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DEPARTMENT: PLANNING MONITORING AND EVALUATION

Summary Report on the Design and Implementation Evaluation of the Urban Settlements Development Grant

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Glossary

BEPP	Built Environment Performance Plan
BNG	Breaking New Ground (Policy)
CoCT	City of Cape Town
COGTA	(Department of) Cooperative Governance and Traditional Affairs
CSP	Cities Support Programme
DCoG	Department of Cooperative Governance
DHS	Department of Human Settlements
DORA	Division of Revenue Act
DORB	Division of Revenue Bill
DPME	Department of Planning Monitoring and Evaluation
HSDG	Human Settlements Development Grant
ICDG	Integrated City Development Grant
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
NDPG	Neighbourhood Development Partnership Grant
OPSCAP	Operations Capital
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

POLICY SUMMARY

The purpose of the evaluation was to analyse the Theory of Change, inner logic and consistency of the Urban Settlements Development Grant (USDG), and to draw lessons from its implementation in a sample of four metropolitan municipalities. It also sought to analyse the institutional and funding frameworks and adopted monitoring system. The USDG is a substantial supplementary capital allocation to metropolitan municipalities introduced in the 2011 DORA grant framework that was inconsistent with the draft policy framework that preceded it. This evaluation therefore clarifies the theoretical framework and provides recommendations to refine and improve the grant.

The findings show that the grant derived its fiscal design from a previous supplementary grant (MIG (Cities)) that funded a wide range of built environment outputs, but which was replaced because of the need to address human settlements related backlogs articulated in Outcome 8 targets. The USDG was also informed by a broader process of devolution of built environment functions to metros. These various informants were blended into the grant design. However, the process of establishment never included a clear programme theory or agreement over which of the informants was the dominant one. This has led to a variety of interpretations of the grant objectives across the three spheres of government, which has contributed to, and been exacerbated by, the evolving policy and grant frameworks. This causes different expectations for its outputs and intergovernmental tensions.

The intergovernmental planning objectives of the grant have failed and the intended synergy between housing and infrastructure delivery is not occurring as intended. A key finding is that the USDG does not constitute a 'programme'. It is only a financial instrument that supports existing human settlement and built environment programmes. The grant was created with a range of outputs and outcomes creating the illusion of tight conditionality that is inconsistent with supplementary grants, the purpose of which is to fill a vertical fiscal gap. As a result the grant is not being implemented according to the intervention logic because its design was inappropriate for a financial instrument. Without introducing some programmatic changes to the current grant design, it is inappropriate to expect the grant to produce the desired outcomes.

If the grant is intended as a financial tool to support built environment interventions, then it is appropriately structured. However, it requires increased metro accountability relating to the desired outcomes, both to national government and to citizens, through developing a revised monitoring framework. This is the preferred solution. However, if the grant is intended to have a more specific focus on informal settlements and housing interventions, then a conditional grant with more specific outputs and a different set of outcome statements would be appropriate. This would require revision of the application of the HSDG in metros and a revision of broader built environment funding.

The report concludes with the following key recommendations:

- 1) The DHS and National Treasury should confirm the USDG's status as a Schedule 4B Grant for the 2015 DORA, but increase metro accountability.
- 2) The DHS should revise the monitoring framework (inclusive of rationalising outcome, outputs, and indicators) to focus on changes at beneficiary level.
- 3) The DHS must clarify the grant intent through identifying the existing programmes, and the specific outcomes associated with these programmes to which it is intended to contribute, preferably in a revised policy framework.
- 4) The DHS and National Treasury should amend the USDG policy framework to stipulate a portion that may be used to procure technical and project management expertise.

Additional recommendations on amendments to the grant design, implementation and monitoring framework are also provided in the report.

EXECUTIVE SUMMARY

1. Introduction

The purpose of the evaluation was to analyse the Theory of Change, inner logic and consistency of the Urban Settlements Development Grant (USDG) and to draw lessons from its implementation in four metro municipalities. It also sought to analyse the institutional and funding frameworks and adopted monitoring system.

2. Background to the intervention

The USDG is a substantial supplementary capital allocation to metropolitan municipalities introduced relatively rapidly in 2011 that replaced the existing Municipal Infrastructure Grant for Cities (MIG (Cities)) and combined it with a portion of the Human Settlements Development Grant (HSDG). It was introduced without an adopted policy framework or a well-defined programme theory. The evaluation is therefore intended to clarify the theoretical framework and refine and improve the grant mechanism in future.

3. Methodology

As a combination of two evaluation typologies (design and implementation) the assessment was undertaken as a design review (conceptual), followed by an implementation assessment of four metro municipalities (empirical), which were then combined in an overall evaluation of the grant. A mixed method approach was employed using qualitative primary data and quantitative and qualitative secondary data collection methods. Semi-structured interviews and focus groups were held with 89 respondents across the three spheres of government in three provinces, as well as with external stakeholders. The secondary data that were accessed included: local and international literature on the topic; policy and planning documentation; financial and non-financial performance reports; and metro project lists. Six Workshops were held to validate research findings at various stages of the evaluation, including: (1) a National validation workshop to validate and confirm the evaluation team interpretation of the design and objectives of the USDG; (2), four validation workshops with each of the four sampled metros during the implementation evaluation phase; and (3) a national validation workshop during the final phase on the overall evaluation report integrating the design and implementation findings.

4. Definition of the grant design

The grant design has three main informants. Firstly, the structure of the grant was inherited from MIG (Cities) as a performance-oriented outcomes-based grant, in line with international best practice for public finance. The grant format promotes a differentiated local government fiscal framework and fiscal decentralization. Secondly, the focus of the USDG on sustainable human settlements, and informal settlement upgrading specifically, was informed by the shift from housing to human settlements illustrated in the Breaking New Ground policy and culminating in the name change from the Department of Housing to Human Settlements and the emphasis on human settlements in Outcome 8. 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, or provide for the purchase of land. The grant was also established with a portion of the Human Settlements Development Grant (HSDG), which built certain expectations that the grant would directly support the housing delivery process. Thirdly, in conjunction with a number of parallel policy and legislative processes, the grant was intended to support the process of devolution of built environment responsibilities, including the assignment of the housing function, to metros. The outcome of this process was a grant that was designed with some

programmatic elements which were not developed with respect to the link between grant outcome statements and key activities; nor was the design consistent with the supplementary nature of the grant. The grant also conflated the spatial efficiency outcomes with universal servicing of basic needs backlogs in poor communities and informal settlements. At the time the evaluation was conducted 13 versions of policy framework had been drafted with no consensus on what the grant was to fund/prioritise. This policy framework was also not consistent with the legally binding DORA grant framework. Thus there was no consistent or shared understanding of grant intentions between the parties responsible for its oversight and implementation.

5. Implementation findings

5.1. Interpretation and perceived value of the grant

There are a variety of different interpretations of the grant between the national, provincial and municipal stakeholders, ranging from a narrow focus on supporting housing projects (provinces and Human Settlements Portfolio Committee), to a broad view of intervening in the built environment (metros and National Treasury). These differences in interpretation cause inter-governmental tension around what the grant can and cannot be used for. For example, metros believe that the grant's flexibility allows them to fund a range of activities that support human settlements, while provinces believe that the flexibility is a major disadvantage because metros spend the grant on items that do not directly expedite provision of housing through the HSDG.

5.2. The role of Built Environment Performance Plan (BEPP) and BEPP Panel

The BEPP was introduced into a fairly complex, but well-established municipal planning context without a clear indication of how this plan was intended to relate to the other plans. This has improved over time with amendments to the BEPP Guidelines. However, the BEPP process has failed to generate the inter-governmental planning and cooperation that was envisaged in the grant design and has not improved alignment between HSDG (provincial planning) and USDG. Further evidence suggests that the BEPP Panel has not functioned effectively as a coordinating body, partly because provinces have not felt themselves to be empowered members of the panel, partly as proceedings have been overly adversarial and partly as, at the time of writing, it had become disorganised.

5.3. Allocation of funding and project selection

Findings show that metros fund a wide range of projects using the USDG, but with the focus on bulk infrastructure, while spending relatively little on land. The variability in the products and services and the inconsistency in output reporting make any comparison of outputs difficult. For example, three of the four metros use the USDG for operational activities such as increasing staff capacity to manage projects, despite this having no official policy basis. Further, there was no evidence of the USDG leveraging debt finance, and limited evidence of it attracting municipal own funding in Cape Town and private sector funding in Johannesburg. In general the ability of the USDG to leverage capital was found to be limited. In fact there is evidence of the opposite taking place in the smaller metros: the USDG can potentially crowd out other sources of funding because it is large and, compared to other grant funding for similar activities, it is a lot more flexible and therefore easy to use.

With regard to the ability of metros to spend grant funds, grant expenditure by the sampled metros has been good - although Buffalo City initially battled to spend the USDG – and is generally improving. A key finding is that the USDG expenditure is comparable to, if not greater than, overall capital expenditure, indicating that, if there are problems with USDG expenditure, these are likely to be associated with problems with overall capital expenditure rather than the grant itself.

Considering the targeting of the grant, spatial analyses of USDG-funded projects indicate that the grant is generally being directed to both the peripheral and poorest areas of the cities and along corridors or nodes. In the sense that it is being used to serve the poorest, unserved areas it is meeting poverty objectives. However, this leads to a situation where existing spatial patterns are being entrenched rather than transformed. There is, therefore, an inherent tension between the desired output of developing well-located land (to achieve the spatial efficiency objective), and the output of providing existing households with access to basic services. Further there are indications that non-poor households also benefit from the grant because of the nature of bulk infrastructure investment which needs to be shared across relatively wide areas within metros.

5.4. USDG and its relation to accreditation and City Support Programme (CSP)

The USDG was designed to support the devolution of built environment responsibilities to cities, and the housing accreditation process is the key mechanism for achieving this. Without devolution, much depends on coordination between the provinces (HSDG funding) and metros (USDG funding) and this coordination is evidently a problem which is impeding service delivery. Provinces' minimal participation in the BEPP Panel is a missed opportunity to improve coordination between the two funding mechanisms. Metros were of the view that accreditation and assignment will streamline processes and improve efficiency, but provinces remain sceptical, most often citing lack of municipal capacity as the reason. The CSP offers one way of improving coordination but there was limited to no interaction between the USDG and the CSP at the time of the evaluation. This might relate to the timing of the interviews, with awareness of the CSP having increased substantially since then.

5.5. Institutional roles, challenges and gaps

The USDG has increased inter-departmental coordination around planning, but the relative power between departments may influence the way in which the USDG is spent by each metro. While the introduction of the grant provided metros with greater agency in terms of human settlements decision-making, it has decreased the role of the provinces. With regard to national control there is confusion at the metro level around the relative roles of the national DHS, as the transferring department, and National Treasury.

Internally to the metros, the biggest reported institutional capacity gap is lack of project managers to implement large projects. 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 also remains a problem.

5.6. Monitoring framework

The monitoring framework has changed over time, with a lack of coherence between the various versions of the DORA and the draft USDG Policy Framework. Financial reporting is not problematic but non-financial reporting, which is required against non-standardised indicators specified in a Performance Matrix, were reported by metros to be onerous and seemed to be done for compliance only. National monitoring of performance is done through a range of tasks, but a lack of monitoring capacity within DHS means that the credibility of metro reports is relied upon with minimal independent verification by the Department. The National DHS is evidently experiencing difficulties in monitoring performance of an outcome-focused supplementary grant. This is partly because the performance indicators are not suitable for a number of reasons, but mainly because they are output and not outcome-focused. In addition, there is a general failure to define and identify the data elements comprising the indicators. Further, the monitoring frameworks are not appropriate because the outputs to which the grant contributes are the outputs of the whole capital programme.

6. Conclusion

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. This is because of the varying interpretations of what informed the grant and therefore what the desired outcomes are and what should be prioritised for delivery with the USDG. However, there are substantial benefits 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 a supplementary grant allows. 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.

However, the breadth of the grant and its potential for administrative efficiency has not necessarily translated into improved targeting and the USDG has done little to shift the project pipelining and selection process towards its envisaged outcomes, merely expanding the funding envelope for projects. The spatial distribution of these projects mostly coincides with the areas prioritised for development because of their socio-economic conditions and historical under-servicing. This has meant that strategic location in a node or corridor for development has been compromised. In attempting to meet the dual objectives of providing services to the poor and achieving spatial efficiency it may not be appropriate to pursue both simultaneously with one instrument.

In considering value for money from a different perspective, the grant was expected to leverage additional funds. This has not occurred in all instances specifically in smaller metros where use of own source funding, including debt finance, has declined. 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.

The effectiveness of the grant has also been compromised by inefficiencies which exist in built environment planning and is challenged by insufficient intergovernmental cooperation and coordination with other municipal planning processes. In particular, the coordination with the HSDG is poor. Further it is evident that 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. There may well be a place for the CSP to assist, with potential positive benefits for USDG in the process.

The ambitious nature of the grant has meant that it has contributed to the achievement of many things, but has not focused its impact. It functions as a supplementary grant and yet the theoretical framework attempts to deal with it as a 'programme' which entails a coordinated set of activities, outputs, outcomes and processes necessary to constitute a 'programme'. Under the current design this means that it is not appropriate to expect the grant itself to produce the desired outcomes stated in policy documents, although this does not prevent the grant from being successfully applied as a funding source in support of other programmes supportive of similar outcomes.

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 may be 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 an 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 USDG 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.

7. Recommendations

7.1 Key recommendations

R1. The DHS and National Treasury should confirm the USDG’s status as a Schedule 4B supplementary Grant for the 2015 DORA, but increase metro accountability through a revised monitoring framework.

R2. The DHS, in collaboration with National Treasury, should revise the monitoring framework (inclusive of rationalising outcome, outputs, and selected indicators) to focus on changes at beneficiary level.

R3. The DHS must clarify the grant intent through identifying the existing programmes and the specific outcomes associated with these programmes to which it is intended to contribute, preferably in a revised policy framework.

R4. The DHS and National Treasury should amend the USDG policy framework to stipulate a portion that may be used to procure technical and project management expertise.

7.2 Additional recommendations

Design

R5. National Treasury should consider incentivising municipal co-funding through the introduction of a ‘matching’ requirement for municipalities as a condition of the USDG in the DORA grant framework.

R6. The DHS and National Treasury should require municipalities to participate in an annual peer review of capital project selection and prioritisation.

R7. The DHS needs to provide more specific definitions for key terms used in human settlements policy, including: ‘sustainable human settlements’, ‘secure tenure’, ‘well-located’, ‘spatial efficiency’, ‘built environment’ and ‘upgrading’.

Planning

R8. The DHS should not require any specific planning to be undertaken for the expenditure of the USDG, outside of normal statutory planning processes.

R9. The BEPP should not be specifically required for the USDG.

R10. The CSP should amend the BEPP Guidelines to establish definitions for spatial zones in order to monitor the targeting of the grant.

Implementation

R11. The Human Settlements MinMEC should clarify the intent around the assignment of the housing functions to metros.

R12. The DHS should clarify the role of provinces in the USDG in the revised policy framework to improve the mechanism for coordination of housing and metro planning, to expand their capacity-building role and to implement the revised monitoring framework.

R13. The CSP should require municipalities to identify specific land parcels in the BEPP for purchase using the USDG, including a realistic assessment of the timing of these purchases.

Monitoring framework

R14. National Treasury should commission an Expenditure Performance Review of the USDG.

R15. DHS should include a comparison of USDG % expenditure with overall capital % expenditure in their annual USDG performance report.

R16. Metros should report on financial indicators in spatial categories defined in the BEPP guidelines.

R17. A separate performance matrix is not required for non-financial outputs.

R18. Metro reporting on housing outputs should be limited to Outcome 8 and housing programme reporting and not duplicated by any USDG requirements.

R19. National Treasury should assess counter-funding and/or crowding out of internal funds by the USDG through a review of standard budget reporting.

R20. 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.

R21. The DHS should not undertake monitoring of individual project selection and implementation.

SUMMARY REPORT

1. Introduction

The Urban Settlements Development Grant (USDG) was commissioned for evaluation through a partnership between the Department of Human Settlements (DHS) and the Department of Performance Monitoring and Evaluation (DPME) in the Presidency. It features as part of the National Evaluation Plan of 2012/2013 and a design and implementation evaluation was conducted between June 2013 and November 2014.

2. Background to the intervention

2.1 Introduction of the grant

The USDG is a conditional capital grant allocation to metropolitan municipalities and is the only supplementary grant at local government level. The grant was introduced in 2011 midway through the 2009-2014 term of government, and against the backdrop of the shift from the Department of Housing to the Department of Human Settlements, 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 approved by Cabinet in 2010 and introduced relatively rapidly in terms of provisions in the annual Division of Revenue Bill (DORB) in 2011 without an adopted policy framework. The grant is administered by the DHS as the transferring department with the DHS Director General an accounting officer for the USDG expenditure.

2.2 Legislative context

The USDG is a direct transfer from national to local government to supplement the metro resources to fulfil local government functions in terms of the Constitution. The Municipal Finance Management Act governs the use of those resources. The main law governing the implementation of the USDG is the annual Division of Revenue Act (DORA), 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.

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, including the role for municipalities in creating a public environment conducive for housing development, including the provision of bulk and internal engineering services. The Housing Act also sets out the process for housing accreditation of metros to improve integration of different built environment components to develop sustainable human settlements for the poor. The USDG is explicitly *not* a National Housing Programme, but is intended to supplement such programmes, as well as other built environment programmes. The Spatial Planning and Land Use Management Act (SPLUMA) (2013) is relevant in that it places responsibility for all municipal planning decisions on local government.

2.3 Policy context

The USDG was conceived as both a human settlement and a fiscal intervention, and a range of policies human settlement and fiscal policies are relevant to the grant.

Human settlement policies and programmes

The defining policy for human settlements since 2004 has been the Comprehensive Plan for Sustainable Human Settlement, or 'Breaking New Ground' (BNG), which set out 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. These programmes are enacted by legislative requirement in the Housing Code of 2009.

To implement the Housing Code, the Human Settlements Development Grant (HSDG) was instituted in 2010. The HSDG is particularly relevant to the USDG because the spending provisions are intended to be 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 also captured in the Housing Code. To further support accreditation, an *Accreditation Framework for Municipalities to Administer National Housing Programmes* was developed in 2004 and the revised in 2012.

In 2010, the roll out of the Presidency's Outcomes Approach included Outcome 8: Sustainable Human Settlements and Improved Quality of Household Life, which placed a focus on informal settlement upgrading as a means to address the inability of the current housing approach to fully meet the demand for services and shelter. The timing of Outcome 8 and the introduction of the USDG in the following year is significant; the USDG was a conditional financial allocation intended to provide metros with the means to address the land, bulk and connector infrastructure backlogs to achieve the Outcome 8 targets.

Fiscal policies informing the establishment of the USDG

The Municipal Infrastructure Grant (MIG) was initiated in 2003 as a conditional grant to fund infrastructure to provide for a basic level of services. MIG (Cities) was 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. 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 infrastructure-related investment including: housing; public transport and land use management. The USDG replaced the MIG (Cities) grant in metros in 2011.

3. Methodology

3.1 Evaluation design and approach

According to the Terms of Reference, the purpose of the design and implementation evaluation of the USDG was "to analyse the Theory of Change, inner logic and consistency of the programme and the lessons from its implementation". The evaluation was informed by 14 evaluation questions that guided the design and implementation evaluation and covered: the historical context; the conceptualisation and design of the grant; the implementation mechanism; the institutional and funding framework; and the monitoring framework.

As a combination of two evaluation typologies (design and implementation) the assessment was planned in distinct phases to distinguish between the design component (conceptual), and the implementation component (empirical). The design component sought to develop and understand the intervention logic or Theory of Change before empirically testing this in practice. The methods used to inform the design review were an initial local and international literature review, review of documents relevant to the USDG, and primary qualitative data collection in the form of semi-structured interviews with stakeholders involved in the grant design. For the

empirical testing, the Terms of Reference required a detailed examination of four metropolitan municipalities as the implementers of the grant. Methods included in this phase included a review of documents and municipal reporting data relevant to the USDG and primary qualitative data collection in the form of semi-structured interviews and focus groups held with municipal and provincial officials and civil society representatives. These design and implementation components then needed to be brought together in the overall evaluation phase to conclude on the research questions. Thus, the evaluation was conducted in three parts: first, by describing the intervention logic as part of the design review; then by assessing implementation against that intervention logic in the four metropolitan municipalities; and finally, by synthesising an overall design and implementation assessment according to a set of overarching research questions. Validation workshops were held during all three stages to validate the research findings. Detail of the methodology is provided in Annex 1.

3.2 Analysis approach

The analysis is divided into two parts. The analysis of the USDG design is informed by the international literature around best practice for financing urban settlements in cities and by the findings around the historical and policy context and process leading up to the introduction of the grant. These informants are then used 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.

4. Definition of the grant design

4.1 Informants to the design of the USDG

A final version of the USDG policy framework was not adopted prior to, or during, this assessment and no history of the grant had previously been documented. The grant design was therefore established during the design review phase. There were three main informants to the USDG.

Differentiation, grant flexibility and outcomes focus inherited 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 principles that resonate 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).

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 flexibility of the MIG (Cities) grant was retained in the USDG through it being a Schedule 4 supplementary grant. The fact that this is applied only to metros continues the differentiated approach to the fiscal

framework. 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. As a conditional supplementary grant, the USDG is neither unconditional, nor specific purpose, but does tend towards an output-based (performance oriented) grant. 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. 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. 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.

Focus on human settlements and emphasis on informal settlement upgrading

Policies such as BNG and the Housing Code were also clearly formative policies in the design of the USDG. The belief at the time was that MIG (Cities) did not place sufficient emphasis on the key political priority of informal settlement upgrading, identified as part of Outcome 8. MIG (Cities) had not provided for land acquisition, a key inhibitor to informal settlement upgrading, and thus there was concern that MIG (Cities) was not being directed to the kind of capital investments that would actually benefit poor households in informal settlements. The backlog in access to housing remained the primary driver and 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 DHS.

Intended to support a broader process of devolution of built environment functions

The establishment of the USDG was intended to provide funding to support a 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 provided for in the Housing Code (DHS, 2009) and the Delivery Agreement for Outcome 8 (Presidency, 2010); the devolution of the public transport function (through the National Land Transport Act (RSA, 2009)); the increase of municipal planning powers (through SPLUMA (RSA, 2013a); the Cities Support Programme Framework (National Treasury, 2012); and more recently through the Integrated Urban Development Framework (IUDF) (COGTA, 2014).

4.2 Establishment of the USDG

Since the Policy Framework for the grant was still in an early draft form at the time of introducing the USDG, there were not yet any well-defined programmatic arrangements for implementing it. 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 (RSA, 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 provision covering the USDG.

The 7th and 8th drafts of the USDG Policy Framework marked the handover from National Treasury to DHS. DHS institutionalised the grant and continued to refine the policy framework. Five further iterations have been circulated, with the 13th draft circulated in October 2012 being the latest version informing this assessment. Subsequent to this, the policy framework has undergone five further revisions and has never been finalised. The grant outcomes and outputs across the different grant

frameworks range from no expression except a single outcome statement in two USDG draft policy documents, to 7 outcomes in the DORA 2013; and from 19 outputs in the 2011 DORA, to only 4 in the case of the USDG policy version 13. 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.
- 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 targeted at **informal settlements** is variable: it is mentioned as an output in all cases except policy version 8. It is not mentioned as an outcome in other policy versions but is included under outputs in three of them, as well as in the two DORA grant frameworks.
- 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.
- e) While **economic and jobs related provisions** are excluded on the 2011 DORA they are included in later versions of DORA.
- 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** are only included in the DORAs.
- h) Finally, there are **processes and capacity related** provisions in the 2011 DORA and the version 8 draft policy framework, which do not appear in later documents.

4.3 Defining features of the USDG

The history of the grant's evolution means that its defining features are dynamic, contested and have evolved over time. The USDG design elements that define the original intentions of the grant, its 'primary features', are:

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

However, there are other secondary features on which there is less consensus:

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

Since these primary and secondary features are the defining elements of the grant, they are considered integral to 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. These key process elements shape the focus of the assessment, including the broader assumptions and external factors supporting them. The findings on the implementation are viewed against this design.

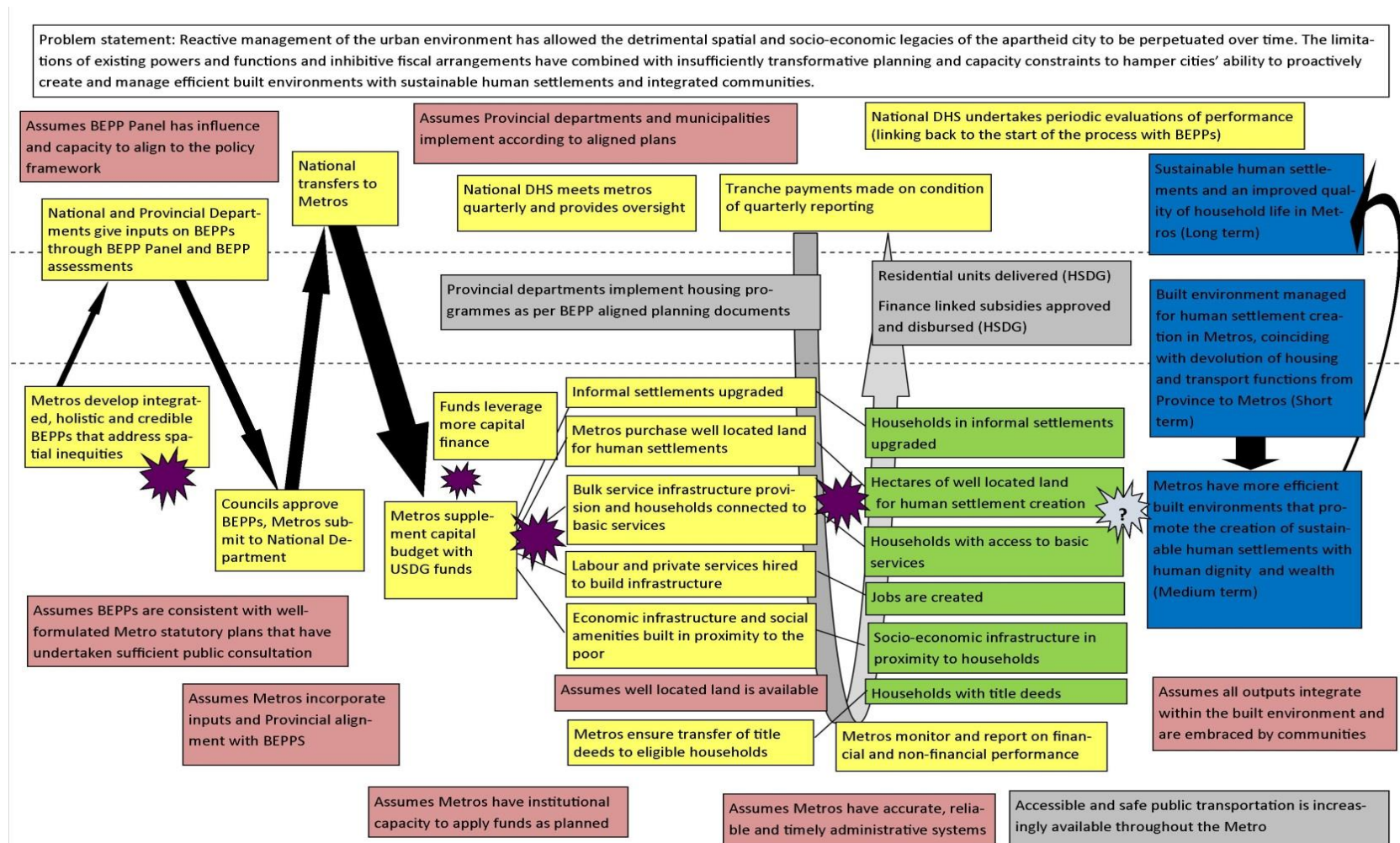


Figure 1: Process flow chart of USDG Theory of Change

5. Implementation findings

5.1 Interpretations and perceived value 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 metros also differ widely with regard to their dependence on the USDG as illustrated in the figure below.

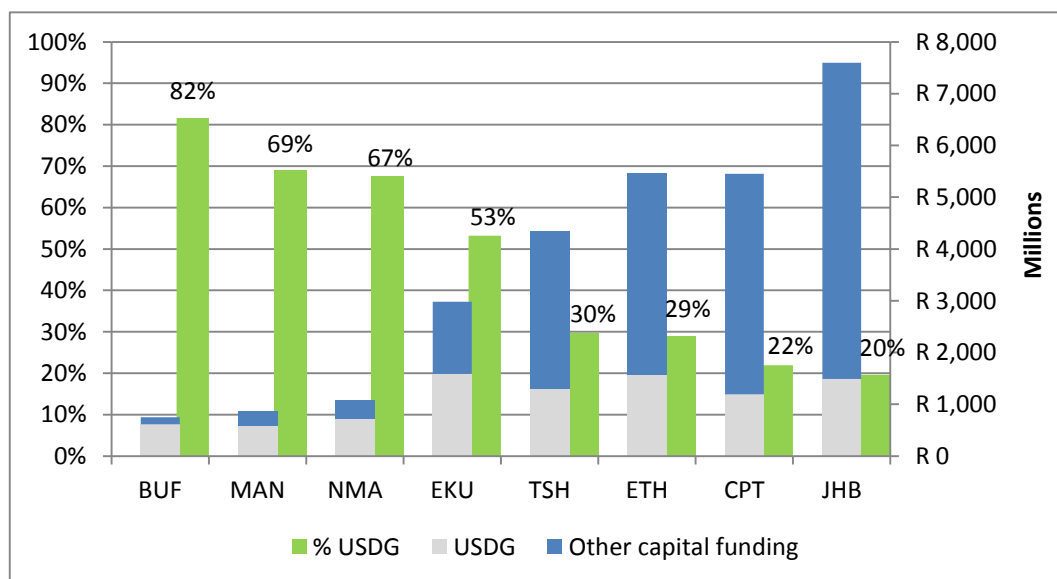


Figure 2: Metro dependence on USDG as a capital funding source for 2013/14 (Sources: DORA 2013, National Treasury municipal budget database, authors' own calculations)¹

Those with a greater dependence on the USDG as a capital funding source tended to interpret the USDG conditions as broadly as possible. 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.

The three provincial Departments of Human Settlements (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'. They express frustration 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 to housing delivery.

This perspective is shared by the national Portfolio Committee on Human Settlements. To the Committee members the purpose of the USDG is to provide engineering infrastructure to support housing delivery and basic services in unserved areas, as evidenced by the following quote from Committee proceedings which contradicts the broader intention in most of the USDG policy statements:

¹ 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.

“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.”²

At the national level there is not a consistent understanding between the two departments involved with the grant. Metros perceive National Treasury to have a broader interpretation to the grant, while they perceive the DHS to have a narrower interpretation. However, within the DHS there appears to be varying interpretations of the objectives of the USDG and what it may or may not be used for, though the national DHS interpretation of the USDG has broadened in recent times.

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. This has led to tensions between the various parties.

A summary of the views of metros around the advantaged and disadvantages of the grant is given in the table below:

Table 1: 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	
Dis-advantages	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)

² Minutes of the Human Settlements Portfolio Committee Meeting held on 8 October 2013.

	Cape Town	Buffalo City	Johannesburg	Ekurhuleni
	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 perceived restrictions on its use by DHS monitoring processes were also listed as disadvantages, implying that the metros would like to see the flexibility of the grant increased. The scale and security of the funding are also important benefits to metros.

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 spend the funds on items that do not directly unlock housing delivery. There was a belief that there should be a closer link between the HSDG and the USDG in order to ensure more coordinated development of human settlements.

5.2 The role of the Built Environment Performance Plan and the Built Environment Performance Plan Panel

The Built Environment Performance Plan (BEPP) was introduced into a fairly complex, but well-established municipal planning context without a clear indication of how this plan was intended to relate to the other plans. Metro officials admitted that the first BEPPs represented a steep learning curve and were hurriedly put together. 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 with a common view encapsulated in the quote below from a metro official.

“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)

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. Each of the metros has a slightly different institutional mechanism for preparation of the BEPP.

There is consensus between national, provincial and metro views that the quality of BEPPs was initially poor, but has improved over time. The BEPPs in their current form (after the BEPP guidelines of 2013 de-linked them from the USDG and linked them to all built environment grants instead) appear to be more relevant with a purpose separate from previously existing plans. Some metros have found the plan useful as

an integrating planning tool. However, the timing of the BEPP approval in relation to the Integrated Development Plan (IDP) approval remains a problem

The process of developing a BEPP and its subsequent assessment by the BEPP panel is not taking place as intended for three main reasons.

Firstly, provinces are not playing their intended role in the development of the BEPPs. There was very little, if any input from the provinces to the BEPPs, with provinces claiming to have been marginalised in the USDG and BEPP processes. 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.

Secondly, the BEPP Panel process does not seem to have the intended impact in providing input to the BEPPs. Provinces are not empowered to provide input, and metros reported making minimal changes to the BEPPs following the BEPP panel engagements.

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 means that an opportunity for DHS to provide leadership, influence city level planning and achieve alignment of HSDG with USDG and integration of housing provision with city service provision through USDG is being missed.

The metro respondents were unanimous in their perspective that, because the BEPP was aligned to the IDP, Spatial Development Framework (SDF) and budget, all of which had undergone statutory public participation processes, there was no need to consult on the preparation of the BEPP. Only one of the external stakeholders (not within the public sector) interviewed had seen the BEPP for the metro they worked in.

5.3 Allocation of funding and project selection

Metros are required to identify the specific projects that will be funded, whether partially or fully, by the USDG in their BEPPs. However, the USDG policy framework makes no prescriptions around the method of project selection or identification. It is therefore not surprising that the method of project selection was found to vary between each of the case study metros. Cape Town has established a new institutional structure, the Project Review Committee, to evaluate internal applications for USDG funds (among other things). The other metros select USDG projects as an extra step in the normal capital budget process, but undertaken by different parties in each case. 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 differed in each case.

The four municipalities sampled all fund between 100 and 200 projects per year using the USDG and an assessment of each project was not feasible for this evaluation. Figure 3 shows an attempt to compare the allocation of USDG funding by sector in each of the four municipalities, with the caveat that this analysis depends on how departments are structured and how they account for the provision of internal services for housing projects. Also, the budget allocation depends on the metros' capital priorities in any given year.

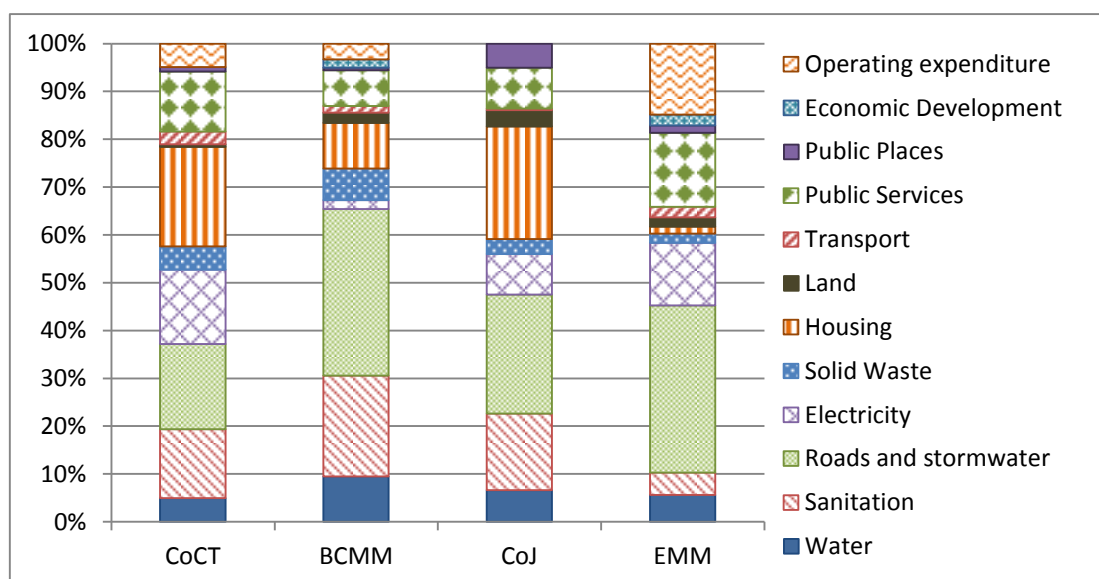


Figure 3: 2013/14 USDG budget allocations by service/sector

The continuing emphasis on infrastructure, particularly bulk infrastructure, is evident. While all metros spend more than 50% of the budget on engineering services, the allocation to land acquisition by all metros is small. Officials 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 taking up too much of the available USDG; delays with state land release; and difficulty in budgeting because of the unpredictability of the timing of land sale agreements. Given that there are no stated assumptions that the USDG will be spent directly on transport infrastructure, it is understandable that transport allocations are small across the board.

The differences in the portions of USDG used for operating expenditure are notable. Ekurhuleni, Cape Town, and Buffalo City all allocated some of this operating expenditure to increasing staffing capacity to implement USDG projects. This is an area of policy uncertainty as there is no official policy basis for this expenditure. 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.

Figure 2 illustrates that the smaller metros are heavily dependent on the USDG (up to 82% in the case of Buffalo City). This needs to be seen in relation to the intention of the USDG to 'gear in' capital finance in any one of three ways: by attracting municipality's own funds to human settlements projects; by attracting private sector capital finance; and by leveraging debt finance. The first mechanism was reported to be taking place in Cape Town and the second mechanism was reportedly working in Johannesburg. None of the case study metros use the grant to increase borrowing, which was initially provided for in the grant design.

While the USDG was intended to leverage additional finance, there is also the risk that the grant may displace other sources of finance. An analysis of the historical funding shows that the USDG has not displaced any internal funding or borrowing in larger metros, but there is evidence of possible displacement of funding in the smaller metros, which is a matter of concern.

Grant expenditure

The figure below indicates the relative performance of metros with respect to spending of the grant.

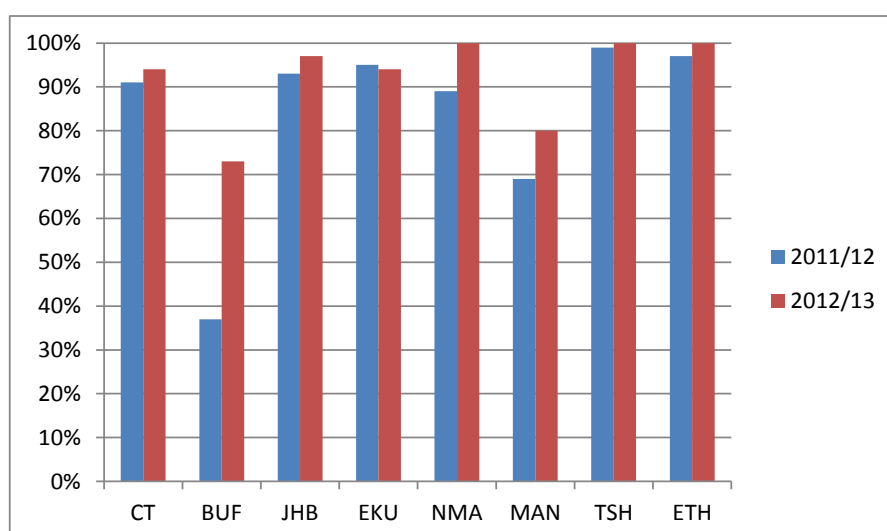


Figure 4: USDG expenditure as a percentage of allocation (Source: DHS USDG Performance reports)

Other than Ekurhuleni, all metros improved expenditure performance between the first and second year of the USDG's application. After the first year, DHS took the step to withhold funds in cases of poor 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)

A key finding is that the USDG expenditure is comparable to, if not greater than, the overall capital expenditure, indicating that problems with USDG expenditure are most likely problems with overall capital expenditure and are unrelated to the grant. The problems experienced with expenditure rates, and timing of expenditure appear to be capacity issues within the municipality, supply chain management constraints, or both.

Spatial distribution of USDG projects

The spatial distribution of USDG-funded project in each of the four case study metros is shown on maps in Annex 3. Spatial analyses of USDG-funded projects indicate that the grant is generally being directed to the peripheral and poorest areas of the cities or along corridors or nodes. However, there are indications that not only the poorest households are benefiting from the grant because of the nature of the types of projects that are funded – major roads or wastewater treatment works, for example – that benefit large areas of the cities.

The extent to which there is a rigorous spatial prioritisation process is variable. A key finding from the sampled metros 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 intervention logic, 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.

USDG outputs: products and services delivered

Because of the long lead times for infrastructure planning and construction, significant amounts of what is being reported now in terms of the USDG outputs are still the

products and services funded by MIG (Cities). Despite the performance matrix provided in the USDG Policy Framework and the list of indicators in DORA, metros have elected to report on outputs based on their own indicator formulations, which makes comparison difficult. In addition, there is only a small number of outputs reported upon consistently. There are no discernible 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.

5.4 The USDG and its relation to the housing accreditation process and the City Support Programme (CSP)

The USDG was designed to support the devolution of built environment responsibilities to cities, and the housing accreditation process is the key mechanism for achieving this. 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, 2013). The capacity assessments of the four sampled metros all recommended Level 2 accreditation and the DHS intended to assign the housing function to all metros by March 2014. The accreditation and assignment processes have yet to be concluded in any of the metros, despite numerous missed targets and deadlines. This has created understandable uncertainty and tension.

The split in responsibilities for the planning and administration of the USDG and the HSDG is found to be impeding service delivery. Metro officials are positive that accreditation and assignment will streamline processes and improve efficiency, but provinces remain sceptical, most often citing lack of municipal capacity as the reason. This has resulted in a deadlock that creates tension and discourages cooperation.

There was limited to no interaction between the USDG and the CSP at the time of the evaluation. For example, 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.

5.5 Institutional roles, challenges and gaps

Roles

Within metros, the introduction of the grant has increased inter-departmental coordination around planning, but there have been varying levels of involvement by Human Settlement Departments. The departmental control of the grant or the relative power between departments may influence the way in which the USDG is spent by each metro. For example one national respondent stated:

"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).

On the other hand, in the City of Johannesburg the view of Housing Department officials was that the USDG had increased their influence substantially.

In terms of inter-governmental roles and responsibilities, the grant has increased local government responsibility for built environment functions and decreased the role of the provincial departments. This applies to a lesser extent to the national DHS as well. There is confusion at the metro level around the relative roles of the national DHS, as

the transferring department, and National Treasury, which has taken a more active role than is envisaged in the draft policy framework.

Challenges

Difficulties in coordinating project implementation between multiple departments were reported as a challenge by some metros. The MFMA and Supply Chain Management regulations were also frequently mentioned as institutional challenges. Buffalo City experienced particular institutional challenges in the delay in finalising the municipal organogram, and hence the appointment of senior management staff.

Gaps

The biggest reported institutional capacity gap is project managers in metros to implement large projects. This is partially mitigated through the use of the 'OPSCAP' portion of the grant to employ project managers. 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.

5.6 Monitoring framework

Evolution of the monitoring framework

The design of the monitoring framework was intended to be results based and outcomes focused. The monitoring framework has changed over time, with a lack of coherence between the various versions of the DORA and the draft USDG Policy Framework. In the DORAs there is an overarching goal, supporting outcomes and 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 is done through section 71 of the MFMA ('section 71 reports') on a monthly basis. In general, metros reported that the financial reporting aligned with existing systems and was not problematic.

Non-financial reporting is required against performance targets set in the BEPP according to performance indicators specified in a performance matrix. Reporting is based on the capital budget as a whole, and not specifically for the USDG, and metros are free to modify the indicators for their contexts. Although a new template was developed to ensure more standardized reporting, there are still no indicator protocols provided for the approximately 50 output level indicators.

In addition to the legislated reporting requirements, DHS also requests specific project level reporting. In all case study metros, respondents indicated that the reporting requirements were onerous, and seemed to be being done simply for compliance, rather than any strategic use.

Provincial oversight and reporting

Provincial respondents claimed that they were being bypassed in the process of reporting on USDG and feel excluded from the USDG monitoring process. However, they still have a mandated responsibility to perform oversight of the grant as a component of human settlement development. This creates an obvious difficulty for them as one provincial respondent stated:

"You cannot account for something you have no control over" (Respondent M65)

Provinces are required to report to the national DHS on the achievement of the Outcome 8 targets and USDG is explicitly a contributor to these targets, but the degree

to which the provinces include the metro delivery figures or not varies from province to province.

National oversight and reporting

National monitoring and evaluation consists of a range of activities including reviewing provincial housing plans, visiting selected projects, receiving metro reporting and compiling a consolidated performance report. 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. 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.

Many of the difficulties experienced in monitoring performance in relation to the USDG relate to its status as an outcomes-focused supplementary grant. 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. In the absence of a specific set of grant outputs, DHS has reported difficulty in reporting on metro performance. Metro and national respondents claimed that DHS was 'chasing the numbers' in a similar manner to the way the HSDG is monitored.

6. Conclusions as per the research questions

6.1 Historical context

6.1.1 What informed the theoretical framework and development of the USDG?

The focus of the USDG on sustainable human settlement, and informal settlement upgrading specifically, was informed by the BNG policy and Outcome 8. The USDG was intended to support all of the Outcome 8 outputs, and not only Output 1 relating to accelerated delivery of housing opportunities.

The grant design was intended to support the process of devolution of built environment responsibilities to metros, which has been occurring in parallel through 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 integration of different built environment interventions.

The structure of the grant is inherited directly from MIG (Cities). The design as a performance-oriented outcomes-based grant is in line with international best practice, and advances the ideas of a differentiated local government fiscal framework and fiscal decentralization. The concept 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.

6.1.2 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, which is essential to the shift from housing to human settlements. The backlog of bulk and connector infrastructure constraining housing delivery and compounding the growth of informal settlements 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. 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.

6.2 Conceptualisation and design

6.2.1 Is the theoretical framework that informs the USDG valid?

The theoretical framework was found not to be valid for the following reasons:

- 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”.
- The USDG conflates built environment management and efficiency objectives with human settlements objectives. Human settlements outcomes are actually achieved within the context of the broader built environment, 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).
- The theoretical framework does not articulate how the USDG enables the value chain of human settlements creation; better management of built environments; and more efficient built environments.
- 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 and therefore 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 because it does not focus on outcomes for the intended beneficiaries.

Without introducing some programmatic changes to the current grant framework, it is not appropriate to expect the grant to produce the desired outcomes. However, this does not prevent the grant from being applied as a funding source in support of other programmes supportive of similar outcomes.

The USDG was introduced as a fiscal instrument before there was an approved policy framework. 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. 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). Also having being formed with 15% HSDG allocation, it created certain expectations from provincial and national DHS about its relationship with the housing function and the organisations' ability to influence expenditure patterns. 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, *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, so as not to disrupt planned built environment development processes. A suitable change management process is required.

It has been found that the USDG does not constitute a single coherent programme. There is also currently no single 'human settlements programme' that it is intended to fund. It is intended to fund a range of human settlements functions that are undertaken by metros. 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 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. The specification of grant outcomes is only appropriate for specific-purpose grants that constitute programmes in and of themselves, but is 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.

6.2.2 Does it provide an appropriate response to human settlements challenges facing urban areas?

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. 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 which it supports.

If the grant is intended as 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.

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 out 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. However, there continues to be a lack of clarity about the nature of the USDG. At present it is neither a supplementary grant that supports the idea of fiscal autonomy and decentralised local government to be spent as municipalities see fit, nor is it a centralised conditional grant to achieve specific human settlement outcomes through specific outputs. 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.

6.2.3 Is the grant structure appropriately targeted?

The supplementary nature of the grant means that metros are free to determine the outputs that are contributed to by the grant. It is not possible to determine whether the 'right' outputs were produced without assessing how the wide range of possible outputs related to the overall plan (the BEPP) to achieve the grant's 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. The extent to which funding of built environment infrastructure (public transport infrastructure or bulk infrastructure to promote economic development, for example) can achieve the policy intent is not yet agreed. 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.

In terms of reaching the intended beneficiaries, the grant is reaching poor households, but it is not exclusively doing so. This is because of the nature of bulk infrastructure that benefits the whole city. 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.

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

The supplementary grant design illustrates a 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. With increasing municipal responsibility for planning the built environment, IDPs require an integrated funding source. Given the 'vertical fiscal gap' in South African municipalities, according to accepted public finance principles it is appropriate for a direct transfer of funds from the national fiscus to fill this gap. In addition, international literature recommends that this direct transfer should take the form of an unconditional grant for the municipality to spend as it deems appropriate. This is the approach followed in the design of the MIG (Cities) and USDG.

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 that of universal basic servicing. Money is being allocated to improving previously disadvantaged areas, or upgrading informal settlements, but these areas are not necessarily *well-located*. This has the effect of entrenching the inefficient apartheid spatial patterns in the city, rather than creating the more compact and efficient cities as

intended in the USDG outcome statements. 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 USDG can contribute to spatial efficiency by funding bulk infrastructure that unlocks desirable locations, but cannot achieve this output of the grant design alone. The direct transfer of funds to municipalities can enable, but by itself cannot achieve efficient urban spaces.

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

The USDG was conceptualised as a mechanism to support the devolution of the built environment functions to cities, recognising that metros were ideally placed to ensure integration of built environment functions and urban efficiency. Given that the USDG is expressly not allowed to be used for funding housing top structures, the design relied on the interface between the metro and the province for coordination of the HSDG and USDG funding. 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, i.e. assigning the housing function.

6.3 Implementation mechanism

6.3.1 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 municipal interpretation has tended to be the broadest interpretation with an emphasis on the “supplementary” nature of the grant. Provincial government interpret the USDG as an unfortunate re-allocation of funds that would have otherwise been used for provincial human settlements delivery. The national interpretation of the USDG is not uniform and can be distinguished by three perspectives: National DHS, which understands the value of the flexibility of the grant but continues to focus on the delivery of housing; National Treasury, which focuses on the broader built environment context; and the Human Settlements Portfolio Committee, focusing on engineering infrastructure for housing delivery and basic service provision in unserved areas.

At the heart of the contestation and differences in interpretation of the USDG are the concepts ‘human settlements’ and ‘built environment’ and how each of these are funded. There are two distinct narratives surrounding the evolution of the grant. The first ‘narrow’ narrative is that money was taken away from the HSDG to provide for infrastructure because this was stalling the delivery of housing. The second ‘broad’ narrative 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.

Both of the narratives are somewhat limited 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.

The differences in interpretation have a negative impact because, firstly, they cause significant intergovernmental tensions around what the grant can and cannot be used

for. As it has been found that the supplementary nature of the grant is appropriate, the narrow interpretation needs to broaden, but the broad interpretation also needs to prioritise human settlement outcomes over broader built environment outcomes. The second negative result is that it prevents any objective measure of the effectiveness of the grant. 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.

6.3.2 Is the grant being implemented according to the design?

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

The elements of the theoretical framework that are not being implemented according to design include the BEPP planning process, the leveraging of funding, the project selection process, and the increase in access to title deeds as an output. In addition, key assumptions in the grant design are not valid for the following reasons:

- The BEPP Panel does not provide sufficient intergovernmental input;
- Alignment of intergovernmental human settlement planning is not occurring;
- Not all metros have the institutional capacity to spend their USDG budgets;
- Metro systems do not necessarily produce accurate, reliable and timely data on the outputs being achieved; and
- There is limited evidence on a year-to-year basis that outputs are being delivered with a view towards spatial integration.

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 its attended design in some fundamental areas. The current Theory of Change is not being implemented as intended, in part because the grant is a funding instrument rather than a policy or programme. If the USDG is intended to be a policy for managing the built environment or a programmatic approach, changes need to be made at both the design level and the level of implementation.

6.3.3 To what extent has the BEPP found its place within the development planning framework?

The policy intent that the BEPP would be the 'central plan' guiding capital spending in urban areas was not realistic, given the existing planning framework, and has not been realised. The purpose and value of the BEPP was not fully developed or understood when it was introduced, although it has evolved and improved over time. Nevertheless, in practice the BEPP process does not yet support the type of inter-governmental planning envisaged in the draft USDG policy frameworks.

The BEPP as a planning document has found a tenuous footing within the suite of development planning frameworks and requires further refinement and differentiation. Recent shifts in conditionality, attaching it to all the built environment grants and not just the USDG, are appropriate steps. There is potential value in strengthening the link between the long-term spatial and capital investment plans of the city and in providing a framework for project selection and prioritisation.

6.3.4 Challenges and changes in roles and responsibilities

The USDG has helped to bring about some fundamental organisational shifts in municipalities around how the multiple responsible line departments approach human

settlements. An 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, and an emphasis on planning and management capacity to deliver against budgets.

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. The resultant lack of alignment in planning between the HSDG and USDG is hampering the delivery of housing opportunities. Provinces have not performed their Constitutional role to support municipalities (including capacity building) or to undertake monitoring and oversight. These important roles would require provinces to shift in paradigm from housing to human settlements, and to accept that control for implementation vests in metros.

The way in which the grant was introduced and the supplementary nature of the grant have created new and challenging roles for the national DHS in intergovernmental relations and oversight, 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.

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 only accountability of metros to citizens is through the local government democratic process, and in terms of the USDG expenditure is therefore indirect and relatively weak.

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. However, 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.

6.3.5 Are the resources used efficiently?

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. Grant expenditure has been good and generally improving. 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.

6.3.6 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. If 'value' is understood to be improvement in the quality of life of poor households in metros, then the grant outputs 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 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 being provided, and not in others.

6.3.7 How does the USDG interface with the municipal accreditation process and the City Support Programme?

The completion of the accreditation process is an underlying assumption in the grant design. 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, 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.

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.

6.3.8 What are the institutional issues/gaps and how are they affecting delivery?

While the grant has resulted in positive institutional changes in metros, 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. The reported metro capacity gaps around planning, procurement and project management ultimately delay and extend the timeframes for the delivery of capital infrastructure and investments. USDG funds have been utilised through the 'OPSCAP' component to build organisational capacity, but policy clarity is required to describe the circumstances in which this may be acceptable.

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.

Where there are difficult relationships between the provincial departments and the metros, this undermines 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.

6.4 Institutional and Funding Framework

6.4.1 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 since the grant was introduced is the enactment of SPLUMA in 2013, which supports the

intention of the grant through providing metros with more autonomy around spatial planning, which is one of the key built environment functions. The one encumbering factor, which is not insignificant, has been the delay in the assignment of the housing function to metros.

6.4.2 How could the structure of the grant and its application be improved and strengthened?

The grant is generally adequately structured to appropriately respond to the urban settlements challenges in metros as a financial instrument. Any changes to the grant should bring it in line with what can be achieved as a financial instrument and to position it in relation to existing human settlements programmes. In addition there is a need to revise the monitoring framework and associated reporting requirements to minimize unnecessary, duplicated and/or redundant reporting.

6.5 Monitoring Framework

6.5.1 Are the performance indicators suitable for its stated policy purpose?

The indicators included in the Performance Matrix 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 outputs; there is an absence of backlog or useful baseline information; they do not distinguish between USDG outputs and expenditure and that of the total capital programme; and none of the performance indicators in the current matrix are at outcome level or indicate changes for beneficiaries. The monitoring framework makes no provision for the clear spatial orientation of the grant intent. In addition, there is a general failure to define and identify the data elements comprising the indicators, as well as their sources.

6.5.2 Are the current planning and monitoring frameworks that relate to the USDG appropriate?

The current monitoring framework for the USDG is not appropriate. As a supplement to the existing capital programme, there is nothing substantially new that should require distinct monitoring processes in terms of outputs and services that is not covered by existing programme and statutory reporting. There is no reason to track USDG-specific output indicators. Best practice for outcomes-based grants is to monitor based on comparing baseline and post-grant data on service quality and access, provided that the adequate planning is in place and that the metros are ultimately accountable for achieving the outcomes to which the grant contributes.

7. Recommendations

7.1 Key recommendations

R1. DHS and National Treasury should confirm the USDG's status as a Schedule 4B supplementary grant for the 2015 DORA, but increase metro accountability through a revised monitoring framework

The grant needs to fund the broad notion of human settlements and a supplementary grant is the best way to do this. 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.

R2. The DHS, in collaboration with National Treasury, should revise the monitoring framework (inclusive of rationalising outcome, outputs, and selected indicators) to focus on changes at beneficiary level

DHS and National Treasury should reduce the grant outcome statements to provide clarity on the outcomes to which the grant is expected to contribute. Primary outcomes associated with the grant should be: increased access for poor households to: basic services, public amenities and socio-economic services; and increased supply of well-located land for human settlements development. Spatial integration of low income households should be a secondary municipal outcome to which the grant contributes.

Grant outputs should be revised to four broad categories: bulk infrastructure to serve low income households and informal settlements; internal engineering infrastructure provided to informal settlements and low income households; 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.

A very narrow set of outcome indicators should be defined to provide evidence of increased services reaching the intended beneficiaries. These indicators are additional households in informal settlements or other targeted priority areas with access to a basic level of water supply, sanitation service, electricity supply, refuse removal. These indicators should be accompanied by specific and clear indicator definitions. The rationale for these limited indicators is that metros are then free to spend the USDG on a wide range of outputs, but if no progress is made on these fundamental indicators, then the grant intentions are not being achieved.

R3. DHS must clarify the grant intent through identifying the existing programmes and the specific outcomes associated with these programmes to which it is intended to contribute, preferably in a revised policy framework

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. 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.

This recommendation should preferably be implemented through a revised and finalised USDG policy framework, but could also be implemented in the form of a revised DORA grant framework. Whichever option is pursued, it is necessary to provide sufficient clarity to all parties involved to eliminate existing differences in interpretations. 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.

R4. DHS and National Treasury should amend the USDG policy framework to stipulate a portion that may be used to procure technical and project management expertise

There is a need to 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 a portion (recommended maximum of 5%) that may be used to procure technical and project management expertise to improve project implementation and capital expenditure if required. 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. The CSP has the potential role to resolve horizontal coordination issues via the BEPP process.

7.2 Additional recommendations

7.2.1 Design

R5. National Treasury should consider incentivising municipal co-funding through the introduction of a ‘matching’ requirement for municipalities as a condition of the USDG in the DORA grant framework

National Treasury should consider adding municipal ‘co-funding’ as a condition of the USDG. This requirement would 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 and may need to be a differentiated rate for the different 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.

R6. The DHS and National Treasury should 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 credible, transparent and auditable processes for the identification and prioritisation of capital projects.

R7. The DHS needs to provide more specific definitions for key terms used in human settlements policy, including: ‘sustainable human settlements’, ‘secure tenure’, ‘well-located’, ‘spatial efficiency’, ‘built environment’ and ‘upgrading’

There is a general need for DHS to provide more specific definitions to make these terms meaningful and measurable. These definitions should be developed as part of current human settlements policy processes.

7.2.2 Planning

R8. The DHS should not require any specific planning to be undertaken for the expenditure of the USDG, outside of normal statutory planning processes

As is current practice, the capital budget process is extended to provide an extra step to identify USDG projects based on criteria specified in the grant framework. Projects are identified for internal purposes only, and not for external reporting purposes.

R9. 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 and in DORA 2014.

R10. The CSP should amend the BEPP Guidelines to establish definitions for spatial zones in order to monitor the targeting of the grant

To overcome the problem of inaccurate targeting of the grant, it is proposed that a spatial budget reporting method be used. Priority areas would need to be identified in each metro based on clear definitions of these provided in the BEPP Guidelines.

7.2.3 Implementation

R11. The Human Settlements MinMEC should clarify the intent around the assignment of the housing functions to metros

The evaluation has found that for the USDG to be as efficient as intended, the housing assignment process needs to be completed. 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, which in turn will allow for conditions more conducive to improving intergovernmental relations.

R12. The DHS should clarify the role of provinces in the USDG in the revised policy framework to improve the mechanism for coordination of housing and metro planning, to expand their capacity-building role and to implement the revised monitoring framework.

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 provinces should also continue to play a capacity-building role, but this needs to be expanded to complement parallel capacity-building processes being undertaken by the CSP and SALGA. Provinces also play a crucial role in the interface between the USDG outputs and their link to the Outcome 8 outputs and outcomes.

R13. The CSP should require municipalities to identify specific land parcels in the BEPP for purchase using the USDG, including a realistic assessment of the timing of these purchases

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. Current HDA assistance to metros to identify land and facilitate its timely release should be supported and expanded.

7.2.4 Monitoring framework

R14. National Treasury should commission an Expenditure Performance Review of the USDG

National Treasury should commission an Expenditure Performance Review (EPR) of the overall capital spending of metros in relation to the objectives of the USDG since the inception of the grant in order to make a judgement on value for money.

R15. DHS should include a comparison of USDG % expenditure with overall capital % expenditure 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.

R16. Metros should report on financial indicators in the spatial categories defined in the BEPP guidelines

Metros should report on capital spending of both the USDG and the capital budget as a whole in broad asset and spatial categories. The definitions for the asset categories and the spatial zones should be contained in the BEPP Guidelines and a map of the spatial zones should be required in of the BEPP.

R17. 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 outcomes towards which the grant contributes are a subset of the overall built environment outcomes measured through indicators developed as part of the IDP and SDBIP process.

R18. Metro reporting on housing outputs should be limited to Outcome 8 and housing programme reporting and not duplicated by any USDG requirements

The new Outcome 8 will define the targets and indicators to monitor and evaluate human settlements outputs and outcomes. DHS need not duplicate the measurement and reporting of these outputs for the USDG specifically.

R19. National Treasury should assess counter-funding and/or crowding out of internal funds by the USDG through a review of standard budget reporting

The standard MFMA budget reports should allow National Treasury to determine whether the USDG is impacting on the use of municipal own funding.

R20. 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 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' ability to source their own capital funding.

R21. The DHS should not undertake monitoring of individual project selection and implementation

Projects are only identified to determine spend in specific areas.

Annexes

Annex 1: Detail of the methodology

The sample included for this assessment was defined as those national departments (National Treasury, Department of Cooperative Governance, DPME and DHS) and other external stakeholders involved in the implementation of the USDG. The four case study metropolitan municipalities of City of Cape Town, City of Johannesburg, Ekurhuleni, and Buffalo City were selected by the Project Steering Committee. In addition, the three provinces in which these metros are situated (Western Cape, Gauteng and the Eastern Cape) were included in the sample.

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 with 66 respondents across three stages: Design Review (14 respondents); Metro Assessments (43 respondents); Overall assessment (9 respondents).
- Focus groups with 23 respondents across the three provinces for the Metro Assessments.
- Feedback from 6 validation workshops held at the design review (1 workshop), implementation assessment (4 metro workshops) and overall evaluation (1 workshop) stages.

Secondary data

- Literature review; International and local literature on human settlements policy and the associated fiscal mechanisms;
- Document review: Local policy and planning documents at all three spheres of government;
- Financial performance and non-financial performance monitoring data; and
- Project lists and records.

Annex 2: References

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Figure 5: GIS map of approved USDG funded projects in Cape Town (Source: City of Cape Town Human Settlements Department)

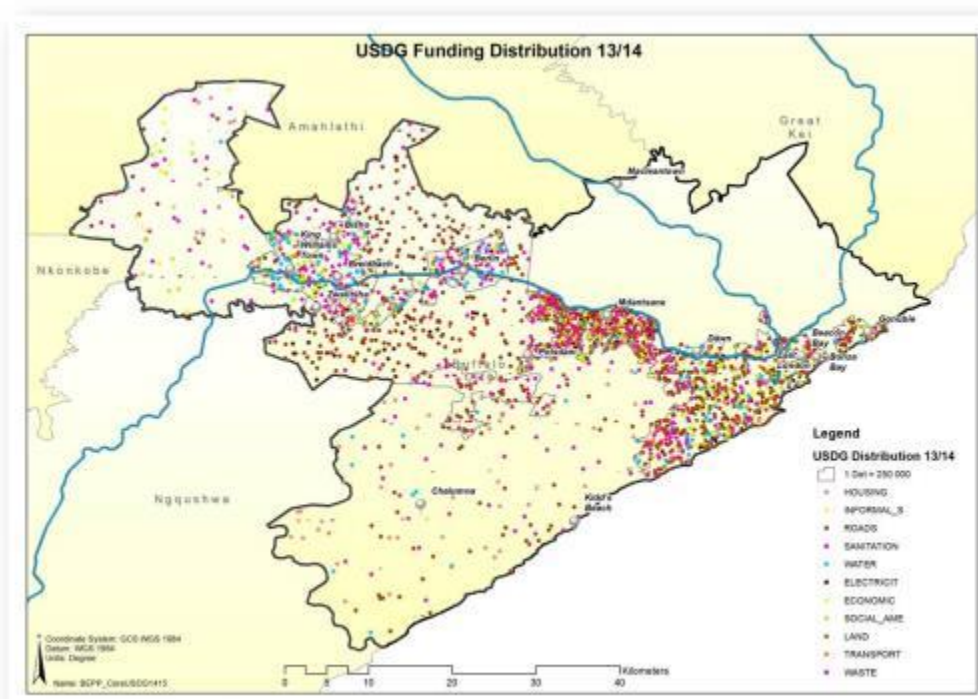


Figure 6: USDG funding distribution in Buffalo City for 2013/14 (Source: BCMM BEPP presentation 03 June 2013)

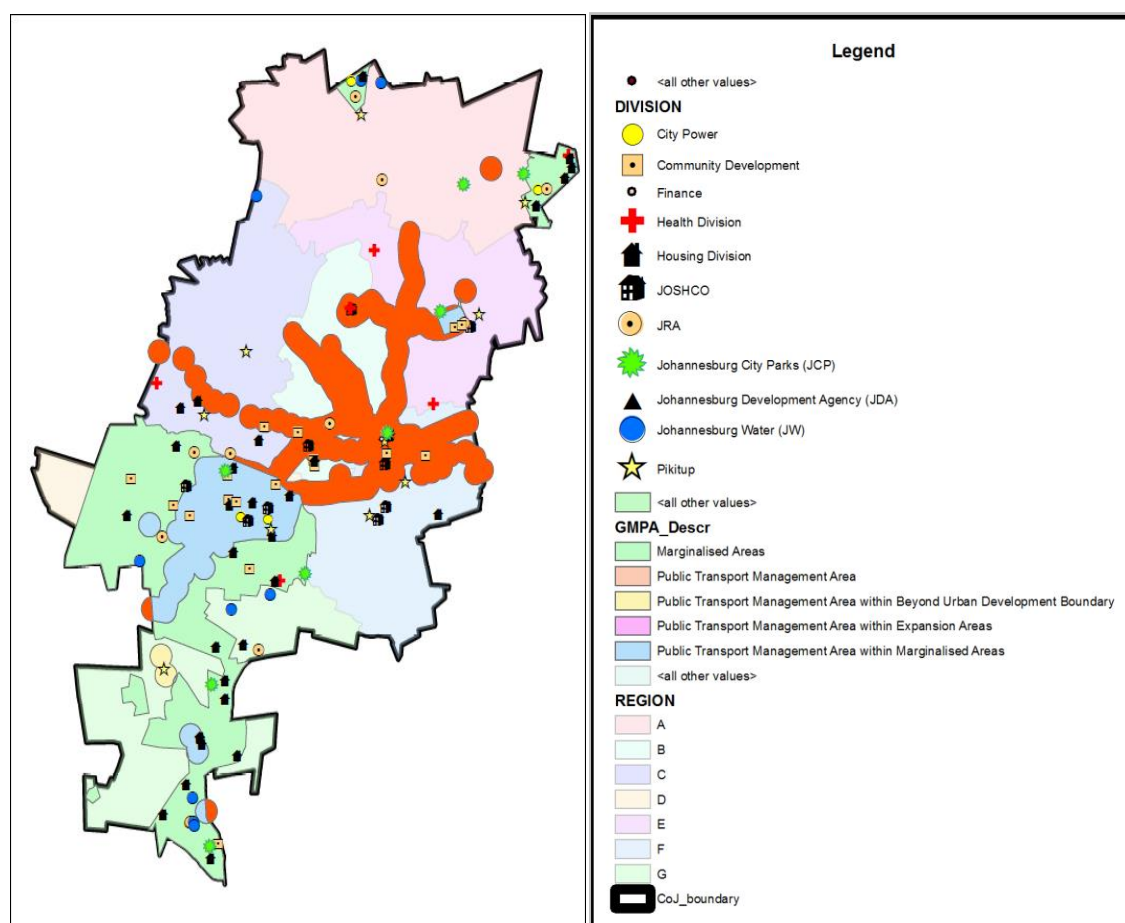


Figure 7: 2012/13 USDG projects in Johannesburg in relation to Capital Investment Priority Areas
(Source: City of Johannesburg, 2013a)

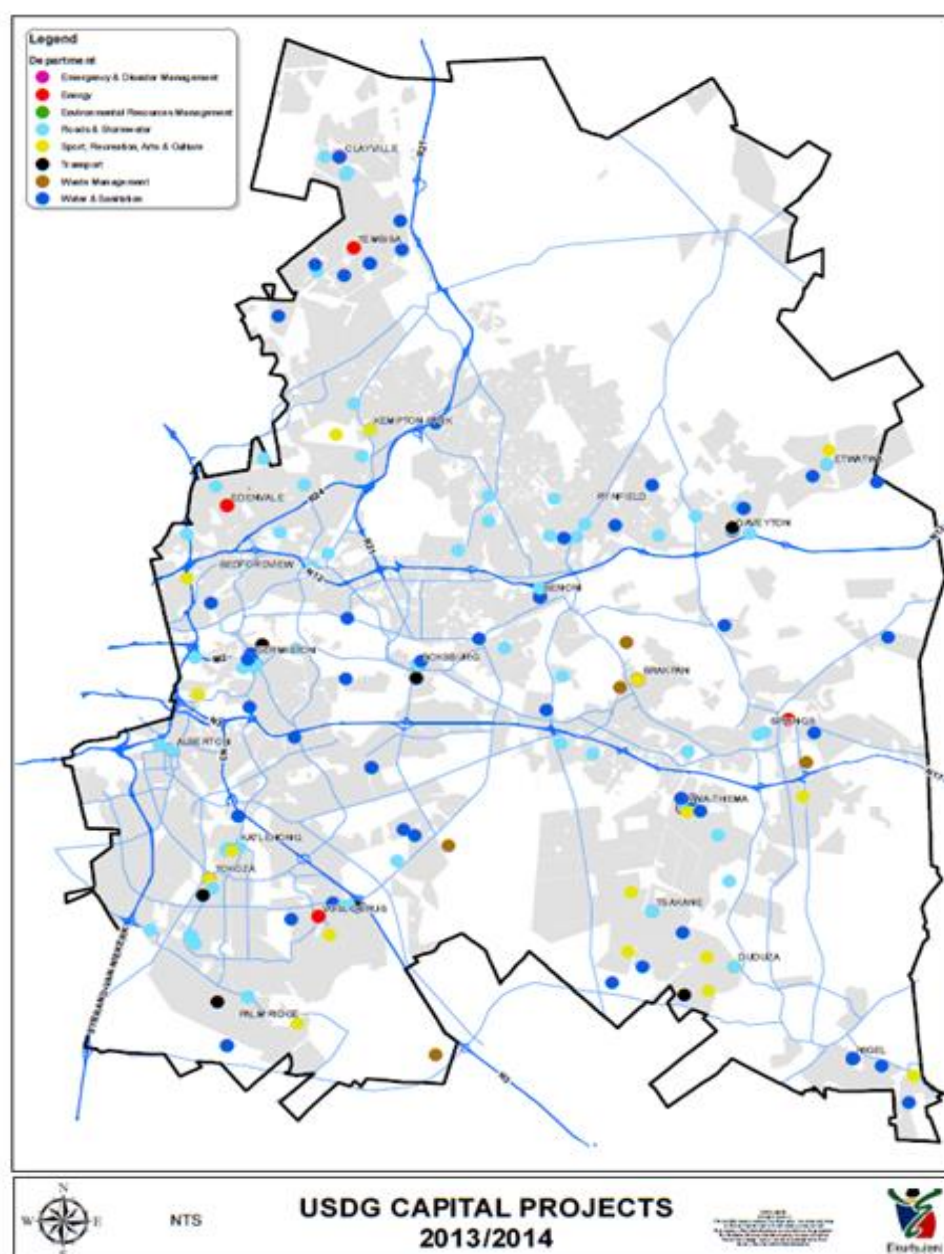


Figure 8: Map of current USDG projects in Ekurhuleni (Source: EMM, 2013)