Republic of South Africa: Community Infrastructure I - III

Ex-post evaluation report

OECD sector	Financial institutions of the formal sector / 24030	
BMZ project ID	1) 1998 65 536 (FC/L EUR 13.80 million) 2) 1998 65 981 (FC/L EUR 12.50 million) 3) 2000 65 730 (FC/L EUR 14.57 million)	
Project-executing agency	Development Bank of Southern Africa (DBSA)	
Consultant	n.a.	
Year of ex-post evaluation	2008	
	Project appraisal (planned)	**Ex post evaluation (actual)**
Start of implementation	1st quarter 1999	2nd quarter 2000
Period of implementation	55 months	55 months
Investment costs	EUR 41.1 million	EUR 40.8 million
Counterpart contribution	n.a.	n.a.
Financing, of which FC funds	EUR 41.1 million	EUR 40.8 million
Other institutions/donors involved	AfDB, EIB, AFD	AfDB, EIB, AFD
Performance (overall rating)	**2**	
• Significance/relevance	2	
• Effectiveness	2	
• Efficiency	2	
• Overarching developmental impact	3	
• Sustainability	2	

Brief description, overall objective and project objectives with indicators

The objective of the project was to provide inexpensive, long-term loans for communities in structurally weak regions of South Africa in order to support them in the sustainable social and economic development of their administrative districts. These measures were intended to contribute to improving the living conditions of poor population groups, who had been disadvantaged up until then (overall objective). By means of the three FC loans granted to the DBSA, the latter could, at low cost, refinance the loans it provided to South African communities for the financing of social and economic infrastructure as well as for investments to promote economic development at a local level.

The project objective is reached if DBSA's portfolio has a proportion of uncollectible loans (payment arrears >180 days) of less than 10 %. The overall objective is reached if 80 % of the subsidised infrastructure facilities are utilised and maintained as planned. Still today both objectives seem appropriate for the three credit lines, and both have been fulfilled entirely.

Project design / major deviations from the original project planning and their main causes

The original project design was essentially implemented. Since the target group (poorer communities in South Africa / their population) underwent a major reform process after the first funds were apportioned (as of 2000), the originally planned allocation of the loans to communities with a majority of poor people could not be strictly maintained. Nevertheless, the target group could be reached to a sufficient extent.

The complementary measure in phase III to the amount of EUR 0.77 million was not required, because the DBSA used its own funds for the counselling of weaker communities. This did not have any negative effects on the success of the FC project.

Key results of the impact analysis and performance rating

The success of the projects is evaluated jointly for all three credit lines.

The project is aimed at directly combating poverty. By providing financial means for the communities, the main focus of the support lay on basic social services, which were created and maintained for the poor population groups in areas remote from the large cities. As a rule, the target group was actively involved in the planning and implementation of the projects by means of so-called “development committees”. The projects have no potential to contribute to gender equality and are not intended to have an effect with regard to governance. They are not aimed at protecting the environment or resources. The project’s developmental effectiveness may be summarised as follows:

Access to adequate long-term financing on the national capital market is an important precondition for the communities to be able to fulfil their task in developing local infrastructure. Particularly the poorer population groups of the respective community benefit from these investments. This is why the DBSA has made community financing one of its priorities since 1994. The community reform in 2000 created a considerably more favourable environment for this task. Many of the previously highly indebted and financially not viable communities were laid together with better-off communities. This increased the communities’ capacity to technically implement and monitor the necessary measures. The DBSA continues its very close cooperation with other donor institutions like the African Development Bank, EIB and AFD, which also support these objectives. Also from today’s perspective, we therefore assess the project’s **relevance** as good overall (sub-rating 2).

The three FC credit lines were used to finance a total of 21 communities with 30 sub-loans to develop local infrastructure. The funds were employed for the sectors water supply (29%), sewage disposal (10%), road construction and drainage (22%), electricity supply (15%), community facilities like community centres or kindergartens (8%) as well as for other purposes (16%). About 35,000 house connections (mainly for water and electricity) were directly co-financed. The other infrastructure facilities are being used by ca. 2.5 million households. The indicator that was defined at the time of the project appraisals to determine whether the project objective has been reached could be met entirely. A long-term analysis of the loans to the communities shows that the default rates in relation to the gross loan volume have continued to decrease from 6.2 % (2005) to 5.4 % (2006) and 4.9 % (2007). For these reasons, we rate the project’s **effectiveness** as good (sub-rating 2).

The DBSA’s annual report 2006/07 for the business year until 31 March 2007 confirms the positive impression we have of the development bank. As in previous years, the DBSA generated an adequate surplus, and the loan portfolio continued to grow. Community financing makes up a regular share of about 47 % of the portfolio. This proves that the support of this clientele continues to be one of the DBSA's major priorities, as was our intention. Given the amount of staff and the number of loans they have to administer, we consider the production efficiency as appropriate. Whereas in 2006/07 the number of projects increased by 12 % compared to the previous year, the number of employees grew by only 3.5 %. The amounts paid out even showed an increase of 20 % compared to the previous year. Credit technology from counselling the borrowers up to monitoring redemption payments and managing demands for payment fully corresponds to the practical requirements. This is why we judge the project's overall **efficiency** as good (sub-rating 2).

In the context of the ex-post evaluation, a field study was carried out to assess the project impact at a local level. Its results show that the increase in the availability and quality of communal services and infrastructure has in fact been implemented to a considerable extent, as was our overall objective. Thus, the desired **overarching developmental impact** has been brought about. However, it is necessary to point out that in the project appraisals no clear requirements for the investments to be financed were defined with regard to time frame, quantity and quality. For this reason, a target/performance comparison of this aspect is not possible today. Yet the living conditions of the target group have improved due to the financed infrastructure. This is particularly true for the house connections set up for water, sewage and electricity. Other facilities like roads, bridges, community centres etc. are also used by the target group, though not exclusively. Last but not least it must be mentioned that possible negative impacts of the investments, like excessive fees or charges for the provided infrastructure, have not been reported / are not discernible. The indirect connection between project measures and impact and the resulting weak focus on the target group make for a merely satisfactory sub-rating of impact (sub-rating 3).

The evaluation of the project's **sustainability** takes into account the actual investments, the final borrowers at community level and the DBSA: on the occasion of the field study / the evaluation visit, we could verify that the buildings and facilities were in good condition, as was expected due to the fact that they had been in use for only 4 to 7 years since their establishment. Although there are occasional shortages of staff for maintenance and repairs, the communities' financial performance shows a positive development. Whereas there was a very disparate picture of rich and poor communities before the community reform, today's communities seem to be considerably more efficient and stable. This is also confirmed by the low default rates of the DBSA in community financing. Finally, the sustainability is evaluated on the basis of the DBSA's performance itself. The good business results of the DBSA (annual report 2006/07) give a positive impression, as do external ratings. As long as the political environment continues to be favourable, there can be no doubt of the competitiveness of this public development bank. At present, the risks seem to be low. The project's sustainability therefore deserves different evaluations, depending on the project level under perspective. The community level can be judged to be just about satisfying, given certain deficiencies in maintenance and repair, whereas the DBSA may be rated as very good. Summing up, we assess the sustainability as good (sub-rating 2).

In the **overall evaluation of the project**, the positive aspects prevail. Community financing was clearly strengthened, even if the long-term success of the measures finally depends on the financial and human resources of the subsidised communities. In order to support this aim, the DBSA has developed fruitful promotion approaches with corresponding counselling programmes. Choosing a national development bank as an instrument for community financing was therefore successful, and may be seen as a model despite the weaknesses mentioned with regard to reporting. The overall evaluation is therefore good (rating 2).

General conclusions and recommendations

The personal contact between KfW and the DBSA was well maintained during the entire project preparation, project appraisal and even afterwards. However, the main contact partner was the finance department of the DBSA, which was responsible for the refinancing lines. There was little or no contact with the employees of the DBSA's loan department. As a result, loan department staff did not have sufficient information on the objectives and indicators which had been negotiated for the FC funds. In phases II and III of the project, individual measures were submitted to KfW quite late, even after the relevant criteria had been fulfilled. Direct contact between KfW and the loan advisors would probably have led to even better results.

Similarly, loan departments were not sufficiently informed about the planned complementary measure (FC grant) for counselling measures in order to better implement the community infrastructure investments. This is why we generally recommend ensuring that direct contact to the loan departments is established when earmarked refinancing lines are provided to development banks, e.g. in the field of infrastructure or the environment, in order to actually be able to influence the allocation of the sub-loans. A written agreement in the loan contract is apparently not enough to achieve this purpose. If direct contact to the loan departments is maintained, there is a better chance to reach the intended objectives and target groups as much as possible.

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being relevance, effectiveness (outcome), "overarching developmental impact" and efficiency. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1 Very good rating that clearly exceeds expectations

2 Good rating fully in line with expectations and without any significant shortcomings

3 Satisfactory rating – project falls short of expectations but the positive results dominate

4 Unsatisfactory rating – significantly below expectations, with negative results dominating despite discernible positive results

5 Clearly inadequate rating – despite some positive partial results the negative results clearly dominate

6 The project has no positive results or the situation has actually deteriorated

A rating of 1 to 3 is a positive assessment and indicates a successful project while a rating of 4 to 6 is a negative assessment and indicates a project which has no sufficiently positive results.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability)

The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected.)

Sustainability level 3 (satisfactory sustainability)

> The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability)

> The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and an improvement is very unlikely. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. A rating of 1 to 3 indicates a “successful” project while a rating of 4 to 6 indicates an “unsuccessful” project. In using (with a project-specific weighting) the five key factors to form a overall rating, it should be noted that a project can generally only be considered developmentally “successful” if the achievement of the project objective (“effectiveness”), the impact on the overall objective (“overarching developmental impact”) and the sustainability are considered at least “satisfactory” (rating 3).