source is required to fund these plans. In terms of accepted public finance principles, given the 'vertical fiscal gap', it is appropriate for a direct transfer of funds from the national fiscus to fill this gap.

The grant objectives, as conceptualised in the theory of change are not only about creating efficient urban spaces, but also about improving quality of household life. The evaluation has shown that the grant objective of spatial efficiency is in tension with the objective of universal basic servicing. These two objectives need not be mutually exclusive in all cases, but the tension is likely to exist for some time, given the existing socio-spatial fragmentation of South African cities. Given this reality, it may not be appropriate for the USDG to be used to pursue both objectives simultaneously, and the ICDG and NDPG may be more appropriate performance-based instruments to achieve spatial efficiency. However, by the fact that the USDG is a source of significant infrastructure investment, it is important that it be used in a manner that aims to improve city efficiency and not counteract this policy objective. The integration of planning for the implementation of all the built environment grants in the BEPP is a sound mechanism to ensure that the USDG expenditure is not counter-productive. However, the BEPP is considered to be a short-term measure and should ideally be replaced by an improved IDP and CIF.

The direct transfer of funds to municipalities can enable, but by itself cannot achieve efficient urban spaces. The grant needs to be combined with appropriate measures to ensure accountability (Shah 2007, in UN-HABITAT 2009, despite acknowledging fiscal gap that necessitates transfers to metros, also warns against increased reliance on direct transfer to metro areas as constraining fiscal autonomy of cities and potentially jeopardising local accountability), and this is where the implementation of the grant has failed.

#### **8.2.5 How is the creation of the USDG linked to the housing function and its integration into human settlements development at local level?**

The advent of the USDG built on the accreditation process initiated in terms of BNG, and roughly coincided with the introduction of Outcome 8 which set clear targets for the staged devolution of the housing function to local government. The USDG was expected to complement a range of functions related to human settlements to cities, these included:

- Planning of residential developments;
- Land use management (through the newly enacted SPLUMA);

- Housing delivery through accreditation and assignment; and
- Public transport (through NLTA, PTIG and new operating subsidy regime).

The USDG therefore recognised that metros were ideally placed to ensure integration of built environment functions and urban efficiency. The USDG and other fiscal mechanisms were the means of enabling the kind of projects that could produce greater efficiencies. It appears that the USDG was conceptualised as a mechanism to expedite devolution of the built environment functions to cities, given a realisation by National Treasury that the devolution processes were likely to be slow.

The USDG is expressly not allowed to be used for funding housing top structures. This means that the funding can be applied up to the point of constructing the housing unit, at which point other financing mechanisms, including the HSDG, are required. The design therefore relied on the interface between the metro and the province for coordination of the HSDG and USDG funding.

While the USDG design is aligned to the thinking that top structures may not be provided in every case, the delivery of state-funded housing is likely to continue for some time. If metros are responsible for undertaking all the administrative processes to facilitate the delivery of serviced sites (planning, budgeting, community engagement, design, project management, etc.) then a strong case can be made for the efficiencies that could be gained from continuing the process to the construction of a top structure.

Metros believe they have the capacity to perform the housing function, and the Capacity Compliance and Accreditation Panel believed they all had at least the capacity to perform Level 2 functions and recommended assignment of 6 metros. However, provinces are strongly against accreditation and stand to lose substantial resources and decision-making power in the process. The completion of the process comes down to political support for decentralised local government and a willingness to let metros take on the function and accept accountability for its success or failure.

### **8.3 Implementation mechanism**

#### **8.3.1 How has the USDG been interpreted at national, provincial and municipal spheres?**

The shifting policy provisions and incomplete policy process have resulted in a variety of interpretations of the grant between the national, provincial and municipal stakeholders. The variations in interpretation span both the primary and subsidiary features of the grant and can be differentiated by the spheres of government.

***Municipal interpretation***

The municipal interpretation has tended to be the broadest interpretation of the USDG amongst the three. All of the metros could generally articulate the policy intentions of the grant and its encompassing features, differentiating it from MIG (Cities) and indicating those areas which make it unique (e.g. land acquisition, bulk and connector infrastructure, informal settlements and urban poor orientation, etc.). Emphasis on the “supplementary” nature of the grant and the lack of set criteria in the draft policy frameworks by the metros allows for wider application across the entire capital programme. There is of course a greater incentive for the municipalities with smaller capital budgets to interpret it more broadly, as in the case of Buffalo City, where the USDG is more than three quarters of the total capital budget and so is a “supplement” only in name.

***Provincial interpretation***

At the level of provincial government the USDG is interpreted as an unfortunate re-allocation of funds that would have otherwise been used for provincial human settlements delivery. The lack of clarity on the provincial government’s role in the development of the BEPP and application of the USDG from the outset has left the provincial departments relatively uncertain as to how they should engage and kept them questioning the merits of allocating the grant to metros. Coupled with existing reservations and concerns of metro capacity, as well as enduring provincial orientations towards housing provision, this has meant that the provincial departments have generally been sceptical of the USDG and do not tend to see the value in transferring the funds to metros when the provinces could still be using them. In particular, the provincial belief is that metros should use the funds to ensure bulk and connector infrastructure provision for HSDG programmes and additional provisions only divert resources from the core business at hand.

***National interpretation***

The national interpretation of the USDG is not uniform and can be distinguished by three perspectives: National DHS; National Treasury; and the Human Settlements Portfolio Committee.

In the case of the Portfolio Committee, the interpretation is one that focuses on engineering infrastructure for housing delivery and basic service provision in unserved areas, with a specific focus on sanitation.

The National DHS interpretation appears to be caught between two opposing perspectives: firstly, there is an understanding of the grant that supports the formation of human settlements within a built environment context and appreciates that metro governments are best placed to do this. Secondly, the Department cannot ignore the demands of its role as the transferring department and the associated oversight and accountability responsibilities it has

in this regard. This has meant that it understands the value of the flexibility of the grant and the range of potential products and services it can fund, but that this challenges its oversight responsibilities and dilutes the means of achieving its most pressing policy priorities, namely the delivery of housing.

Lastly, the National Treasury interpretation of the USDG is the one that includes the institutional memory of MIG and MIG (Cities), and contextualises the USDG beyond human settlements priorities, within a broader built environment context.

### ***Implications of the differences in interpretation***

The differences in interpretation have a negative impact because they cause significant intergovernmental tension around what the grant can and cannot be used for. Municipalities feel aggrieved when they are chastised at Portfolio Committee meetings for spending the grant on the ‘wrong things’, while provincial and national DHS feel frustrated that the grant is not sufficiently supporting the creating of (a specific understanding of) sustainable human settlements, as intended. There is a contradiction between its status as a supplementary grant and a narrow interpretation of the possible grant outputs, which implies a high degree of conditionality. It has been found that the supplementary nature of the grant is appropriate, and therefore that the interpretation of the grant amongst certain stakeholders, specifically the provincial and national DHS and the Portfolio Committee on Human Settlements, needs to broaden. However, the broad interpretation also needs to prioritise human settlement outcomes over broader built environment outcomes.

The second and possibly more important negative result is that it prevents any objective measure of the effectiveness of the grant alone. One cannot measure effectiveness if the outcomes to which the grant aligns are not clear and agreed. The reason for this difference in interpretation has its root in the lack of clear and well-defined outcome statements, as well as a link between how outputs that are purchased with the grant can achieve these outcomes. As a result, the focus of the intergovernmental disagreements has been on the grant outputs, and not on the outcomes. There is a clear need for the finalised policy framework to clarify this issue.

One positive result of the uncertainty created through the lack of finalisation of the draft policy framework, is that it has resulted in municipalities having the flexibility in application of the grant that has been found to be part of the original grant design. If the policy framework is finalised or replaced, it is necessary to retain this element of flexibility.

### **8.3.2 Is the grant being implemented according to the design?**

Although the theoretical framework has been found to be invalid, elements of the theoretical framework are being implemented as intended. These elements relate to the production of

some of the desired outputs using the USDG, namely:

- Bulk service infrastructure being delivered;
- Household basic service connections;
- Socio-economic public infrastructure creation; and
- Some upgrading of informal settlements.

However, there are a number of elements of the theoretical framework that are not being implemented according to design. These include:

- BEPP planning as an intergovernmental process has failed;
- National department feedback is not having significant impact on the BEPP or the use of the funds;
- The USDG is not generally being used to leverage additional capital funding;
- Projects are being selected for USDG funding in a variety of different ways, with no consistent application of criteria for prioritisation; and
- There was no evidence in the design and implementation review that indicated that USDG could contribute to increasing access to title deeds.

In addition, there is no basis for assessing whether the services provided are being delivered to the intended beneficiaries or in the right places. The following assumptions in grant design are not valid in the course of implementation:

- The BEPP Panel does not provide sufficient intergovernmental input to ensure alignment and consistency with the USDG Policy Framework;
- Integration and consistency between human settlement planning across spheres of government is not occurring to the extent envisaged, although at the municipal level there is inter-department alignment of planning;
- Metros do not all have the institutional capacity to spend their USDG budgets (although this has improved, in part because of the “top-slice” OPSCAP in the USDG) and many still struggle to spend their entire capital budget;
- Metro systems do not necessarily produce accurate, reliable and timely data to the detail necessary to give a clear indication of all the outputs being achieved, nor are they differentiated by the USDG; and
- There is limited evidence on a year-to-year basis that outputs are being delivered with a view towards integration for a better built environment <sup>36</sup>.

In addition to this, the following external factors are not necessarily occurring in tandem, as assumed in the grant design:

- There is no evidence from provincial planning documentation or focus groups to suggest that provincial departments are considering BEPPs in the planning of their own human settlements delivery;

<sup>36</sup> While the outputs in general do contribute to a better built environment, the critique here is on the lack of a spatial integration logic to the outputs.

- Top structures using the HSDG are not necessarily being delivered to complement the spending of USDG funding, as there is only limited evidence that these two funding sources are being used in the same projects; and
- Outside of projects located on designated corridors or priority nodes within the city, there is limited evidence that the USDG outputs are being consciously integrated with public transportation towards the outcome of better built environments.

As a result of the above, and recognising that the above are generalisations from the four metros included in this assessment, it is clear that the grant is deviating from the constructed Theory of Change in some fundamental areas. In short, evidence suggests the Theory of Change guiding the USDG design is not being implemented as intended, in part because the grant is a funding instrument rather than a policy or programme for the built environment. If the USDG is intended to be a policy for managing the built environment or a programmatic approach, changes need to be effected and this may be at both the design level and the level of implementation, recognising that design changes may alter the mechanism for implementation.

### **8.3.3 To what extent has the BEPP found its place within the development planning framework?**

The purpose and value of the BEPP was not fully developed or understood when it was introduced in 2011, but it has evolved and improved over time. The BEPP as a planning document has found a tenuous footing within the suite of development-planning frameworks and requires further refinement and differentiation, with recent shifts of conditionality attached to it to all the built environment grants, and not just the USDG, being more appropriate. There is potential value in the link between the long-term spatial and capital investment plans of the city (although this space could be closed by improvements to the IDP and CIF), and in providing a framework for project selection and prioritisation.

### ***Do these planning instruments talk to one another across national, provincial and local departments involved in the implementation of the USDG?***

With the local government planning framework, the BEPP is aligned and consistent with other local government planning, because it is derived from them all. However, this introduces a high degree of overlap and redundancy. The BEPP was found to improve inter-departmental planning within metros.

It is not clear to which national and provincial plans BEPPs are meant to align. BEPPs note the applicable policies and plans of the other spheres of government, and could therefore claim alignment, although there is no strong evidence for this. There is even less evidence of alignment of provincial plans with the BEPP.

The BEPPs manifest national policy intent through adherence to the BEPP guidelines issued by National Treasury, rather than through intentional alignment with any national plan. The BEPP therefore does talk to the planning of the various local departments involved in implementation of the USDG, but does not talk to planning instruments across other spheres.

### **8.3.4 Challenges and changes in roles and responsibilities**

Amongst the different role-players involved in USDG implementation there have been a variety of changes to their respective roles and responsibilities but these of course vary on a case by case basis. Some of these changes have been of a more positive nature while others have proved to be more challenging for the different actors to accept. Emergent indications of how these changes are affecting delivery are reflected upon based on the evidence available.

#### ***Metropolitan municipalities***

At the level of the metropolitan municipality the USDG has helped to bring about some fundamental organisational shifts in terms of how the multiple responsible line departments approach human settlements. In general inter-departmental planning has improved. One issue that was raised is that there needs to be fair representation from all departments in the grant allocation process, particularly by the human settlement department. The USDG seems to be having the intended effect of providing metros with greater agency in terms of human settlements decision-making relative to provincial departments.

#### ***Provincial Departments***

Provincial Departments of Human Settlements have been affected negatively by the USDG. Provincial resources and control have reduced and the provinces have not been meaningfully included in the BEPP planning processes. In effect the provinces have very little to no control over the allocation of the USDG. Provinces have not realised their role to support municipalities or to undertake monitoring and oversight. While these are important roles that the provinces should play, this would require provinces to shift in paradigm from housing to human settlements, and to accept that control for implementation vests in metros.

#### ***National Department of Human Settlements***

The USDG has created new and challenging roles for the national DHS. The grant was introduced very quickly, as a process initiated by another department, and the responsibility was transferred without adequate handover. The new role has pushed the national DHS into new intergovernmental relations and oversight territory, and added new policy, support and coordination roles. The lack of finalisation of the policy framework and the level of monitoring would indicate that DHS has struggled to fulfil these roles.

#### ***External role-players***

The involvement of external role-players in the USDG has been negligible which is seen as a



problem by these stakeholders, but not by the metros. The exception was private developers accessing USDG funding (with some difficulty) in integrated developments. There has been a critique that external stakeholder, and civil society in particular, should be included in the BEPP and USDG project allocation processes, but the counter-argument is that both processes are subsidiary to statutory public consultation processes around the IDP and capital budget.

### ***How is this affecting programme delivery?***

In general the internal metro changes in organisational structure resulting from implementation of the USDG are believed to have had a positive impact on implementation of capital programmes, although this is still hampered by the lack of technical skills, particularly project managers.

The cooperative governance intended in the USDG grant design has failed. Provinces are not currently playing their mandated role in relation to the USDG. The reduced role of the province is problematic, and it would appear that the lack of alignment in planning between the HSDG and USDG is hampering the delivery of housing opportunities. Metros believe that accreditation, and eventually assignment of the housing function, will improve the efficiency of service delivery, while provinces believe that it will not. These are claims that are impossible to test in practice.

### **8.3.5 Are the resources used efficiently?**

#### ***BEPPs***

While metros appear to be relatively efficient in the compilation of BEPPs, the entire process is not an efficient use of resources in that the engagement process does not result in alignment of plans and the feedback on the BEPPs does not result in material improvements to the plans.

#### ***Allocation of funds and project selection***

As the allocation of USDG funding is either an extension of, or identical to pre-existing methods of capital project administration, these processes are believed to be efficient. There is no evaluation of whether the 'right' projects are being selected, as this would require explicit criteria to do so, which do not currently exist. Given that the grant is supplementary, there is a flaw in the conception of the idea of a 'right' project. A 'right' project would be one that contributes in some way to one of (the many and varied) outcomes which the grant is intended to support, while a 'wrong' one would be a project that can be proven not to contribute to these outcomes. Given the breadth of the various outcome statements that have been used for the USDG, metros are able to justify almost any capital project as contributing to these outcomes. This is why the precise conception of the outcomes to which the grant contributes is important.

***Leveraging capital finance***

The limited evidence that this is happening means that no assessment of the efficiency of this process can be made.

***Expenditure***

With the exception of Buffalo City, all of the metros assessed here have had consistent USDG expenditures of above 90%. The fact that expenditure on the USDG has been better than overall capital expenditure is an indication that the funds are utilised as efficiently as possible in the particular metro context. This indicates that any constraints to achieving higher levels of expenditure are unrelated to the grant design or administration.

***Outputs: Products and services delivered***

The variability in the products and services delivered through the USDG and the inconsistency in reporting on these means that any generalised judgement of efficiency in this regard is difficult to make. However, because of a number of impediments to output delivery were noted, including SCM and procurement issues, technical capacity gaps and inconsistent project implementation monitoring, the USDG's overall implementation is characterised as less than efficient.

**8.3.6 Is value for money obtained?**

The current methods of grant measurement are inadequate to empirically determine 'value for money' at this time. A full Expenditure Performance Review would be required to make this type of judgement, and even then, innovative ways would have to be found to derive a common basis for comparison across metros and outputs.

This evaluation can only make a subjective judgement on the likelihood of value (broadly conceived) being achieved. The re-formulated question that has been posed to the evaluation team is: Given what the municipalities are spending the money on, is this likely to result in the 'value' that is required in terms of the grant objectives? This notion of 'value' is understood to be improvement in the quality of life of poor households in metros. Given this understanding, then the grant outputs reported in sections 6.6.3 and 6.10 do contribute meaningfully (although not exclusively) to this end, and in this sense, the USDG does create significant 'value'. The reasons for the USDG not contributing exclusively to improving the quality of life of poor residents is that, as discussed in section 8.2.3, the impact of the grant may be being diluted through expenditure on non-poor households because of the nature of outputs to which the grant contributes. This is an unavoidable consequence of the type of outputs being funded, but can be mitigated through municipal co-funding of any infrastructure that benefits non-poor households and businesses. The evaluation has concluded that in some instances this co-funding is not being provided.

### **8.3.7 How does the USDG interface with the municipal accreditation process and the City Support Programme?**

#### ***Municipal accreditation***

The process of accreditation is an informant to the conceptualisation of the USDG, and implicit in its design is that assumption that this process will inevitably be concluded. If the USDG was intended to support a transition between provinces and metros performing the housing function, then this has not been realised. This is not because the USDG failed in its 'bridging' function – the experience of the sampled metros have illustrated that the administration of the USDG has improved grant administration and financial management capacity, as a result, grant expenditure is steadily increasing. Rather, it is because the full implications of assignment were not appreciated when the process was begun, and once realised, have led to hesitance in proceeding.

If the intention is for assignment to be realised, then the USDG is an appropriate instrument for metros to provide the infrastructure platform that will facilitate the rapid delivery of top structures on serviced land. To complete the devolution process, then, metro capacity needs to be either confirmed or built and adequate assurance needs to be provided to provinces that metros will still be accountable for their contribution to human settlement outputs and outcomes.

However, if provinces do not intend to assign the housing function to metros, then it could be argued that splitting the funding for the internal servicing and the top structure for housing projects may be inefficient, in which case the former arrangement of a MIG (Cities) grant and a larger HSDG may be preferable.

However, notwithstanding the provinces' concerns around metro capacity, it is concluded that the implementation of the USDG would benefit from the conclusion of the accreditation process, given that the grant was designed around the eventuality of accreditation and that its delay is hampering efficient and integrated planning and service delivery.

#### ***Cities Support Programme***

There was limited evidence of any interface between the CSP and the USDG at the time of the initial research, but this has grown towards the end of the evaluation through increased engagement by the metros in the CSP indicator development process and the change in focus of the BEPP.

### **8.3.8 What are the institutional issues/gaps and how are they affecting delivery?**

The introduction of the USDG has resulted in a number of changes in institutional arrangements across all three spheres of government. At the local sphere, there is evidence from

the case studies that the grant has resulted in institutional re-organisation and in some cases the creation of new departments or structures. These changes are all positive developments aimed at managing the grant administration and implementation of the grant more effectively and improved levels of expenditure. However, the relative power of line departments and coordination between them is still a problem in some cases. This may lead to the human settlements agenda being marginalised in favour of the priorities of engineering departments. While the CCAP process concluded that metros have the required capacity to take on Level 1 and Level 2 housing functions, there was a reported capacity gap in relation to technical project managers in many metros, and an evident general capacity shortage in Buffalo City. These gaps result in delays in project implementation, slowing down delivery.

At a provincial sphere, the provinces are not playing the role as envisaged in the grant design or described in the Theory of Change that was intended to integrate the housing component with the other elements of human settlements. The introduction of the grant has created tension between provinces and metros and challenged the coordination of the HSDG and USDG implementation. This both exacerbates, and is exacerbated by, the continued delay in the accreditation and assignment processes. At the national sphere the relative roles of the DHS and National Treasury are not clear to metros, which frustrates metros and adds to the lack of policy clarity.

The impact of institutional changes on output delivery can be summarised as:

- Reported capacity shortcomings around planning, procurement and project management ultimately delay and extend the timeframes for the delivery of capital infrastructure and investments;
- The organizational location and relationships of the directorate ultimately responsible for USDG project selection has an influence on the kind of projects that receive USDG funds and their integration with other projects; and
- Failure of cooperative governance and fraught relationships with the provincial departments that limit the complementarity and coordination which will limit the contribution of the USDG towards the human settlements outcome it is intended to support.

## **8.4 Institutional and Funding Framework**

### **8.4.1 Do the legal and policy shifts support or encumber the intentions of the grant?**

The legal and policy shifts that are presented in this evaluation are almost all informants to the grant and therefore support its intentions. The only legal shift that has taken place since the grant was introduced is the enactment of SPLUMA in 2013. This strongly supports the intention of the grant through providing metros with more autonomy around spatial planning, which is one of the key built environment functions. However, the increase of planning powers of metros and the associated decrease in provincial planning powers may exacerbate tension around shifting powers in the built environment between these two spheres. The implication

of SPLUMA is that until the housing function is assigned, provinces will be required to gain municipal approval for the location of provincial housing projects.

In terms of policy, the NDP was introduced subsequent to the introduction of the USDG, but is strongly aligned with the objectives of the USDG. All other policy shifts that are relevant to the USDG were not concluded by the time this evaluation was undertaken. This includes the IUDF and the new Outcomes Statement.

The one encumbering factor, which is not insignificant, has been the intergovernmental tensions and lack of planning integration that has been caused by the delay in the assignment of the housing function to metros.

#### **8.4.2 How could the structure of the grant and its application be improved and strengthened?**

This evaluation has found that the grant is generally adequately structured to appropriately respond to the urban settlements challenges in metros as a financial instrument. If the USDG is to continue to function as a fiscal instrument, then all that is required is a revision of the monitoring and evaluation framework to bring it in line with what can be achieved as a financial instrument and to position it in relation to existing human settlements and/or built environment and/or metro policies which should guide its application. This includes providing greater clarity around the grant objectives and outputs to which it contributes. In addition there is a need to revise the associated reporting requirements to minimize unnecessary, duplicated and/or redundant reporting. A full set of recommendations is provided in the following chapter. However, if it is to be more closely related to the housing function, then it would need to be significantly revised with a different programmatic Theory of Change and possibly re-scheduled as a conditional grant to support the housing process.

### **8.5 Monitoring Framework**

#### **8.5.1 Are the performance indicators suitable for its stated policy purpose?**

The performance indicators for the USDG have been highly variable, shifting between various policy frameworks and inconsistently applied by each metro. This is largely because no clear logical framework existed to link the USDG as a supplementary capital grant to the outcomes it was intended to achieve. The analysis has shown that the reason for the proliferation of output indicators stems from the difficulties in monitoring a supplementary grant. The DHS is required to report on the grant performance on an annual basis, which necessitated a large number of indicators to cover the wide range of possible outputs that could be delivered using the grant. Even this list did not fully encapsulate the outputs identified or implied in the grant framework.

The current performance indicators are not suitable for the stated policy purpose of the USDG

because:

- There is no rationale for the performance indicators linking the indicators to the outcomes to which the grant contributes;
- There was an absence of backlog or useful baseline information;
- The current indicators cannot distinguish between USDG outputs and outputs relating to expenditure on the total capital programme; and
- None of the performance indicators in the current matrix are at outcome level.

Across the three spheres of government there is a general failure to define and identify the data elements comprising the indicators, as well as their sources through the use of indicator protocols and definitions (PDG, 2014b). This is certainly the case for the USDG and needs to be urgently remedied.

It is therefore concluded that the indicators are not suitable to monitor performance of the stated grant purpose and a revised set of indicators and approach to monitoring and reporting is proposed in the following chapter.

### **8.5.2 Are the current planning and monitoring frameworks that relate to the USDG appropriate?**

The USDG's design as a supplementary financial instrument is critical to informing its relationship to other monitoring frameworks. As a supplement to the existing capital programme, there is nothing substantially new (other than the BEPP, which is no longer a condition of the USDG) that should require distinct monitoring processes in terms of outputs and services. In fact, all of the currently desired outputs and results of the grant are in line with existing policy provisions in terms of BNG, Outcomes 8 and 9 and the strategic plans of the provincial and local governments. The main concern of the monitoring framework has been trying to ensure that the USDG focus capital spending on human settlements and prioritisation of the urban poor. However, without the ability to attribute specific outputs or outcomes to the USDG, there is no reason to track USDG-specific indicators. The analysis has shown that the outcome indicators were either lacking or not correctly formulated when the USDG was established, the lesson that is learned is that the indicators should:

- Have a clear rationale linked to the grant objectives;
- Have clear definitions and data collection methodologies contained in indicator protocols;
- Include baseline information and backlog figures for each indicator;
- Be standardised and consistently applied by all metros;
- Should be reasonably possible to collect the requisite data with regularity;
- Relate to the overall capital programme and not to 'USDG projects'; and
- Reflect changes for the intended beneficiaries (results), which for the USDG ultimately mean changes in quality of life of low income households in cities.

## 8.6 Concluding comments

The USDG is a dynamic and flexible grant with a broad scope for application across the range of metropolitan built environments. As a result it can and has been used to fund a wide range of projects. The breadth of its intent is impressive, but also one of the biggest challenges and sources of conflict in its implementation because of the varying interpretations and understandings of exactly what informed the grant, and therefore what should be prioritised for delivery with the USDG. The ambitious nature of the grant has meant that it has contributed to the achievement of many things, but has not focused its impact. The lofty aspirations for the grant at its inception ignored the need to develop a coherent Theory of Change. The grant framework failed to set out the mechanisms as to how a programmatic approach for the USDG would achieve the multiple outputs and the desired outcomes. It is not possible for the grant to achieve all the outcomes that have been attached to it in the various iterations of the policy frameworks, when it has been proven to act as a financial instrument rather than a focused programmatic intervention.

The USDG's overall implementation is not as efficient as it could be. Inefficiencies exist in the built environment planning and are challenged by insufficient intergovernmental cooperation and coordination with other municipal planning processes. In particular, the coordination with the HSDG is poor. This is a serious flaw in the process, as one of the primary features of the grant was to focus on housing opportunities for poor households. Implementation efficiencies and inefficiencies that impact on the USDG are largely those that impact on the entire capital investment programme and therefore systematically addressing them is beyond the scope of the USDG as a capital finance instrument. However, there may well be a place for the CSP to assist, with potential positive benefits for USDG in the process.

The integration of the USDG into the project identification and selection processes of metros has occurred relatively seamlessly in most cases, with minimum additional administrative burden or disruptions, and with some innovation. But this has also meant that the USDG has done little to shift the project pipelining and selection process towards its envisaged outcomes, merely expanding the funding envelope for projects in poor or under-serviced urban areas. Where the grant was expected to leverage additional funds, this has not really occurred in all instances. The implementation of the USDG has appeared to result in a spatial distribution of projects that mostly coincides with the areas prioritized for development because of their socio-economic conditions, historical under-servicing or strategic location as a node or corridor for development. This has occurred relatively efficiently as a result of the existing project selection processes in each of the metros and would appear to be allowing metros to address their differentiated needs and conditions. However, the distribution of current USDG projects is not necessarily supportive of the spatial efficiency objective.

There is much value in the current design of the USDG as a Schedule 4B supplementary



capital allocation. Metros have demonstrated that they are increasingly able to administer the grant and utilise it for the breadth of projects which its outcome statements comprise. However there are indications that the grant can displace other sources of funding particularly in smaller metros. With the grant being flexible there is potential of the grant being utilised on provision of services that could be funded by other more conditional (and therefore more administratively onerous) grants. There is also the need to incentivise the use of own funding and potential to target the grant better through the inclusion of a 'matching' contribution by municipalities to fund bulk infrastructure and amenities that benefit businesses and non-poor households. However, there are still challenges around maximizing the value of the built environment planning process as well as in pipelining, prioritizing and selecting the right kind of projects in line with the intentions of the grant and for realising the expectations of key stakeholders.

Although the design of the USDG can be improved, it is the conceptual framework of the USDG as a financial instrument and not as a programme that requires the most work. There are a series of key decisions that need to be made. Firstly, is the USDG a fiscal instrument to support existing programmes, or is it meant to constitute a programme in itself? If the USDG is accepted as a fiscal instrument to support a range of programmes in the built environment, then all that is required is a revision of the grant framework to make this clearer, with more precise definitions of the outcomes and outputs to which it contributes, and a revised monitoring framework. If the USDG is intended to be a programme, then it needs a new Theory of Change for a 'human settlements programme', which may in turn require institutional shifts in responsibilities between provinces and municipalities. Secondly, is the USDG intended to support the development of the built environment, a broad notion of human settlements, or the delivery of housing opportunities? The evaluation has found that in directing the grant at the 'built environment' it has conflated the objectives of city efficiency and universal servicing, which can compete with each other in some cases. It is more appropriate to remove these city efficiency objectives and locate them with the other grants (the ICDG and the NDPG) to which they are more closely aligned. If the USDG is intended to fund a broad notion of human settlements, then it needs to fund a wide range of outputs and a supplementary grant to local government has been found to be the appropriate mechanism. However, if the grant is intended to have a more specific focus on informal settlements and supporting housing interventions, then a more rigid, conditional grant with more specific outputs and a different set of outcome statements would be more appropriate. This option would require a reconsideration of how the HSDG operates in metros and would require the identification of alternative funding sources for funding the outputs that the USDG currently funds, but would fall outside of this narrower objective.

## 9. Recommendations

### 9.1 Key recommendations

The recommendations have been structured to present the four actions that would most significantly improve the USDG in the short term, while additional recommendations on longer-term changes to the design, planning, implementation and monitoring and evaluation of the grant are presented in the next section. The key recommendations are listed in order of priority.

#### **1. Retain the USDG as a Schedule 4B supplementary grant but increase accountability**

If the grant intent is to remain “[t]o assist metropolitan municipalities to improve urban land production to the benefit of poor households, to improve spatial integration and densities by supplementing the budgets of metropolitan municipalities” (RSA, 2013a:181), then DHS and National Treasury should retain the USDG’s status as a Schedule 4B supplementary Grant for the 2015 DoRA. This is the grant’s greatest benefit that allows it to be targeted at the correct selection of the wide range of possible outputs that represent the greatest need that exist in each of the metros in order to achieve the grant objectives. The proposed tightening of control over the grant through conditions is a fairly common response to particularly flexible grants (Shah, 2009), but is not recommended unless the objective of the grant is shifted to a much narrower focus on upgrading informal settlements and supporting housing delivery, and not on broader built environment objectives. As long as the grant needs to fund the broad notion of human settlements, a supplementary grant is the best way to do this. Increased conditionality is believed to be detrimental to the grant in its current form. However, given that it has not been possible to empirically determine value for money with the USDG in its current form, a revision to the monitoring and evaluation framework is required to increase accountability and to measure overall capital programme impact in the longer term.

This recommendation has been placed first because it resolves the issue of whether the grant needs to become more rigid, or retain its flexibility. This informs the way that it then needs to be monitored, as discussed below. However, a radical change to the human settlements agenda through the Housing Green Paper process may require the structure of the grant to be revisited.

#### **2. Revise the monitoring framework (inclusive of rationalising outcome, outputs, and selected indicators) to focus on changes at beneficiary level**

The existing monitoring framework is inadequate to ensure the required accountability for the performance of a supplementary outcomes-based grant. DHS and National Treasury should reduce the grant outcome statements to provide clarity on the outcomes to which the grant, as a supplement to the capital programme, is expected to contribute. This may require prima-

ry and secondary outcomes associated with the grant for which the capital programme needs to account. Using the DORA 2014 grant framework as a base, the grant primary municipal outcomes to which the grant should contribute are:

- Increased household access to basic services for poor communities;
- Increased household access to public amenities and socio-economic services; and
- Increased supply of well-located land for human settlements development (discussed further below).

A secondary municipal outcome to which the grant contributes should be:

- Improved spatial integration of poor and low income households for better access to socio-economic opportunities.

In line with the rationalisation of the grant-associated outcomes described above, DHS and National Treasury should revise the grant outputs to reduce these to the following four broad categories of priority outputs to which the USDG contributes:

- Bulk infrastructure capacity provided or expanded to serve poor households and informal settlements;
- Internal engineering infrastructure provided to informal settlements and low income households for access to water, sanitation, electricity, roads and solid waste services;
- Public and social amenities provided to serve informal settlements and low income households; and
- Land purchased for informal settlements upgrading, subsidised housing, or mixed use development.

Given the recommendation that the USDG be maintained as a supplementary grant, metros should be afforded flexibility to a wide range of outputs that are appropriate to achieve the broader built environment outcomes to which the grant contributes. It may therefore be necessary to re-visit whether top structures or buildings may be purchased or constructed using the grant. The purchase of well-located buildings for conversion into low income residential properties may be able to simultaneously provide services, shelter, and achieve spatial transformation objectives. Funding of top structures beyond the current housing subsidy provisions, including recycling existing buildings, needs to be addressed in relation to housing finance policy as whole. Buying and servicing well located land is a specific output of the USDG, but the housing subsidy amount may be too small to build the required typologies to achieve cost-effective densities on expensive land. In this case, if the housing subsidy regulations remain as is, it may be beneficial to allow the USDG to be used to fund top structure investment.

The retention of the USDG as a supplementary grant means that it retains its flexibility. However, metros need to prioritise the grant spending on services for the urban poor and need

to be held accountable for this to avoid abuse of the grant. It is proposed that this can be achieved through DHS defining a narrow set of indicators that will provide evidence of increased services reaching the intended beneficiaries. Better indicators will allow for the grant, to be monitored better, and therefore improved. These indicators should logically flow from the rationalised set of outcomes and outputs proposed above. The set of indicators that is proposed reflect the last link in the human settlements infrastructure value chain. Access to these services enables (but are not alone sufficient conditions for) an improved quality of life, and these indicators are therefore taken as high-level output proxy indicators for the outcome. As indicators can also be used to introduce unintended conditionality, the list of indicators is deliberately kept small with the understanding that these are not the only potential indicators to which the USDG contributes, but they get closest to indicating whether metros are making a difference to the most needy of households. These indicators are:

- Additional households in informal settlements or other targeted priority areas with access to a basic level of water supply;
- Additional households in informal settlements or other targeted priority areas with access to a basic level of sanitation service;
- Additional households in informal settlements or other targeted priority areas with access to a basic level of electricity supply; and
- Additional households in informal settlements or other targeted priority areas with access to a basic level of refuse removal<sup>38</sup>.

Although the USDG clearly contributes to the other human settlements outcomes, such as the acceleration of delivery of housing opportunities through the HSDG by providing serviced land, this is a secondary grant objective that has inputs and dependencies that are outside of the sphere of influence of the USDG and the metros (at present). Therefore it is not justified that any housing programme indicators be included for monitoring of the USDG, as performance on the above four indicators is inherent in the provision of serviced land, which then serves as an input to the housing delivery process.

These indicators should be accompanied by specific and clear indicator definitions in order to ensure consistency of measurement between metros. DHS will need to liaise with National Treasury and DCoG to ensure that these indicators be included as compulsory indicators in the SDBIPs, which will improve their consistency and comparability, but also improve municipal accountability to citizens.

<sup>38</sup> Access by poor households to municipal roads has been left off the list of indicators even though roads are the recipients of much USDG expenditure. This is primarily because no standardised data on 'access to roads' exists, but in addition, access to roads in itself is not an outcome that necessarily leads to improved quality of life. An alternative indicator reflecting the benefit of increased accessibility to social and economic opportunities probably needs to be developed.

The data for these four indicators can be derived from the Census data. However, as this is not collected on an annual basis, progress cannot be measured for the years between the Censuses. An additional recommendation is that a common information system for the collection of municipal service access information be created. This can be established by the DPME, the DCoG or StatsSA (or a partnership of all three), but would need to be populated and maintained by municipalities themselves. Such a system is not a small undertaking, but would have significant advantages for a range of programmes and processes in government requiring such data.

Metros are thus free to allocate the USDG to a wide range of projects that may represent the metros' priorities, but all metros should track whether they are ultimately impacting on the quality of life for low income households. If no progress is made on these simple but fundamental outcome indicators, then the grant intentions are not being achieved.

This recommendation resolves the issue of inadequate accountability by metros for human settlement outcomes. It also defines the USDG as notably distinct from the HSDG and from other grants that have built environment efficiency as their primary objective (e.g. ICDG, NDPG, and to a lesser extent the PTIG). It positions the USDG firmly within the realm of the municipal built environment functions and therefore avoids any issues of overlap of constitutional mandate. The revised set of outcomes and output categories will need to be agreed by DHS, National Treasury, and DCoG as they have different implications for all three departments. The outcomes are certainly human settlement outcomes, but the grant output categories and the data proposed for their measurement are related to municipal infrastructure and are therefore within the mandate of DCoG. The implication for National Treasury is a shift in emphasis for city efficiency away from the USDG to the National Treasury grants, which may impact on their respective grant frameworks. National Treasury will also be responsible for the necessary revisions the USDG grant framework in DORA, as discussed below.

### ***3. Clarify the grant intent and how it is meant to be applied***

The evaluation has concluded that the USDG is a fiscal instrument and not a programme. However, it is still necessary for the DHS to clarify the grant intent through identifying the existing programmes and the specific outcomes associated with these programmes (as recommended above) to which it is intended to contribute. In addition, guidance is required on the monitoring framework that will be put in place to measure whether the grant is being applied correctly or not. This guidance should also cover the grant outputs, or categories of outputs, within existing programmes that are explicitly intended to be funded (also as recommended above).

This recommendation could be implemented through a revised and finalised USDG policy framework. While this is the preferred method, because of the need for adequate motivation and rationale to create clarity, it could also be implemented in the form of a revised DORA grant framework. Whichever option is pursued, it is necessary that the resulting document gives sufficient clarity to all parties involved in implementing, monitoring and overseeing the grant that the existing differences in interpretations are eliminated. The timing of this action is critical, given the current review of infrastructure grants being undertaken by National Treasury and this recommendation should feed into this process.

#### ***4. Support initiatives to build municipal capacity to plan, procure and manage capital projects***

DHS and National Treasury should amend the USDG policy framework to stipulate that a portion of the grant (recommended maximum of 5%) may be used to procure technical and project management expertise to improve project implementation and capital expenditure, if required. This portion should also be allowed to be used for feasibility studies for capital projects to improve project pipelines. This portion should not duplicate the capacity building undertaken with the Human Settlements Capacity Building Grant and should therefore be specifically for building infrastructure project management capacity.

The capacity support role of national and provincial departments remains a key success factor, and the CSP and the Human Settlements Capacity Grant are important in this regard. Given its embedded involvement in municipal planning, the CSP has the potential role to resolve horizontal coordination issues via the BEPP process. In contrast to the CSP, the national DHS does not have any permanent presence in the metros, and is therefore not set up to perform this internal capacity building and facilitation role.

The recommendation ratifies the de facto situation where some metros are using the USDG successfully for this purpose and gives permission for other metros to do the same. It attempts to overcome municipal capacity constraints that are hindering the effectiveness of the grant.

## **9.2 Additional recommendations**

### **9.2.1 Design**

#### ***Consider incentivising municipal co-funding through the introduction of a ‘matching’ requirement for municipalities to qualify for the USDG***

The international public finance literature promotes matching grants as a means to ensure that municipalities are incentivised to raise their own capital funding. National Treasury should consider adding this as a condition of the USDG. This requirement would also eliminate any displacement of other funding sources that may be resulting from the introduction of the USDG. This matching requirement need not be an exact Rand-for-Rand match, as this is clearly not affordable for some metros and may need to be a differentiated rate for the differ-

ent metros. Matching should be done on the overall capital budget, and not on individual projects, in order to ensure that municipalities are funding economic infrastructure that generates revenue, to complement social infrastructure being provided through the USDG.

***Require municipalities to participate in an annual peer review of capital project selection and prioritisation***

The DHS and National Treasury, through the City Support Programme, should facilitate annual peer review sessions to allow metros to share good practice and to encourage the development of credible, transparent and auditable process in place for the identification and prioritisation of capital projects. These processes need to ensure adequate representation of the municipal human settlement departments. The method of allocation of USDG funding to capital projects should be a focus of the peer review sessions. The peer review sessions can be facilitated by the DHS.

Resolve definition of key terms through human settlements policy processes

There is a general need for DHS to provide more specific definitions for key terms used in human settlements policy to make these terms meaningful and measurable. These include 'sustainable human settlements', 'secure tenure', 'well-located', 'spatial efficiency', 'built environment' and 'upgrading'.

## **9.2.2 Planning**

***Planning for the expenditure of the USDG should be an extension of the existing planning processes***

DHS should not require any specific planning to be undertaken for the expenditure of the USDG, outside of normal statutory planning processes. As is currently the practice, the capital budget process is extended to provide an extra step to identify USDG projects based on the criteria specified in the grant framework (see above). The identification and prioritisation of these projects will have happened through the existing statutory plans, i.e. the IDP and the SDF, as well as through the BEPP (see below). Projects are identified for internal purposes only, and not for external reporting purposes.

***The BEPP should not be specifically required for the USDG***

Since this evaluation was started, this recommendation has already been put in place through the revisions to the BEPP guidelines (National Treasury, 2013) and the revised USDG grant framework in DORA 2014. The new guidelines call for the coordination of all built environment capital investment, including the spatial location of provincial spending on housing and USDG spending to support this. The BEPP is therefore a sound mechanism to ensure USDG expenditure is not counter-productive to spatial efficiency objectives. However, the BEPP still excludes the HSDG, which should also be included in the BEPP to facilitate alignment of the HSDG planning with that of the USDG, as well as the other built environment grants. This new



role for the BEPP effectively separates the BEPP planning process from the grant, other than requiring reporting in terms of a performance matrix included in the BEPP. In time the BEPP could be replaced by an improved IDP and CIF.

***The BEPP Guidelines should establish definitions for spatial zones in order to monitor the targeting of the grant***

Notwithstanding the previous recommendation, the BEPP has a role to play in defining spatial zones within the city against which the spending of the USDG can be evaluated. To overcome the problem of inaccurate targeting of the grant at poor households, it is proposed that a spatial budget reporting method be used. This is already in place, to some extent, in Johannesburg and Ekurhuleni. The USDG is intended to benefit informal settlements and other low poor households in metros. In addition to the urban networks and integrations zones that are required by the BEPP, it is proposed that the City Support Programme of National Treasury amend the BEPP Guidelines to include additional zones for informal settlements and low income/underserved/marginalised areas. These areas would need to be identified in each metro based on clear definitions of these provided in the BEPP Guidelines. Monitoring of grant expenditure would then be possible based on these spatial zones – see monitoring framework recommendations.

### **9.2.3 Implementation**

The intent around the assignment of the housing functions to metros should be clarified. The broader process of devolution of the built environment functions to the local level is an integral part of the design of the USDG (as well as other grants), and this evaluation has found that the delay in this process has caused intergovernmental tensions, which in turn have resulted in a lack of integration between the HSDG and the USDG which makes the grant application inefficient. It is believed that the assignment of the housing function would resolve this tension and lack of cooperation.

However, if the assignment of the housing function is not going to take place, then this may require a revision of the structure of the USDG and how it interfaces with the HSDG.

Whichever route is pursued, the clarification of this issue will clarify the respective roles of the provinces and the metros in the human settlement development process, which in turn will allow for conditions more conducive to improving intergovernmental relations.

***The role of the province in the USDG should be clarified***

The national DHS should clarify the role of the provincial Departments of Human Settlements. The provincial departments should continue to coordinate housing planning with the metro planning, both through the existing Human Settlement Plan / Provincial Annual Performance Plan process and through inputting to the BEPP via the Technical Work Group proposed under the City Budget Forum in the BEPP Guidelines. The coordination of provincial housing

planning and metro planning clearly needs to be improved, but it is not believed that a process or structure should be attached to the USDG to achieve this. In addition the province should ensure cross-boundary coordination of development, particularly in the case of Gauteng.

The provinces should also continue to play a capacity-building role, but this needs to be expanded. Care must be taken that this capacity-building role does not overlap or compete with parallel capacity-building initiatives being undertaken by the CSP or SALGA and some definition of the exact type of capacity building to be undertaken by the provinces may be required. The provinces should also play a role in implementing the revised monitoring framework, but this requires a better appreciation of the function and purpose of the grant in the broader sense of human settlement development. Provinces play a crucial role in the interface between the USDG outputs and their link to the Outcome 8 outputs and outcomes.

### ***Improve the mechanics of municipal land purchase programmes***

The implementation evaluation found that metros have difficulty in purchasing land with the USDG because of the unpredictable timing of the purchases (making it difficult to budget for) and the large amounts involved (taking up too large a portion of the grant). The municipal land purchase programmes that are funded by the USDG need to be improved to improve the predictability and budgeting of land purchase using the USDG. This is already taking place through assistance being provided to metros by the HDA in the identification of land and the facilitation of its timely release, and this initiative should be supported and expanded. Provision needs to be made in the BEPP and budget processes for the clear identification of land, including a realistic assessment of when it will be available for purchase. As there will always be a degree of uncertainty, the grant management needs to incorporate sufficient flexibility to adjust budgets if purchases are not made.

## **9.2.4 Monitoring framework**

### ***An Expenditure Performance Review of the USDG should be undertaken***

This evaluation has not been able to determine value for money of the USDG spending for various reasons. National Treasury should commission an Expenditure Performance Review (EPR) of the USDG spending since inception to make a judgement on this issue. It is recommended that the EPR be undertaken on the entire capital budget, but evaluated against the objectives of the USDG to assess what portion of the total capital budget is spent on outputs related to the USDG outcomes, as well as the proportional contribution of the various outputs to the USDG outcomes.

USDG expenditure should be compared with overall capital expenditure

DHS should include a comparison of USDG % expenditure with overall capital % expenditure (sourced from National Treasury) in their annual USDG performance report. Overall USDG expenditure against budget is still a key metric, but needs to be compared with the overall

capital expenditure of the metro as well to determine whether there is a problem with the USDG or a problem with capital expenditure in general.

### ***Monitoring of financial indicators need to be spatially referenced***

In order to determine whether the USDG is being correctly targeted spatially and socio-economically, it is proposed that metros report on capital spending of both the USDG and the capital budget as a whole in the following broad asset and spatial categories:

**Table 19: Proposed matrix for spatial reporting on capital and USDG expenditure**

Asset category	Informal settlements	Under-served townships	New developments		Serviced areas not integration zones / hubs/ nodes / corridors
			Integration zones / nodes/ hubs / corridors	Other	
Bulk and connector infrastructure <sup>39</sup>					
Internal infrastructure					
Social infrastructure					
Housing					
Land					
Other					

The definitions for both the asset categories and the spatial zones should be contained within the BEPP Guidelines produced by the City Support Programme, and a map of the spatial zones should be a requisite part of the BEPP. The above table would allow for spatial representation of capital spending in prioritised areas. This reporting should be required of the metros annually by the DHS.

### ***A separate performance matrix is not required for non-financial outputs***

The DHS should not produce a separate performance matrix for the USDG in the policy framework. The USDG is not a programme and therefore cannot be monitored as such. It is also a supplementary grant, which means that its outputs are the outputs created by the capital budget as a whole and cannot be attributed solely to the USDG. The outcomes towards which the grant contributes are a subset of the overall built environment outcomes pursued by the municipality, which are already set out with targets and deliverables in terms of indicators developed as part of the IDP and SDBIP process. Incorporating the USDG outcome indicators in the SDBIP indicators (as was the intention in the grant design) increases

<sup>39</sup> Note that there are difficulties in allocating bulk and connector to specific areas but it is possible to do this in some cases, particularly for connector infrastructure.

municipal accountability to its citizens, which is an area in which the USDG needs to be improved. Some housing-related outputs do also need to be reported to DHS for Outcome 8 and housing programme implementation. Where the USDG seeks to contribute to change in relation to already other priority outputs and outcomes (e.g. households upgraded in informal settlements) the monitoring framework should rely on the existing protocols and data collection processes already in place outside of the USDG rather than attempt output monitoring distinct to the USDG. If protocols are not already in place or require better definition, as with the Outcome 8: Output 1 indicator, indicator protocols should be coordinated by the national DHS, the DCoG and the CSP in consultation with provincial and metro M&E technical expertise so that all of the constituent data elements, sources, calculations and meanings for the indicator are well-understood and applied for the validity of the title of the indicator, and consistency of interpretation where other actors measure the same thing.

***Reporting on housing outputs should be limited to Outcome 8 and housing programme reporting and not duplicated by any USDG requirements***

Outcome 8, or its equivalent in the new MTSF, will define the targets and indicators to monitor and evaluate human settlements outputs and outcomes. It is likely that these outputs will incorporate some of those contributed to by the USDG, as has been the case with Outcome 8. DHS need not duplicate the measurement and reporting of these outputs for the USDG specifically. However, because of the intention for the USDG to accelerate housing opportunities and contribute to the achievement of Outcome 8, the performance of the province and metro on Outcome 8 indicators in the metro area should also be monitored as a reflection of performance in relation to the USDG.

***Assessment of counter-funding and/or crowding out of internal funds can be achieved through review of standard budget reporting***

The standard budget reports submitted to National Treasury as part of the MFMA Regulations allow for the assessment of the change in funding mix in any particular metro over time. This would be sufficient to determine whether the USDG is impacting on the use of municipal own funding.

***The formula for distribution of the USDG between metros should be reviewed and published in the annual DORB***

National Treasury should review the grant formula to more closely relate the metro allocations to the intended grant outputs and grant-aligned outcomes and publish this formula annually in the DORB. The explicit distribution formula can then be monitored and evaluated for effectiveness to determine whether metros are receiving too much or too little USDG given the metros own ability to source capital funding. The determination of capital funding need requires further investigation, but is linked to the recommendation to incentivise own source finance through co-funding provisions attached to the USDG.

***Monitoring of individual project selection and implementation is not required***

The DHS should not undertake micro monitoring of projects and outputs. This is of little value and is not in line with the broader objectives of government which is trying to manage for results and the overall government outcomes. Projects are only identified to determine spend in specific areas. Outputs should not be tracked for USDG monitoring purposes because they are meaningless outside of a broader human settlements programme or policy framework. There is little to no evidence that provincial or national departments are monitoring the results of the non-financial reporting being painstakingly undertaken by cities beyond compliance purposes.

**9.2.5 Summary of recommendations by sphere**

From the recommendations provided above, the recommendations relating to specific spheres of government have been extracted for ease of reference.

***National government***

- The DHS and National Treasury should retain the USDG's status as a Schedule 4B supplementary Grant;
- The DHS and National Treasury should reduce the grant outcome statements to provide clarity on the outcomes to which the grant, as a supplement to the capital programme, is expected to contribute;
- The DHS and National Treasury should revise the grant outputs to reduce these to four broad categories;
- The DHS should define a narrow set of indicators that will provide evidence of increased services reaching the intended beneficiaries;
- The DHS, the DCoG and the CSP, in consultation with the provinces and metros should produce indicator protocols;
- The DHS will need to liaise with National Treasury and DCoG to ensure that these indicators be included as compulsory indicators in the SDBIPs;
- The DPME, the DCoG or StatsSA (or a partnership of all three) should create a common information system for the collection of municipal service access information;
- The DHS, National Treasury, and the DCoG need to agree on the revised set of outcomes and output categories;
- National Treasury need to make the necessary revisions the USDG grant framework in DORA;
- DHS to clarify the grant intent through identifying the existing programmes and the specific outcomes associated with these programmes to which it is intended to contribute;
- The DHS and National Treasury should amend the USDG policy framework to stipulate that a portion of the grant (recommended maximum of 5%) may be used to procure technical and project management expertise, if required;

- The CSP should provide support through the BEPP process to resolve horizontal coordination issues in metros;
- National Treasury should consider adding a provision for a matching requirement by metros as a condition of the USDG;
- The DHS and National Treasury, through the City Support Programme, should facilitate annual peer review sessions;
- The DHS should provide more specific definitions for key terms used in human settlements policy to make these terms meaningful and measurable;
- The CSP should liaise with the DHS and metros to include the HSDG in the BEPP to facilitate alignment of the HSDG planning with that of the USDG;
- The CSP should amend the BEPP Guidelines to establish definitions for spatial zones in order to monitor the targeting of the grant;
- The DHS and National Treasury should not require that BEPPs be specifically required for the USDG;
- The DHS should monitor grant expenditure spatially;
- The DHS and National Treasury should monitor grant expenditure levels together with overall capital budget expenditure levels;
- The DHS should clarify the role of the provincial Departments of Human Settlements;
- National Treasury should commission an Expenditure Performance Review (EPR) of the USDG spending since inception;
- The DHS and National Treasury should remove any requirement for metros to report on non-financial outputs of the USDG separate from other existing reporting requirements;
- National Treasury should undertake an assessment of counter-funding and/or crowding out of internal funds as a result of the USDG;
- National Treasury should review the grant formula to more closely relate the metro allocations to the intended grant outputs and grant-aligned outcomes and publish this formula annually in the DORB; and
- The DHS should not undertake micro monitoring of projects and outputs.

### ***Provincial government***

- The provincial DHSs should continue to coordinate housing planning with the metro planning, both through the existing Human Settlement Plan / Provincial Annual Performance Plan process and through inputting to the BEPP via the Technical Work Group;
- Provinces should clarify the intent around the assignment of the housing function;
- Provincial DHSs should ensure cross-boundary coordination of development;
- Provincial DHSs need to expand their capacity-building role; and
- The Provincial DHSs should play a role in implementing the revised monitoring framework.

## Metros

- The metro capital budget processes should be extended to provide an extra step to identify USDG projects based on the criteria specified in the grant framework;
- Metros should ensure that all departments with a role in the USDG supported programmes should be adequately represented in the grant allocation process;
- Metros should use a new spatial reporting template to report on USDG and capital budget expenditure spatially;
- Metros should track the spatial location of projects funded through the USDG;
- The HDA should support metros to improve the mechanics of their land purchase programmes to improve predictability; and
- Metros should be accountable for the outcomes to which the USDG contributes through prudent use of the USDG on outputs that contribute directly to these outcomes.

### **9.2.6 Concluding statement on the recommendations**

The recommendations provided above are believed to be realistic and easily implementable. They have been designed to reinforce one another, and therefore if particular recommendations are selected and not others, then the impacts of this course of action should be thoroughly assessed. However, if implemented, it is believed that these recommendations will improve the design, performance and impact of the USDG in South African metros.



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