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UNCLASSIFIED

SOUTH AFRICAN BURSARIES

Project Amendment

674-0230

May 1989

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE **C** A = Add
C = Change
D = Delete
Amendment Number (one) **1**
DOCUMENT CODE **3**

COUNTRY/ENTITY **South Africa**
BUREAU/OFFICE **Africa** **06**
PROJECT NUMBER **674-0230**
PROJECT TITLE (maximum 40 characters) **South African Bursaries**

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) **01 9 24 95**
7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
A. Initial FY **85** B. Quarter **4** C. Final FY **90**

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total		860	860		28,000	28,000
(Grant)		860	860		28,000	28,000
(Loan)						
Other:						
L. U.S.						
U.S.						
Host Country						
Other Donor(s)						
TOTALS		860	860		28,000	28,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION/PURPOSE	B. PRIMARY TECH CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	620	630		16,360		28,000		28,000	
(2)									
(3)									
(4)									
TOTALS				16,360		28,000		28,000	

10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)
11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 400 characters)
To provide advanced educational opportunities to disadvantaged South Africans.

14. SCHEDULED EVALUATIONS
Location **01189** **01189** **01189** **01189** **01189** **01189**
Final **1295**
15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Loan Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of 1 page PP Amendment)

This amendment adds \$10,000,000 to the LOP and extends the PACD from 12/31/94 to 9/24/95

17. APPROVED BY **Dennis P. Barrett** Director
Date Signed **01 5 17 95**
18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION **01 06 19 95**

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SOUTH AFRICA

FROM : Mark R. Johnson, Supervisory Project Development
Officer

SUBJECT : South African Bursaries Project (674-0230);
Authorization Amendment Number One

I. Problem: Pursuant to Africa Bureau Delegation of Authority (DOA) 551, Section 4, your approval is required to amend the subject Project authorization to increase the LOP funding level from \$18 million to \$28 million and extend the PACD from December 31, 1994 to September 24, 1995, as further described below.

II. Authority: Pursuant to Delegation of Authority 551, Section 4.A.(2), Principal Officers of Schedule "A" Missions, which includes South Africa, have the authority to:

A. Amend project authorizations executed by any AID official unless: the amendment will result in total life-of-project funding of more than \$30 million; the amendment presents significant policy issues or deviates from the original project purpose; or the amendment requires issuance of waivers that may be approved only by the Assistant Administrator or the Administrator, unless such waivers are approved prior to authorization of the amendment.

B. Approve extensions of the life of a project, provided that the extension does not result in a new total life-of-project of more than ten years.

The action described in this Action Memorandum falls within your authority.

III. Background: The South African Bursaries Project was authorized on September 24, 1985 at a level of \$18 million. The purpose of the project was to provide advanced educational opportunities for legally disadvantaged South Africans. The bursaries, which are implemented through cooperative agreements and grants with local nongovernmental organizations, provide for undergraduate and graduate training (including bridging programs) in South Africa, and related technical assistance.

Obligations-to-date under the subject project amount to \$16,360,000. The Mission has executed cooperative agreements with two local NGOs for implementation, the Educational Opportunities Council and the South African Institute of Race Relations. Counting the intake of 1989, approximately 678 black South Africans will be in training or will have completed degrees in tertiary institutions in South Africa. This is very close to the original target of 700 students planned in the project paper.

Tracking expenditures under the project has been somewhat problematic. Recorded expenditures to date amount to \$3,500,000. As is the case with U.S. participant training projects, the Mission obligates sufficient funds to fully forward fund each participant. Similar to U.S. participant training projects, a multiple-year degree program will evidence a steady drawdown on the project pipeline. As the project enters into its third year, the Mission expects the rate of expenditures will increase to a level of approximately \$3,000,000/year.

The Mission has a Mission and AID/W-approved strategy for bursary assistance (Attachment One). This document provides the technical support for continued bursary assistance in South African institutions as well as in the U.S. The original Project Paper provides technical support for related academic support programs.

IV. Discussion: An evaluation of the entire bursary program is currently in progress. Although field work is not complete, the recommendations of the evaluation will certainly make provisions for continued tertiary study in South Africa institutions. However, it is possible that administrative and design recommendations will call for a new project combining both U.S. and South Africa bursaries. The Mission plans to begin development of a new training project (see Education Sector FY 89 Plan) due to the LOP ceilings in both the external and internal bursary projects. However, we will await the recommendations of the evaluation before proceeding with new project development.

In order to program the FY 1989 OYB, the Mission plans to obligate \$20 million in bursaries (an increase of \$10 million over FY 1988) this fiscal year. The IIE Contract (AFR-0213-C-00-7070) under the Training for Disadvantaged South Africans Project will be forward-funded, adding \$10,000,000. In addition, \$10,000,000 of obligations are scheduled under the South Africa Bursaries Project through grant agreements with local NGOs. All activities have been reviewed and approved during Mission Action Plan review sessions.

Educational Opportunities Council - Amendment to Cooperative Agreement adding \$3,500,000. This will provide for approximately 200 full bursaries.

South African Institute of Race Relations - Amendment to Cooperative Agreement adding \$3,500,000. This will fund approximately 200 full bursaries.

Catholic Education Aide Program - A new grant agreement will be designed with initial funding of approximately \$1,000,000. This activity was included and approved in the Education Sector Action Plan for FY 1989. This will fund approximately 30-40 full bursaries.

Port Elizabeth African Benevolent and Welfare Society - This organization was recommended for funding by the Policy Advisory Board. A new grant agreement is planned to provide limited initial assistance this fiscal year for 10 bursaries. Estimated cost: \$500,000

University of Natal "Test-Teach-Test" Program - A new grant agreement will be designed with initial funding of approximately \$1,000,000 for the Pietermaritzberg campus of University of Natal's Faculty of Science. This activity was included and approved in the Education Sector Action Plan for FY 1989. Initial funding will provide approximately 40 full bursaries.

Academic Support Programs - The Mission is involved in a study of academic support programs among various universities. Although we have not identified specific universities for funding as of yet, various proposals from Medunsa, University of Zululand, University of the Witwatersrand, University of the Orange Free State are being explored by the Mission. It is estimated that \$443,000 will be obligated for this purpose.

Emergency Assistance - Administration of bursary programs is complicated and problematic due to the need to project several years in advance. Community organizations often award bursaries without reserving full support in advance, and may be put in the position of discontinuing bursaries for successful students due to fund shortages. A portion of funds are used for this problem granted on a one-time only basis which is followed up by Mission project staff. Estimated funds FY 1989: \$67,000.

The revised financial plan for the project is as follows (presented in \$000):

<u>Line Item</u>	<u>Original Budget</u>	<u>Amended Budget</u>
Undergraduate Study	13,632	20,000
Graduate Study	1,255	3,800
Administration	1,899	4,200
Study Fund	214	0
Contingency	<u>1,000</u>	<u>0</u>
Total	18,000	28,000

This schedule allows the Mission to carry on the internal program, which is highly regarded by South African educationists, while preparations are made for future project development actions.

The extension of the PACD from December 31, 1994 to September 24, 1995 is required to permit those students who begin their bursaries in 1991 to complete their programs prior to the expiration date. The extension results in a ten-year project, the field authorization limit.

This authorization amendment does not introduce substantive changes in the Project. Hence, an action memorandum is sufficient supporting documentation (HB3, Chapter, 13 "Project Modifications", Chapters A-D).

V. Significant Policy Issues: A policy issue exists concerning the direct funding of university programs. Although the specific mechanisms have not been established, it is possible that the Mission will propose to fund certain of the above programs through university foundations. Because of legislative issues which prohibit the funding of organizations influenced or controlled by the South African Government, a legal opinion was prepared by the RLA (Attachment Two). As detailed in that opinion, such programs will be evaluated on a case-by-case basis.

VI. Congressional Notification: N/A

VII. Waivers: No waivers are required.

VIII. Responsible Officers: The project is managed in the field by the appropriate designee(s) of the Mission Director.

IX. Recommendation: That you sign the attached Authorization Amendment Number One indicating: (a) approval of increasing LOP funding from \$18 million to \$28 million; and (b) extension of the PACD from 12/31/94 to 9/24/95, and the facesheet of the PP Supplement.

Draft: DRobertson, PDO;0449C
Clearances: MVanDoren, CONT
HWilkinson, PROGRAM
DKeene, RLA
WStickel, AD

cc: JConly, AFR/SA
SBilss, AFR/PD/SA

Attachments: as described

Attachment One

BURSARY ASSISTANCE STRATEGY

I. Sectoral Importance and Justification

Scholarship assistance to victims of apartheid, by reaching out to current and future leaders, is clearly consistent with U.S. interests in South Africa. Some key considerations are:

Legislation: Section 103(b)(1) of the Comprehensive Anti Apartheid Act commits the U.S. to "provide assistance to South African victims of apartheid without discrimination by race, color, sex, religious belief or political orientation, to take advantage of educational opportunities in South Africa and in the United States to prepare for leadership positions in a post-apartheid South Africa".

Leadership: We have learned from the era of African independence the importance of well-trained indigenous leadership in guiding political as well as economic and social development. The absence of leaders who understand the operation of government institutions invites political chaos; absence of analytic and management skills invites gravely flawed economic and business decisions; and absence of informed leaders in a state's social support infrastructure retards the development of adequate public services.

Leverage: A relatively small cadre of trained people can profoundly affect the course of a country's development. No development assistance program has the resources to operate, for example, the educational system of a country like South Africa. But people trained under a bursaries program, say in the administration of educational systems, can make rational decisions which reflect the skills and values acquired during their studies. Similarly, donor assistance could not continuously maintain a country's higher education system, but professors who obtain their qualifications under a bursaries program will for years help shape tomorrow's leaders.

Communication: Over and over again, experience has shown the value of finding counterparts in Third World countries who understand Western values and styles of communications. In country after country, both diplomatic relations and development planning have been facilitated by common experiences at Berkeley or Lincoln or Michigan State. This communication commonality has been particularly important at times of turmoil and crisis, such as at independence or during major power shifts. The absence of such mutual understanding was felt poignantly in too many African countries on the threshold of their self-determined futures over the past three decades.

Political Viability: In the tense and volatile environment of South Africa one must focus attention on the limited subset of opportunities that stand a chance of surviving inevitable domestic and international scrutiny. A bursary project steers the narrow path between SAG tolerance and black endorsement. Not many options have similar viability and comparable substantive impact.

Consistency with AID Education Strategy: Bursary programs are supportive of AID's Education Sector strategy which focuses on measures to increase (1) the efficiency with which education resources are used; (2) the quantitative and qualitative outputs of education and training investments; and (3) the effectiveness of the education and training systems in supporting economic and social development objectives.¹

AID's current South African Education Program (SAEP) has sponsored U.S.-based training for more than 500 students at undergraduate and graduate levels since 1979. Half have now completed their studies, and 97 percent of those are either continuing their studies with other financial support and with the approval of black leadership, or are back in South Africa. Those who have returned are becoming involved in responsible positions and report their training has provided them with greater self-assurance and an increased sense of intellectual competence in competing with whites.

More recently, AID instituted a program to finance undergraduate studies for victims of apartheid at South African universities. While this program is relatively new and still does not have any graduates, there is no question that it and SAEP have been embraced by disadvantaged students. In just two years, the number of inquiries has grown to about 50,000 for the 350 available internal bursaries. SAEP annual inquiries have remained steady at approximately 4,000 for 120 scholarships. Interest in these programs is clearly outstripping our current ability to respond.

II. Objective

The objective of our bursary assistance is to expand the black leadership cadre in preparation for a post-apartheid society. The apartheid system has consistently and relentlessly concentrated on providing education which prepared blacks to be drawers of water and hewers of wood in perpetuity. Despite much touted plans to achieve parity in education expenditures, the SAG in 1987 spent seven times more per capita for white than for black basic education.

Our bursary assistance reinforces a basic tenet of nonracialism -- that access to higher education and the ensuing opportunities for advancement should not be predetermined on the basis of race, sex, religion or politics. Though focussed by necessity on an academic elite, the program demonstrates U.S. commitment to facilitating full black participation in all aspects of South African social, political and economic life.

¹ AID Sector Strategy - Education; 1983.

III. Constraints

Political: Bursaries may be the politically most acceptable element of our assistance program, since they contribute directly to resolving the country's high level manpower shortage. Current tensions between the SAG and USG, however, may affect the difficulty new participants encounter in obtaining passports.

Economic: The huge numbers of applications create growing pressure to offer more bursaries. Even with the supplemental appropriation from Congress, we are only able to provide a fraction of the need.

Administrative: One difficulty with bursaries appears to be the shortage of South African organizations able to administer the program. The South African subcontractors for AID's current bursary projects, the Educational Opportunities Council (EOC) and the South African Institute of Race Relations (SAIRR), are exerting great efforts to deal with the current numbers of applications and bursaries. Extensive consideration is being given to providing technical assistance to enhance these organizations' monitoring and financial capabilities. It was the Mission's judgment that no other South African organizations were capable at this time of responsibly assuming the volume of work being done by EOC and SAIRR. Many groups are interested, however, and will be given consideration if and as our level of effort increases.

Legislative: The US Congress has put a hold on the Mission's proposed short-term training initiative pending completion of an options study to be completed about mid-FY88. The issues surrounding the hold have been resolved through the presentation of short-term training options available in South Africa. Implementation planning for that component is in progress, but will begin with a buy-in to the IIE's Career Development Fellowship Program.

Personnel: Even with recent increases in Mission staffing, the management burden of administering the Human Resources Development portfolio is substantial and growing. A training officer with appropriate administrative and clerical assistance is under recruitment which will free the HRDO to concentrate on other activities within the sector.

IV. Sectoral Strategy

A. Focusing Sectoral Activities

A small external bursary program was begun in 1979 by the Institute of International Education with funding from a variety of sources. US congressional interest in helping meet educational needs of black South Africans gained momentum in the early 1980s, and led to an appropriation of funds in 1982 which began AID's involvement in the program and permitted its expansion. A number of studies were undertaken or their findings utilized to help focus the program on high-priority

fields, and to determine how external and internal programs could complement one another. The 1984 project paper amendment used a Human Sciences Research Council (HSRC) projection of occupational growth rates to help select fields of emphasis for the project. It showed sharply increased opportunities for blacks in fields such as architecture, engineering, medicine, natural sciences, and education. More recently we have made use of several studies outlining likely needs for high level manpower through the end of the century. The issue of fields of study, however, continues to be strongly debated by educationists with strong proponents for many arguments ranging from specially targetted technical (mining) disciplines to a broad manpower development philosophy.

Short-term training has not been available under either of the Mission's bursary projects. Although no formal study of the need for such training has been carried out, the Mission has received numerous requests for assistance of this kind. Most of the petitions have come from non-governmental organizations which are short of management capability, but others are for training of a more technical nature. To respond to these irregular but recurring calls for assistance, the Mission has appended the short-term training component to the Training for Disadvantaged South Africans project. Funds will be available for short-term training through IIE directly and for independent obligation through other organizations.

B. Substantive Areas of Focus

1. Long-term Training

(a) Overseas: Under the Training for Disadvantaged South Africans Scholarship Program, AID provides bursaries to legally disadvantaged students for university study in the US. This program is primarily intended to provide graduate study opportunities in fields not available to blacks in South African universities. Graduate study generally takes fewer years than undergraduate, involves older persons who have clear career plans, and ensures easy entry into the labor market with a graduate degree. However, about 40% of the participants are undergraduates: the pool of applicants for undergraduate training is much larger than for graduate work, and many more women candidates are interested in and available for Bachelor's level studies. Another factor is that black university students tend to be older and more mature than their U.S. counterparts; making one's way through the apartheid-blighted education system and qualifying for tertiary education often takes extra time as well as prodigious effort. Finally, the U.S. universities find it easier to offer undergraduate scholarships, so the supply is greater and the terms are more favorable than for graduate work. Some 950 long-term participants will be trained under this project.

More than 200 have already completed their studies and returned to South Africa, where most are employed in positions of growing responsibility.

(b) Training in South Africa: Under the South African Bursaries Project, AID provides undergraduate educational opportunities in South African institutions of higher education for legally disadvantaged South Africans. The objective of this project is to use our resources to help maximize the number of South African blacks holding bachelor's degrees. Much more than in the U.S., this level of education qualifies one for leadership positions in society and the workplace. Our assistance helps overcome some of the financial and educational constraints facing such students. This program is easier for women to enter as they can remain closer to home while studying. Many women would-be applicants have found that family and cultural constraints keep them from overseas study. Approximately 700 persons will receive an average 4.5 years training under this activity.

2. Short-term Training

Short-term, non-academic training is an important resource for mid-career black leaders, staffers in critically important posts in organizations receiving USAID grants, and for other promising blacks who cannot pursue an academic degree. Intensive, focussed learning opportunities offer such persons knowledge and skills they can put to immediate use in their work and communities. By focussing on leaders in the community, business or other professions, such training can have a direct and immediate impact on the influence of blacks in society and the economy.

To respond to a growing number of requests for assistance, the Mission last year proposed adding an overseas short-term training component to the Training for Disadvantaged South Africans project. Congressional staff, however, concerned with the need for development of non-governmental institutions with training capacity within South Africa, put a hold on that component of the project until further data could be generated on current and potential capability of South African organizations to offer such services. A study of these questions was undertaken in the U.S. and South Africa, the results of which were shared with Congress. Consequently, the short term component of the project is being appended.

C. Implementation Factors

1. Current approach

(a) Under the Training for Disadvantaged South Africans (external bursaries) a US contractor was selected in FY 1987 by open competition. The Educational Opportunities Council (EOC) in Johannesburg has a subcontract. The EOC is responsible for student selection, processing and support in the Republic of South Africa. The contractor, together with a

U.S. minority firm subcontractor, has responsibility for coordinating and managing the U.S. activities of all long term participants funded under this project. The contractor has established detailed procedures for bringing long term students to the U.S., placing them in appropriate institutions, supporting them throughout their course of study, arranging for their return to South Africa, and maintaining follow-up information on their utilization of the training until 1996. Tuition waivers from almost every participating U.S. university and corporate contributions from the U.S. private sector help cut the USG's per-student cost to about half that of other participant training programs. (Section D, below, offers more details).

(b) Under the South African Bursaries project, a Policy Advisory Board comprised primarily of leading blacks from most major segments of the population has responsibility for nominating to USAID one or more South African organizations to carry out the project. The Board provides guidance on which fields of study are to be given priority, project management and monitoring of progress toward achievement of target outputs. This approach has the advantage of involving South African educationists, community leaders, businesspersons and other professionals in programming decisions and oversight.

The board originally limited participation in implementation of the project to EOC and SAIRR. With funds provided through cooperative agreements, they advertise the availability of scholarships for study at the South African university or technikon of the winner's choice. Once recipients have been chosen by a selection committee and ratified by the Board, EOC and SAIRR make the awards, administer payments to the institutions, and follow up with students to monitor progress or problems. Both institutions are responsible for assuring that the recipients represent an evenhanded distribution by region and sex to forefend against charges of favoritism or discrimination. Both contractors have established computer-based systems to assist with selection and tracking of scholarship recipients.

c) Short-term training: The Mission currently has a competitively-awarded contract with IIE which calls for them to manage the U.S. training component. Selection of candidates for U.S. training will follow one of three formats: EOC will name mid-career black leaders under its new Career Development Programme; USAID will make funds available to selected grantee organizations which will allow them to "buy into" AID's contract with IIE to secure appropriate training for key staff; and USAID will have some resources to support outstanding candidates who would not be eligible under the other two rubrics. IIE will seek appropriate training opportunities, clear their placement decisions with the nominating entity (EOC, the USAID grantee on USAID) and/or assure responsibility from that time or for all aspects of trainees' placement, support counseling, networking, return home, and subsequent tracking.

USAID will also be making funds available for short-term training in South Africa to its grantees under its various sectoral programs. Local training is intended to maximize the number of beneficiaries while strengthening private sector training organizations whenever possible. This component will not require any direct USAID involvement; the grantee organizations which select appropriate staff for training, identify training institutions and directly make all financial arrangements with them. When the study on South African training organizations identified above is completed, USAID will make it available to recipients to help them select appropriate training programs.

2. Other Options

If the numbers of scholarships now called for in the two bursaries projects remain unchanged, we will not need to consider other implementation options. The contractors and grantees are proving capable of handling selection, placement and monitoring, although the much higher than expected numbers of applicants and turnover of key staff put considerable strain on the organizations. This is particularly true at EOC, where capable replacements must be found for departing personnel to assure solid implementation of both the internal and external programs.

In response to the very large numbers of bursary applications, USAID has proposed a major expansion of the bursary effort which would require supplemental funding from Congress. The greatly increased size of such a project would require us to considering alternative implementation modes. The first tranche of any additional funding would be used to increase the number of bursaries available for study at South African universities. The administrative cost would be very low, since our grantees would simply award all additional bursaries to the next highest-ranking candidates from the 50,000 persons inquiring about the program.

If supplemental funding were sufficient to exceed the number of places available in South African universities for the time being, we would need to consider options for expanding the external program. If the numbers of additional candidates are not great, we would give first consideration to a simple amendment to the current contracts.

If the supplement is too large for an amendment to the SAEP project to be feasible, we may then building on the SAEP model, a U.S. training option is once again to contract competitively with a U.S. organization and arrange for South African groups to subcontract for specific parts of the work. One might think in terms of regional subcontractors in conjunction with the currently well-established bursary organizations, in order to help assure geographically balanced recruitment, or division of responsibilities by task, to avoid

redundancy. The U.S. contractor would have major early responsibility for training the subcontractors to assure smooth implementation. That heavy up-front investment would, however, presumably be rewarded by the subsequent organizational strength of several South African institutions.

D. Private Sector Involvement

University tuition waivers, as mentioned earlier, are an important element of the external bursaries program, allowing a near doubling of the numbers of participants we can fund with available resources. Granting of waivers has been steadily growing element of the SAEP project. Currently, with the occasional exception for historically black colleges and universities (HBCUs) which are financially strapped but eager to participate in the project, the project deals only with universities willing to forgo normal tuition charges. Recently, such offers have begun to outpace the project's available funding. The currently increasing tensions between the SAG and USG may, further more, increase the numbers of U.S. universities willing to waive tuition for black South African students, but unless our funding increases most such offers will go begging.

No tuition waivers are available for the internal bursaries program, since all S.A. universities are publicly funded, and the SAG has shown no sign of cooperating actively in this efforts. The universities, even if they could find other funding to offset the revenue they would sacrifice by waiving tuition for our program's participants, probably do not have the discretionary latitude to make much decisions without SAG concurrence. There may however, be some potential for direct linkages between U.S. and South African universities which could help cover in-country tuition costs for black students.

Generally, the private sector has played an important role throughout the history of South African bursaries programs. SAEP was initiated by the Institute of International Education in the late 1970s with Ford Foundation assistance. Financial support from U.S. corporations, while never amounting to more than some half-million dollars annually, has nevertheless been important throughout the life of SAEP. We will continue to encourage contributions from the U.S. private sector. Equally important, we will encourage corporations to accept South African trainees in internship programs to provide them with "state of the art" experience in a nonracial atmosphere.

Involvement of the South African private sector is also possible, although the prospect of financial support is made controversial by conditions and constraints dictated by each firm's self interest. While we will not plan to solicit such support, it may be possible to negotiate with companies that are mounting affirmative action plans to reserve positions for returned participants and to establish fast-track programs that would allow talented blacks to move quickly through the ranks.

E. Other Donor Involvement

In addition to private sector contributions, foreign governments have increasingly recognized that bursaries are a tangible means to enhance educational opportunities for disadvantaged South Africans, while contributing to development of South Africa's future leaders. The British, Canadians, French, Germans, Australians, Dutch, Japanese and Italians all provide support for university and technikon study in South Africa. The first two provide the most extensive assistance but still finance fewer than 90 students annually between them. The British, Canadians, Swiss, Dutch and Australians also support overseas study programs. The British accept approximately 90 students annually. Implementation of virtually all of these programs is contracted out to South African nongovernmental organizations, principally EOC and SAIRR. The Swiss utilize a European NGO, World University Service.

USAID consults regularly with the major donors, particularly the British. In addition, the British have indicated that they will begin utilizing the services of the Policy Advisory Board established in conjunction with AID's internal bursary program. This will help ensure consistent policies and priorities across the two major bilateral assistance programs. To obtain a clearer view of funds available and policies under other bursary programs, AID will finance a survey under the auspices of the Policy Advisory Board of all bursary programs for disadvantaged South Africans. This will provide a clearer picture of the overall supply of bursaries when determining how best to respond to priority demands for specific fields of study and types of training. As part of the bursary program's implementation, mechanisms will be built in to assess regularly the activities of other donors, possibly under the auspices of the Policy Advisory Board, in order to maintain direct South African involvement in policy decisions. IIE organized a workshop to discuss the issue of bursaries with donors and South African educationists. This workshop confirmed the need for additional studies which have been since commissioned from local researchers. These studies will be the focus of a follow-up workshop.

F. Personnel and Contractor Requirements

We will continue to rely on contractors and grantees such as those now carrying out the programs. The combination of South African organizations concentrating on candidate selection and U.S. organizations focused on placement and monitoring of recipients studying in the U.S. seems a workable model. Allowing recipients of bursaries for study in S.A. to attend the university or technikon of their choice has also worked well to this point.

The situation could become more complex if either the internal or external bursary program expands substantially. We would need to look for additional contractors, as discussed above under Other Options.

Technical assistance, particularly in program administration and information management, is being provided to the participating S.A. organizations. This assistance is essential for smooth operation of the projects and is direct investment in their future institutional strength. The project calls for substantial organizational development training as a further mechanism for building institutional capacity, but that has not been feasible to date. Once more immediate management constraints have been adequately addressed, the time should be right for this additional important effort.

Within the Mission, one USDH officer and one FSN officer share responsibility for all bursary activities. As mentioned earlier, the level of funding and number of projects in the Mission's education sector would normally call for the addition of a training officer and additional administrative/clerical assistance to carry the workload. With activity continuing to grow, this issue needs prompt attention.

V. Expected Impacts

Following some of the key impacts expected of our bursary assistance.

Economic Impact: South Africa is unique in being an African industrial economy, short of skilled persons at high levels in both private and public sector institutions, and possessing a large under-utilized low- and medium- skilled workforce. Economic trends and experience to date suggest that program participants will be assured a place in the labor market consistent with their training. Analysts project shortfalls of as many as 500,000 candidates in the next ten years for high-level professional, technical and management posts. But analysis of recent personnel turnover shows only one of every 100 high-level jobs previously occupied by a white was taken over by a black; whites continue to occupy some 96 percent of professional and managerial posts. An increase in the supply of blacks prepared to move into such positions will begin to change the overall balance.

Social Impact: Recent statistics show that only about 10,000 black Africans have university degrees, as compared with about 250,000 whites, 4,000 "coloreds", and 9,000 Indians. Few blacks have managed to survive the language barriers, the anti-intellectual bent of the black curriculum, and the great pressures that result in a 50 percent dropout rate by the end of Standard Two (fourth grade). Those who have made the extraordinary effort to go through the system have survived odds that make it 100 times less likely that a black will finish secondary school than a white. For these survivors, about 10,000 per year, the prospect of a fully funded university or technikon education promises entry into a newly emerging dynamic in traditional race relations.

Domestic Political Change: A major bursary effort will help avoid the destructive leadership vacuum that plagued so many African countries at independence. Given apartheid's legacy of suppressing black education and advancement, a major training initiative is critical to ensuring that power is, in reality, transferred to those who have been victims of apartheid, and that tomorrow's leaders can effectively implement their visions for a nonracial, democratic society. Moreover, preserving the economic machinery that is critical to the success of a post-apartheid society will be achieved only by those who know how that machinery functions, or who understand its relevance.

International Political and Economic Relations: South Africa's economic importance to the African continent and, due to its strategic mineral base, the international economy is well recognized. Its geopolitical importance is eloquently stated by its position at the tip of Africa, its pivotal position in trade routes, its Atlantic and Indian Ocean coastlines, and its symbolic presence between east and west. Previous experience has demonstrated that creating sound relations now with potential future leaders may hold the best promise for sound political and economic relationships in the future.

Attachment Two

Date : January 17, 1989

From : Donald G. Keene, RLA/SA

Subject : Legality of Providing AID Assistance to Universities and
Affiliated Organizations

To : Dennis Barrett, Director
Wendy Stickel, Deputy Director
Harry Wilkinson, Program Officer
Mark Johnson, Supervisory Project Development Officer

I. INTRODUCTION AND SUMMARY

The stated goal of the Comprehensive Anti-Apartheid Act of 1986, as amended (the "CAAA"), is to provide assistance to organizations working through non-violent means to end apartheid and create a non-racial democratic government and society in South Africa. Some South African universities and affiliated organizations have assumed an important role in opposing apartheid and developing ideas for a future non-racial democracy. Accordingly, USAID/South Africa is considering providing assistance to or through selected South African universities (e.g. University of the Western Cape, Wits) and units or components within universities. USAID is already funding, on a case by case basis, certain organizations (e.g. the Center for Applied Legal studies (CALS)) affiliated with universities, by virtue of free use of university space or other means, but not owned or controlled by them.

The issue raised is whether universities and affiliated organizations can be funded in light of a legislative prohibition, more fully discussed below, on assistance to governmental institutions or organizations or th organizations "financed or controlled" by the Government of South Africa. The legislative prohibition applies, as a matter of law, only to ESF financed activities and to the Human Right Program, excluding the Legal Assistance Program. However, as a matter of policy, USAID has consistently applied the prohibition to all AID funded activities in South Africa.

Based upon an analysis of the intent of the legislation and its applicability, it is my view that direct assistance to universities, which receive up to 80% subsidies from the SAG and, therefore, are SAG financed, is prohibited without legislative change or at least Congressional consultation and approval in cases where the statutory prohibition doesn't expressly reach as a matter of law (e.g. certain DFA funded activities). Even in cases where the prohibition is applicable only as a matter of policy legislative change ultimately should be sought. With respect to organizations affiliated with universities, USAID/SA may continue to provide assistance where it is determined, on a case by case basis, that the organization is not "financed or controlled" by the SAG or a SAG entity. It is my opinion, based on the analysis below, that AID assistance to most

academic support units, as described herein, probably would not violate the spirit of the legislative prohibitions. However, without legislative change, they also must be reviewed and analysed on a case by case basis.

Finally, I do not believe that the legislative prohibition was intended to prevent AID grantees from collaborating with universities or affiliated organizations, through use of university facilities or space or other similar means, in order to carry out their AID financed program or activities.

II. THE STATUTORY TEST

Section 535(b) of the Foreign Assistance Act of 1961, as amended (the "FAA"), which authorizes ESF funds for the South Africa program and was enacted in 1986 as Section 511(b) of the CAAA, states:

"Assistance provided pursuant to this section shall be made available notwithstanding any other provision of law and shall not be used to provide support to organizations or groups which are financed or controlled by the Government of South Africa."

A similar provision is found in FAA Section 116(e) which authorized the establishment of a Human Rights Fund. Subparagraph (e)(2), which was added in 1984, earmarked a specific amount for grants to non-governmental organizations (NGOs) in South Africa promoting political, economic, social, judicial, and humanitarian efforts to foster a just society and to help victims of apartheid.

The provision goes on to state that in making grants under this paragraph:

- priority should be given to those organizations or activities which contribute to promoting a just society, to aiding victims of official discrimination and to the nonviolent elimination of apartheid;
- priority should also be given to those organizations whose programs and activities evidence community support;
- grants may only be made for organizations whose character and membership reflect the objective of ending the apartheid system and interracial cooperation; and
- grants "may not be made under this paragraph" to governmental institutions or organizations or organizations "financed or controlled by the Government of South Africa."

Third, Section 802(c) of the International Security and Development Cooperation Act of 1985 (ISDCA) contained a similar "financed or controlled by" prohibition pertaining to ESF funding of South African education or training program. Although Section 802(c) applied only to FY 1986 and 1987 ESF funds, it was replaced by

Section 105(b)(2)(a)(i) of the FAA which also provides ESF funding for education and training programs "in accordance with the provisions of Section 802(c)", including presumably the "financed and controlled by" language.

Finally, Section 117 of the FAA states that in providing assistance under the DA (or DFA) and ESF accounts for disadvantaged South Africans, priority shall be given to working with and through South African NGO's. . . which do not receive funds from the SAG.

All four legislative provisions indicate a strong Congressional policy against supporting SAG "financed or controlled" institutions or groups that are closely associated with or dependent upon the SAG. It appears that this policy is to avoid the perception that the U.S. Government is cooperating with the SAG and to avoid a situation where the SAG effectively manipulates the use of AID funds in a manner contrary to the goals and objectives of the AID program.

Notwithstanding the above, however, it is clear as a legal matter that these statutory prohibitions do not apply to (1) DFA or other non-ESF funds, except for those provided under the Section 116(e) Human Rights Fund or (2) the Legal Assistance Program under FAA Section 166(f). Section 535 of the FAA is expressly applicable to ESF assistance and the activities set forth in Section 535, which do not include human rights. The prohibition in Section 116(e) and not the Legal Assistance Program. Section 105(b)(2)(a)(i) applies only to ESF funds for education and training programs. Finally, Section 117 of the FAA discourages but does not expressly prohibit funding of NGO's which "receive funds from the SAG". Thus, DFA funded activities, excluding activities under the Section 116(e) Human Rights Program but including those under the Legal Assistance Program, would at least as a technical matter, not be subject to the "financed or controlled by the SAG" prohibition. However, as a matter of policy, USAID has been applying this prohibition to all AID funded activities in South Africa. This policy was initiated to observe the spirit of the prohibition consistent with strong Congressional policy against providing assistance to any SAG controlled organizations and in the interest of the Program's credibility in the USA and among black South Africans.

III. INTERPRETATION OF "FINANCED OR CONTROLLED BY" PROHIBITION

The pivotal phrase "financed or controlled by" must be interpreted in conjunction with the overall purpose of the legislation and the unique circumstances existing in the RSA. Unfortunately, there is little or no legislative history on the subject language. However, it is clear that the intent of the entire CAAA and the Human Rights provisions of the FAA is to promote social justice in South Africa by providing assistance to NGOs engaged in non-violent activities aimed at eliminating apartheid. Set forth below is a brief analysis of each major part of the statutory prohibition, followed by practical guidelines for applying the legislation to specific cases.

a. The Meaning of Governmental Institution or Organization.

Under the Human Rights Program, Section 116(e)(2) of the FAA, only organizations that are not "Governmental institutions or organizations" are eligible for funding. The CAAA itself contains a definition for parastatal organizations, entities whose products are barred from entry into the United States and with whom the U.S. Government is prohibited from contracting for the procurement of goods and services. Based upon these restrictions with respect to parastatals, it is clear that, at least as a matter of current policy, parastatals would not be eligible for AID assistance. Section 303 of the CAA states:

"The terms "parastatal organization" means a corporation, partnership or entity owned or controlled or subsidized by the Government of South Africa....."

The term "owned" should be given its normal meaning which would require at least 51 percent ownership by the SAG or stock or other assets. For purposes herein, the word "controlled" shall have the same meaning above as it does in the clause "financed or controlled by" which is discussed below. The more ambiguous term, "subsidy", is more difficult to deal with. Nearly every private entity and all consumers in South Africa receive some form of government subsidy -- in the form of transportation subsidies, food subsidies, credit subsidies, tax allowances and even foreign exchange subsidies due to the effect of the financial rand on domestic prices. The most obvious form of subsidy (the one Congress probably contemplated) is where the government (national, provincial, municipal or an agent of one of them) provides funds to meet normal operating expenses. An example is PUTCO, the company which provides transport services for most blacks to their urban employment. Given the complexity of this subject and the need for a working definition we will adopt here the following definition: a subsidy is the receipt of funds from the government on a continuing basis to meet an organization's normal (i.e. recurring) operating expenses.

B. The Meaning of "Financed"

Financing of an organization by the SAG can take many forms and, quantitatively, can be at varying degrees or levels. First, the SAG can provide in-kind contributions such as free or subsidized rent and utilities (e.g. in the Black townships). Moreover, as noted above, nearly every private entity in South Africa receives some form of Government subsidy. In fact, such support is critical to the survival of many anti-apartheid organizations in the RSA.

Thus, on a qualitative basis, a reasonable reading of the "financed" term does not indicate that it intends to prohibit assistance to legitimate anti-apartheid NGO's which receives even the slightest amount of SAG financing -- to do so would make virtually every organization ineligible. Accordingly, the term "financed" must have been intended to mean directly financed -- having received something more direct and substantial than "in-kind" financial support from the SAG. The examples of prescribed entities contained in Section

802(c) of the ISAD, "homelands and urban council authorities," are ones which have substantial SAG financing and control. Thus, a major indicator as to whether an NGO is prescribed under the "financed" test is whether it is financed to a similar degree.

From a quantitative perspective, one factor in determining whether an NGO is financed by the SAG is the percentage of its financing provided by the SAG. Although there is no legally mandated absolute percentage that disqualifies an NGO, the higher the percentage the greater the presumption is that it should not qualify. Moreover, the term "financed" implies a substantial level of support, something more than a small, easily replaced contribution. Clearly, a significant one time contribution of cash from the SAG would qualify as "finance" though it may not be a "subsidy" as defined above. What else may qualify as "finance" may depend upon its effect on the organization's financial independence, including the percentage of its financing that comes from the SAG.

C. The Meaning of "Control"

Whether an organization is "controlled" by the SAG also is dependent upon all of the relevant facts. First, the term "control" must denote something more than simple "influence" since literally all anti-apartheid NGO's, and many other entities, such as newspapers, are influenced in their daily actions and longer term plans by the SAG, its regulations and statutes, threats and pronouncements. Control, if given its usual legal meaning in an organizational or corporate setting, indicates decision-making or policy-making authority -- in other words, control over an organization's board of directors (usually connoted by a majority of board members) by persons who themselves are SAG employees or agents. Control can also result from financial dependence, or from over-dependence on in-kind benefits (such as rent-free premises_ where the threatened removal of the benefit would force the NGO to decide between stopping operations or compromising its programs or policies.

D. The Statutory Prohibitions are not Absolute

Based upon the above discussion, it is clear that the "financed or controlled by" prohibition is not absolute. Rather, the AID funding decision must consider the degree of government involvement, and whether the organization is actually or potentially affected by it. It is possible that an NGO with a strong anti-apartheid record and considerable community support could have received the benefit of rent-free university quarters or could have had one or more directors or staff members salaried by the University for many years without compromising its policies or programs. Given the overriding legislative intent to support organizations that have community support and are actively seeking a just society through non-violent means, and given the scarcity of such groups that are both effective and grant-worthy, a narrow interpretation of the statutory prohibition would frustrate the basic objectives of the CAA and Human Rights provisions of the FAA. Thus, when the evidence is inconclusive as to direct and significant financial involvement or actual control by the SAG or a SAF entity or parastatal, the

extent to which an GVO shows a strong and sustained anti-apartheid or human rights record and meets the other positive requirements of the CAAA and Section 116(e) should be weighed in deciding whether it is in fact "financed or controlled by" the SAG.

From another standpoint, it may be difficult to conclude that a strong, community supported anti-apartheid program can be deemed, in the current South African context, to have been controlled or unduly influenced by the SAG. Harassment of an organization by the SAG could be evidence of minimal SAG involvement in its affairs. Furthermore, the test of community support or credibility, in the highly politicized South African context, is itself a test of perceived SAG involvement. It is not likely that organizations with strong community support will have a significant amount of SAG involvement in their affairs. Alternatively, GVOs clearly lacking community support for any reason, including significant SAG involvement, would be deemed ineligible for AID assistance.

IV. CRITERIA FOR DETERMINING WHETHER ASSISTANCE IS PROHIBITED

As a follow on to the above discussion, set forth below are criteria developed in 1987 and originally set forth, in substance in Ed Spriggs memorandum dated July 28, 1987, for determining whether a prospective recipient is ineligible for USAID assistance due to being owned, subsidized, financed or controlled by the SAG, or a SAG entity or parastatal.

A. Is there evidence of SAG ownership or that the organization receives a substantial amount of funds from the SAG or a SAG entity or parastatal to meet its normal (i.e. recurring) operating expenses. Evidence of such SAG involvement would render the organization ineligible to receive AID assistance.

B. Is there evidence of direct, significant financial involvement by the SAG, such as a substantial cash contribution or a major asset expressly donated by the SAG that is listed on the organization's books, or several smaller direct cash contributions or donations which, over time, have become significant in the aggregate.

C. Is there evidence of actual or likely control by the SAG -- undue influence over the organization's activities or programs through control of its board of directors or other policy-making bodies by SAG employees or agents or by excessive dependence on premises provided or subsidized by the SAG or other benefits.

D. If there is some, but not conclusive, evidence that the organization might be "financed" or "controlled" by the SAG, factors to be considered in determining whether to disqualify it from AID funding, but need not be limited to, the following:

-- Does the entity have a strong and sustained anti-apartheid or human rights activity or program that is clearly inconsistent with the concept of undue SAG influence or control over its affairs or program;

- Has the organization been a target of SAG harassment, bannings, detentions, or investigations, etc., which again are clearly inconsistent with the concept of excessive SAG influence or control over the entity;
- Can the organization continue to implement its anti-apartheid or human rights activities effectively without SAG financial or in-kind support, without officers, directors or employees whose salaries are paid from SAG sources, without access to premises owned or subsidized by the SAG, etc.;
- Is the community support received by the organization at such a high level that it discounts less-than-conclusive evidence that it is financed or controlled by the SAG?

V. APPLICABILITY OF LEGISLATION TO SPECIFIC CATEGORIES OF ENTITIES

A. Universities

It is my understanding that most, if not all, Universities in the RSA receive 50 to 80 percent of their annual budget from the SAG in the form of a subsidy. This level of subsidy and financing is so significant that it renders universities clearly ineligible for direct AID assistance that is subject to the prohibitive legislation, although technically they may not be owned or controlled by the SAG. It would be very difficult to argue that SAG subsidies are not used to meet normal university operating expenses. Moreover, the receipt of subsidies also puts universities within the CAAA Section 303 definition of "parastatal" and thereby creates another barrier, at least as a policy matter, to AID funding.

With respect to AID funds not expressly subject to the statutory prohibition (i.e. certain categories of DFA funds), assistance would still be barred as a policy matter unless USAID appropriately notifies and obtains the approval of the Congress to change in policy.

B. Academic Support Units

USAID is considering funding certain academic support units (ASU's) based at various universities in South Africa. The basic purpose of these units is to help disadvantaged students to cope with life at predominantly white universities. Thus, these units have an important role in the integration of white universities. It is my understanding from USAID staff that none of these units receive direct subsidies from the SAG. Apparently, most are funded by Anglo American or other private donors. According the USAID staff, the only financing provided by the SAG or the universities to ASU's is (1) the provision of rent-free university space and/or (2) university funding of the salaries of certain members of ASUs' directors or staff. I have been advised that at the ASU based at Wits, only four of the approximately 20 full and part time staff

have their salaries funded by the University. However, it is unclear what status the four have at the ASU, what level of control, if any, they exercise over the ASU's affairs and the extent of influence the university has over them, and by extension, the ASU.

Until more facts are available regarding the circumstances of each ASU, no definitive determination can be made as to their eligibility for AID assistance. Each ASU will have to be analysed on a case by case basis. However, based on the above, if (1) an ASU doesn't receive any financing from the SAG other than rent-free premises and/or university funding of one or more members' or directors' salaries, (2) said ASU is not overly dependent on said free premises and (3) the university does not exercise undue control over the ASU, through university-paid directors, or otherwise, then said ASU probably is not "financed or controlled" by the SAG and, therefore, would be eligible for AID funding.

VI. NEED FOR LEGISLATIVE CHANGE

Given the above discussion, it is clear that legislative change is necessary if AID is to provide direct assistance to universities in South Africa. In terms of the substance of a proposed legislative amendment, I suggest requesting an exception for universities and affiliated organizations to the "financed or controlled by the SAG" prohibition in cases where USAID determines that AID assistance to such organizations is the most effective means of achieving the relevant AID program objective. Set forth below is a rough draft of a clause that could be added to the CAAA or FAA:

Notwithstanding any other provision of law, assistance may be provided to universities or affiliated organizations in South Africa in cases where it is determined that the activities to be supported are consistent with the goal of the CAAA in ending apartheid and creating a non-racial democracy and assistance to said organizations is the most effective means of achieving the relevant AID program objective."