PD ABH-259
76938

PROJECT PAPER

PRIVATE SECTOR HOUSING GUARANTY PROJECT

(Project No. 674-HG-001)

USAID/South Africa

May 10, 1994

A

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number: N/A

COUNTRY/ENTITY: SOUTH AFRICA

3. PROJECT NUMBER: 674-HG-001

4. BUREAU/OFFICE: AFRICA BUREAU 06

5. PROJECT TITLE (maximum 40 characters): PRIVATE SECTOR HOUSING GUARA

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 00

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 94 B. Quarter 4 C. Final FY

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

A. FUNDING SOURCE	FIRST FY 94 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C
AID Appropriated Total					
(Grant)	( )	( )	( )	( )	( )
(Loan)	( )	( )	( )	( )	( )
Other U.S. 1. HOUSING GUARANTY	30,000		30,000	75,000	
Other U.S. 2.					
Host Country PRIVATE SECTOR		65,000	65,000		161,000
Other Donor(s)					
TOTALS	30,000	65,000	95,000	75,000	161,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF P 1. Grant
(1)						30,000		75,000
(2)								
(3)								
(4)								
TOTALS						30,000		75,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 11. SECONDARY

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The Project Purpose is to assist in the development of a private sect shelter project which will permit employed urban black South Africans obtain mortgage financing to purchase or build low-cost affordable ho and which will permit black developers, builders and contractors to c construction financing to develop and build affordable housing.

14. SCHEDULED EVALUATIONS

Interim MM 06 YY 95 MM 01 YY 97 Final MM 09 YY 99

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specif

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

17. APPROVED BY

Signature: Leslie A. Dean *Leslie A. Dean*

Title: Director USAID/South Africa

Date Signed: MM 01 DD 15 YY 94

18. DA IN A MEI

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B

ACTION: AID-1
INFO: ECON-0 DCM-0 AMB-0

DISTRIBUTION: AID
CHARGE: AID

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UNCLAS SECTION 01 OF 03 STATE 035767

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E.O. 12356: N/A
TAGS:
SUBJECT: ECPR REVIEW OF SOUTH AFRICA PRIVATE SECTOR HOUSING LOAN GUARANTY PROGRAM (674-HG-0011)

02/10/94
DATE RECEIVED
ACTION INFO

DIR.		
D/DIR.		
S/PROJ.		
PROG.		
PLA		
CONT.		✓
EMO		
GDO		
CD + A		
F/S	✓	
WUD		
H.R.		
PARDO		
HRDD		
PDD		
CHRON.		✓
RF		✓

REPLY DUE: 02/14/94
ACTION TAKEN:
INITIAL / DATE:
FILE LOCATION:

1. SUMMARY: AN ECPR, CHAIRED BY KEITH BROWN, DIRECTOR, AFR/SA, MET ON DECEMBER 16, 1993, TO REVIEW THE PID FOR THE USD 75 MILLION, SEVEN-YEAR SOUTH AFRICA PRIVATE SECTOR HOUSING LOAN GUARANTY PROGRAM (PSHG). USAID/W OFFICES REPRESENTED AT THE MEETING INCLUDED AFR/SA, AFR/DP, GC/G, GC/AFR, LEG/CL, AND G/DG/H; USAID/SOUTH AFRICA WAS REPRESENTED BY MISSION DIRECTOR CAP DEAN AND HOUSING DIVISION CHIEF JEREMY HAGGER. THE PSHG PID WAS APPROVED FOR FIELD DEVELOPMENT OF A PP, SUBJECT TO GUIDANCE CONTAINED HEREIN; THE PP WILL BE BROUGHT BACK TO USAID/W FOR AUTHORIZATION. END SUMMARY

2. THE MEETING WAS OPENED BY THE CHAIR, WHO ESTABLISHED THAT THE AGENDA FOR THE MEETING WAS TO RESOLVE ISSUES ON THE PID WHICH HAD BEEN RAISED BUT NOT RESOLVED BY THE PROJECT COKMITTEE AT A MEETING HELD ON DECEMBER 10, 1993. MISSION DIRECTOR DEAN THEN GAVE A BRIEF DESCRIPTION OF THE PROGRAM, NOTING THAT IT IS A LOGICAL EXTENSION OF THE ONGOING SHELTER AND URBAN DEVELOPMENT SUPPORT (SUDS)

PROJECT. HE REMARKED THAT THE PROPOSED PROGRAM WOULD DIRECTLY SUPPORT THE MISSIONIS SUBGOAL OF ECONOMIC EMPOWERMENT BY PROVIDING AFFORDABLE HOUSING TO BLACK SOUTH AFRICANS, BY STIMULATING THE BLACK SOUTH AFRICAN BUSINESS COMMUNITY TO PARTICIPATE MORE ACTIVELY IN THE ECONOMY OF THE COUNTRY, AND BY SETTING THE STAGE FOR GREATER PRIVATE SECTOR RESOURCE FLOWS FOR BLACK HOUSING AND BLACK BUSINESS DEVELOPMENT. FOLLOWING THESE REMARKS, WHICH WERE COMPLEMENTED BY COMMENTS MADE BY THE MISSIONIS HOUSING

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DIVISION CHIEF, THE FOLLOWING ISSUES WERE DISCUSSED AND DECISIONS REACHED.

3. PARTICIPATION OF BLACK-OWNED ENTERPRISES - THE PID RECOGNIZES THE IMPORTANCE OF THE PARTICIPATION OF BLACK SOUTH AFRICAN FIRMS AND ENTERPRISES IN THE HOUSING SECTOR AND IN THE PROGRAM. NOTING THAT ONE COMPONENT OF THE SUDS PROJECT IS WORKING TO STRENGTHEN AND PROVIDE GREATER OPPORTUNITIES FOR BLACK CONTRACTORS IN SOUTH AFRICA, MISSION REPRESENTATIVES COMMENTED THAT PROGRESS IS BEING MADE IN INCREASING ACCESS OF BLACK FIRMS TO PERFORMANCE BONDS AND SUBCONTRACTING OPPORTUNITIES. RECOGNIZING THAT ONE OBJECTIVE OF THE PSHG, TOO, IS TO PROVIDE GREATER OPPORTUNITIES FOR BLACK CONTRACTORS IN SOUTH AFRICA, THE PROJECT COMMITTEE RECOMMENDED AND THE ECPR AGREED THAT THE MISSION WILL BE REQUIRED TO DEVELOP TARGETS FOR THE PARTICIPATION OF BLACK-OWNED FIRMS IN THE CONSTRUCTION AND MATERIAL SUPPLY ACTIVITIES OF THE PROGRAM. THESE TARGETS WILL BE NEGOTIATED WITH THE BORROWER(S) OF THE HG FUNDS BY THE MISSION. AS BLACK FINANCIAL INSTITUTIONS EMERGE IN SOUTH AFRICA AND DEVELOP THE CAPABILITY TO PARTICIPATE IN THE PROGRAM, THE MISSION IS EXPECTED TO MAXIMIZE THE INVOLVEMENT OF THESE INSTITUTIONS IN THE PROGRAM.

4. ROLE OF CBOS - THE ECPR DISCUSSED THE ROLE OF COMMUNITY-BASED ORGANIZATIONS (CBOS) IN LOBBYING FOR INFRASTRUCTURE FOR THE HOUSING PROJECTS TO BE FINANCED BY THE PROGRAM AND IN PROMOTING COMMUNITY CONTROL OVER AND PARTICIPATION IN THE HOUSING PROJECTS. THE DISCUSSION ALSO REFLECTED A CONCERN EXPRESSED BY THE PROJECT COMMITTEE THAT CBOS MIGHT ATTEMPT TO CONTROL WHO OBTAINS HOUSING FINANCED BY THE PROGRAM, BY LIMITING PARTICIPATION TO THEIR OWN MEMBERS. WHILE ARGUING THAT SUCH A ROLE FOR CBOS IS NOT CONTEMPLATED, THE MISSION AGREED THAT THE PP WOULD CLEARLY SPECIFY THE ROLE OF CBOS IN THE PSHG. THE MISSION WAS ALSO ASKED TO CLARIFY HOW CBOS WILL BE SELECTED FOR PARTICIPATION IN THE PROGRAM; THE MISSION REPRESENTATIVES EXPLAINED THAT THE FINANCIAL INSTITUTION/BORROWER OF THE HG FUNDS WILL SELECT THE CBO(S) WITH WHICH IT WILL COOPERATE, BUT AGREED THAT THE PP WOULD BE REVISED TO CLEARLY STATE HOW CBOS

WILL BE SELECTED FOR PARTICIPATION IN THE PROGRAM.

5. INFRASTRUCTURE DEVELOPMENT - THE PSHG WILL FINANCE HOUSING BUT WILL NOT FINANCE RELATED INFRASTRUCTURE OR SERVICES. SINCE THE PSHG WILL NOT FINANCE INFRASTRUCTURE, THE ECPR INSTRUCTED THE MISSION TO SPECIFY IN THE PP WHO WILL BE RESPONSIBLE FOR FINANCING COMMUNITY INFRASTRUCTURE SERVICES FOR HOUSES FINANCED UNDER THE PROGRAM, AND HOW THEY WILL BE DELIVERED. THE MISSION REPRESENTATIVES SAID THAT INFRASTRUCTURE WOULD LIKELY BE PROVIDED BY THE GOVERNMENT, BUT ALSO INDICATED THAT THE WORLD BANK HAD

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EXPRESSED SIGNIFICANT INTEREST IN PROVIDING FINANCING FOR INFRASTRUCTURE. THE MISSION WAS DIRECTED TO IDENTIFY, IN THE PP, THE ROLE THAT THE IBRD AND OTHER DONOR RESOURCES WILL PLAY IN PROVIDING SUPPORT INFRASTRUCTURE AND SERVICES.

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SUBJECT:

6. DEFAULTS - THE ECPR DISCUSSED WHETHER DEFAULTS ON A PRIVATE SECTOR HG WOULD TRIGGER SECTION 620Q AND THE BROOKE - ALEXANDER AMENDMENT PROHIBITING ASSISTANCE TO A COUNTRY WHICH IS IN ARREARS ON DEBT OWED THE USG. IF SUCH DEFAULTS WERE DETERMINED TO TRIGGER THE LEGISLATIVE SANCTIONS, THEN THE MISSION WOULD NEED TO TAKE THIS INTO CONSIDERATION IN DECIDING WHETHER TO GO FORWARD WITH THE PROGRAM. SINCE THERE HAS BEEN NO DEFINITIVE GUIDANCE ON THIS ISSUE, GC WAS REQUESTED BY THE ECPR TO PROVIDE AN OPINION. THE MISSION WAS ADVISED THAT DESIGN WORK ON THE PP MAY PROCEED WHILE THIS GUIDANCE IS BEING PREPARED.

7. USE OF REFLOWS - THE ECPR NOTED THAT THE PID DID NOT SPECIFY HOW THE PERM WOULD UTILIZE REFLOWS FROM THE HG PROGRAM AND WAS CONCERNED THAT REFLOWS MAY NOT NECESSARILY BE USED TO FINANCE ADDITIONAL HOUSING FOR THE DISADVANTAGED MAJORITY IN SOUTH AFRICA, BUT MAY INSTEAD BE USED TO FINANCE HOUSING FOR THE WHITE POPULATION. THE MISSION REPRESENTATIVES EXPLAINED THAT SUBSTANTIAL REFLOWS WERE NOT EXPECTED, INSOFAR AS FUNDS REPAID BY MORTGAGORS WILL BE USED BY THE FINANCIAL INSTITUTIONS TO REPAY THE HG LOANS, AND THERE WILL ONLY BE REFLOWS TO THE EXTENT THAT THE FINANCIAL INSTITUTIONS LEND FOR A TERM SHORTER THAN THE TERM OF THE HG LOAN. SINCE THE MISSION REPRESENTATIVES AGREED THAT THEY INTENDED THAT ANY REFLOWS BE USED FOR THE PURPOSE FOR WHICH THE FUNDS WERE MADE AVAILABLE, THE ECPR DIRECTED THE MISSION TO ENSURE THAT ANY REFLOWS ARE USED TO FINANCE ADDITIONAL HOUSING FOR BLACK SOUTH AFRICANS.

8. ISSUES RESOLVED BY THE PROJECT COMMITTEE:

A) THE PID MENTIONED THE POSSIBILITY THAT THE FIRST

HOUSING PROJECTS MAY BE DEVELOPED ON LAND OWNED OR CONTROLLED BY THE PERM. THE PROJECT COMMITTEE EXPRESSED CONCERN ABOUT THE EXTENT TO WHICH THE PERM, OR OTHER PARTICIPATING FINANCING INSTITUTIONS, MIGHT SET AN OVERVALUED PRICE FOR LAND THEY OWN, AND DEVELOP THEIR LAND INSTEAD OF OTHER, BETTER LOCATED AND LOWER PRICED PARCELS. THE MISSION AGREED THAT THE PP WILL INCLUDE PRICE AND

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LOCATIONAL CRITERIA FOR THE PURCHASE OF LAND UNDER THE PROGRAM, TO ENSURE THAT THE PROGRAM ONLY FINANCES HOUSING ON LAND OF FAIR VALUE AND GOOD LOCATION, AND DOES NOT PERPETUATE PATTERNS OF SEGREGATED HOUSING DEVELOPED UNDER APARTHEID.

B) THE PROJECT COMMITTEE NOTED THAT THE PID DOES NOT MENTION PROVIDING ASSISTANCE FOR BLACK SOUTH AFRICANS TO PURCHASE EXISTING HOMES OR HOMES OUTSIDE THE DESIGNATED PROJECT AREAS. THE COMMITTEE QUESTIONED WHETHER IT WOULD NOT BE A GOOD IDEA TO INCLUDE SUCH ASSISTANCE, IN ORDER NOT TO PERPETUATE EXISTING HOUSING PATTERNS, TO ENCOURAGE INTEGRATION OF PREVIOUSLY SEGREGATED AREAS, AND TO ALLOW BENEFICIARIES IN THE PROGRAM AS MUCH CHOICE AS POSSIBLE. THE MISSION REPRESENTATIVES STATED THAT THE PROGRAMIS ELIGIBILITY CRITERIA WOULD PERMIT THE PURCHASE OF EXISTING HOMES, BUT THAT SINCE ONE OF THE OBJECTIVES OF THE PROGRAM IS TO HELP REDUCE THE DEFICIT OF AFFORDABLE HOUSING FOR BLACK SOUTH AFRICANS, PRIORITY WOULD BE GIVEN TO THE CONSTRUCTION OF NEW HOUSING UNITS.

C) THE PROJECT COMMITTEE NOTED THE RELATIVELY NARROW RANGE OF BENEFICIARIES WHO WILL BENEFIT FROM THIS PROGRAM - THE FORMALLY EMPLOYED WITH MEANS TO REPAY A MORTGAGE AT MARKET INTEREST RATES, AND QUESTIONED WHY SUCH A NARROWLY DEFINED GROUP HAD BEEN CHOSEN TO BENEFIT FROM THE PSHG. THE MISSION EXPLAINED THAT THE PROGRAM WAS INTENDED TO PROVIDE FINANCING FOR HOUSES AT NON-SUBSIDIZED INTEREST RATES, AND SO ONLY A NARROW GROUP COULD QUALIFY FOR SUCH LOANS. THE MISSION ALSO EXPLAINED THAT THE TARGET GROUP OF BENEFICIARIES WILL BE WIDENED IF PLANNED NATIONAL SUBSIDIES ARE ENACTED. WHILE THE PROJECT COMMITTEE ACCEPTED THIS ARGUMENT, THE MISSION WAS STRONGLY CAUTIONED THAT THE PP SHOULD STATE UP FRONT THAT THE POOREST OF THE POOR ARE NOT TARGETED BY THIS PROGRAM, AND THAT THE PROGRAM IS NOT A CURE FOR THE HOUSING PROBLEMS OF THE MAJORITY OF THE DISADVANTAGED IN SOUTH AFRICA.

D) THE PROJECT COMMITTEE NOTED WITH CONCERN THE PIDIS DISCUSSION OF LEGAL RESTRICTIONS ON THE RIGHTS OF SOUTH AFRICAN WOMEN TO BUY, OWN, AND SELL REAL PROPERTY, WHICH MIGHT LIMIT THE EXTENT TO WHICH WOMEN CAN BENEFIT FROM THE PSHG. THE MISSION EXPLAINED THAT SUBSEQUENT TO THE DATE

THE PID WAS PREPARED, THE SOUTH AFRICAN GOVERNMENT PROMULGATED A LAW WHICH ELIMINATES BARRIERS TO SOUTH AFRICAN WOMENIS ACQUIRING AND DISPOSING OF PROPERTY. THE MISSION REPRESENTATIVES COMMENTED THAT WOMEN STILL NEED TO

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E.O.
SUBJECT:
BE EDUCATED ABOUTTHEIR LEGAL RIGHTS. THE PSHG WILL ASSIST IN THI EDUCATIONAL EFFORT BY REQUIRING ALL PARTICIPATIG FINANCIAL INSTITUTIONS TO PROVIDE WRITTEN AND ERBAL EDUCATIONAL INFORMATION TO ALL PROSPECTIVE HOMEOWNERS PARTIC
ATING IN THE PROGRAM, AND BY EQUIRING
ALL PARTICIPATING FINANCIAL INSTITUTIONSTO TREAT ALL BORROWERS EQUALLY REGARDLESS OF GENER. THE MISSION WAS URGED TO EXPLORE, DURINGPP PREPARATION, WAYS TO ENHANCE THE PARTICIPATON OF WOMEN IN THE PROGRAM.

9. THE EPR APPROVED THE PID FOR THE PRIVATE SECTOR HOUSIN LOAN GUARANTY PROGRAM. THE PROJECT PAPER WILL B DEVELOPED IN THE FIELD, AND WILL BE BROUGHT BCK TO USAID/W FOR APPROVAL.

CHRISTOPHER
BT
#5767

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Acronyms

ABA	African Builders Association
AGC	Association of General Contractors
ANC	African National Congress
AML	Association of Mortgage Lenders
BIFSA	Building Industry Federation of South Africa
CAAA	Comprehensive Anti-Apartheid Act
CAJ	Civic Association of Johannesburg
CBO	Community Based Organization
COCOSA	Council for Construction in South Africa
CUSSP	Community and Urban Services Support Program
DEA	SAG's Department of Environmental Affairs
EIA	SAG's Environmental Impact Assessment
EU	European Union
FABCOS	Federation of African Business and Consumer Services
G	USAID's Global Bureau
G/ENV/UP	USAID's Office of Environment and Urban Programs
GDP	Gross Domestic Product
HFI	Housing Finance Institution
HG	U.S. Housing Guaranty Project
HUDD	USAID/South Africa Housing and Urban Development Division
IEM	SAG's Integrated Environmental Management
INLOGOV	Institute for Local Governance and Development
LOP	Life of Project
MIBA	Merchants and Investment Bank, Ltd
MPRE	USAID/SA's Monitoring, Policy Research and Evaluation Program
NAHB	National Association of Homebuilders
NAFBI	National African Federation for the Building Industry
NHF	National Housing Forum
NUM	National Union of Mineworkers
NUMSA	National Union of Metalworkers of South Africa
PID	Project Identification Document
PP	Project Paper
PSHG	Private Sector Housing Guaranty Project
PWV	South Africa's Central Region: Pretoria, Witwatersrand and Vereeniging
SUDS	Shelter and Urban Development Support Project
SAG	South African Government
SANCO	South African National Civic Organization
USAID	The United States Agency for International Development
USAID/SA	The United States Agency for International Development's Mission in South Africa

Exchange Rate: All calculations in this Project Paper are based on an exchange rate of **U.S. $1 to Rand 3.5.** The actual rand equivalent may, of course, vary, depending on the market rate. All official agreements will stipulate that the highest legal rate will be used throughout the project period.

1.0 EXECUTIVE SUMMARY

The Private Sector Housing Guaranty Project (PSHG) is a unique combination of formal sector financial institutions working with voluntary community based organizations, yet bringing into this mix burgeoning black businesses of all types, to provide housing for the disadvantaged South African community.[1] It offers a historic opportunity for black owned and black managed businesses in such areas as land development, building, contracting, mortgage lending, and building supplies to participate in the growing housing market. Further, it brings together, often as joint venture partners, groups that heretofore have seldom collaborated to achieve the elusive goal of housing for all in South Africa. The PSHG builds directly upon the successful implementation experience of the Mission's large, innovative Shelter and Urban Development Support (SUDS) program (see program summary in Annex C).

The Private Sector Housing Guaranty Project will provide $75 million in housing guaranties (HG) to South African financial institutions to grant mortgage loans to eligible employed urban black South Africans to purchase low-cost affordable housing, and to make construction loans to eligible black developers, builders and contractors to obtain and develop land and to build affordable housing. Financial institutions participating in this project will be required to match the housing guaranty funds by a 2:1 ratio, meaning that the local institution must allocate the rand equivalent of US$2 for each US$1 in housing guaranty funds. This will provide a total of $225 million for mortgage and construction lending. In addition, mortgage loan beneficiaries will be expected to make minimum down payments equal to 5 percent of the unit price for a total project investment of approximately $236 million.

Implementation of the Project will be in phases or tranches, with Phase One being done through Nedcor Bank, Ltd., beginning in FY 94. Subsequent HG authorizations will be made annually until all phases have been implemented and the entire $75 million in HG authorization utilized. The Life of Project (LOP) is for six years, up to September 30, 2000, based on $30 million for Phase One and a projected minimum level of $10 million for each phase thereafter. However, the PSHG may well be implemented over a much shorter period, if the demand is sufficiently large and the $25 million cap on annual HG authorizations is lifted in subsequent fiscal years as was done in FY 1994.

Nedcor Bank, Ltd, a South African financial institution, has agreed

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[1] The term "black" refers to all individuals of African, "colored" or Asian descent who were legally disadvantaged by apartheid. The primary beneficiaries of the PSHG Project will be members of this "black" community, which makes up the majority of the South African population.

in principle to participate in the Project, through the offices of its mortgage lending division, Perm. Pending further negotiations with USAID over the Housing Guaranty "Program Agreement", Nedcor will be authorized to borrow the first tranche of $30 million from an eligible US Lender. Other financial institutions will be eligible to participate as borrowers in subsequent phases if they meet the Project's criteria. Black owned financial institutions will be encouraged to participate in the PSHG either as a primary borrower or as a secondary borrower in conjunction with other financial institutions.

The lessons learned in the implementation of activities before the evaluation will be highly relevant in the final design and authorization of later tranches. The key to the success of all phases, and thus to the success of the project, is that there must be enough flexibility designed into the project to permit the participating agencies, including USAID, to modify the project as needed to achieve the project goal and purpose.

The **Goal** of the PSHG Project is to promote economic empowerment through the provision of affordable shelter available to historically disadvantaged South Africans. The Project goal is consistent with the Mission objective of increasing broad-based black ownership, employment and participation in all levels of the economy and directly addresses the target of delivering community based housing to disadvantaged South Africans (USAID/South Africa Strategy Concept Paper 1993, page xi). The Project **Purpose is to** assist in the development of a private sector **shelter project which will permit employed urban black South Africans to obtain mortgage financing to purchase or build low-cost affordable housing, and** which will permit black developers, builders and contractors to obtain construction financing to develop and build affordable housing. Implementing institutions will be required to utilize black owned and managed businesses to the maximum extend possible. Targets for the involvement of such businesses are notionally set at 20 percent of the total local currency generated by the HG loans. The actual target will be negotiated in the Program Agreements to be signed between USAID/South Africa and the institutional borrowers.

Expected life of project outputs include:

- The granting of approximately 16,450 new mortgage loans to black South Africans (the exact number will depend upon incomes and prices in the later years).
- The involvement of over 50 community based organizations (CBOs) in the housing projects financed under this Project.
- The participation of no less than three South African financial institutions in this Project, at least one of which will be a

black owned institution, either as a primary or secondary borrower.

- The development of at least two housing projects by black led business groups per phase.

The Project will be focused on urban and peri-urban areas. **Most Beneficiaries will be employed black South Africans who have incomes of less than R2,625 ($750) monthly and who meet the credit requirements of the lending financial institutions.** In most instances, the beneficiary for the mortgage loans will be a mid level or clerical worker employed by a major manufacturing or service company, or a government agency. USAID/South Africa will seek to ensure through Program Agreements that the borrowers will exercise their best efforts to provide a majority of loan support to "Africans", who are the most disadvantaged by Apartheid. The borrowers for the construction loans will be black businesses or joint ventures acting as residential builders or contractors. The on-going and augmented USAID Shelter and Urban Development Support (SUDS) Project will provide necessary technical assistance and training to community based organizations involved with the PSHG Project to help ensure its success. The involvement of black owned and managed businesses will be a major criteria in the selection of institutional borrowers and the housing projects developed under this project.

Participation of community groups and similar entities will be required under the PSHG Project. Developers will incorporate one or more community groups into the project team responsible for designing and implementing each individual housing project. The community group may be an existing group in the area where the project will be developed, or in areas where no local community group already exists, or it may be a new group created for this purpose. The universe of community groups will include civic associations, labor unions, churches, cooperatives and similar types of organizations.

It is recognized that the PSHG Project is being implemented during a time when a new national government will take office, with a new agenda, priorities, initiatives and players, all of which might necessitate project modification. It is almost certain that there will be changes in banking and investment legislation, including the possibility of prescribed lending and a kind of community reinvestment act which will have a major impact on private sector HFIs. In addition, new legislation and rules in the housing sector, particularly relating to subsidies and lender guaranties, will come into effect over the next few months. As a result of these and other factors, USAID will undertake a project evaluation during June 1995, to assess the impact of the changes on the project and to make

recommendations for changes, if any.

2.0 PROJECT RATIONALE AND DESCRIPTION

2.1 Background

The apartheid system of enforced residential segregation has led to the creation of spatially removed black townships[2] which are overcrowded, under-serviced and focal points for internecine strife. Moreover, the South African housing market does not offer many affordable housing alternatives for most blacks except in the overcrowded townships and, increasingly, in unserviced squatter settlements. The spread of these squatter settlements is alarmingly rapid, and today they comprise about 22 percent of all housing in the PWV region (the Pretoria/Johannesburg region). In fact some 89 percent of all housing built in this region of South Africa is now being undertaken outside of the formal channels. Although the apartheid laws that led to this condition have been dismantled, only a few black South Africans have been provided an opportunity to purchase housing outside the "designated" black areas.

The appalling shelter conditions in which most black South Africans live are exacerbated by the huge housing deficit. Conservative estimates show a shortage of some 1.3 million housing units in South Africa's urban areas alone. This is the number of units required to relieve overcrowding principally in the townships, as well as to move families from the squatter settlements[3] into affordable

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[2]"Townships" in South Africa were separately incorporated municipal entities set up under the "apartheid" system and classified by race, i.e. African, Colored or Asian, and separated by large open "buffer" zones away from the established "white" municipality. Most all businesses (retail as well as wholesale) and industry were located within the "white" municipalities so that the dormitory townships were left without any tax base and, therefore, had very few, if any, amenities.

[3]"Squatter settlements" are relatively new in South Africa following the repeal of the "pass laws" in the mid-1980's (prior to that time, non-whites were subject to arrest for either being in the wrong area or for vagrancy). During the last decade, however, individuals and families have invaded vacant peri-urban farm or public land and established settlements. Many of these settlements have later been "regularized" and accepted by the public authorities; title, however, and, therefore, access to credit, has often remained unresolved.

housing. When the shortage of units in the hostels[4] and rural areas is added to that figure, the total housing need throughout the country rises to some 3 million units. Given that there are about 7.8 million households in South Africa, almost 40 percent of all South African families lack adequate housing. Moreover, the number of new households is increasing at the rate of 200,000 per year, which magnifies the critical housing situation.

The lack of affordable housing disproportionately affects the black South African community, even though many of the members of this community are gainfully employed and have incomes sufficient to purchase a home. Their basic problem is an insufficient supply of affordable housing on the market, combined with a lack of mortgage finance so that they can purchase a home over time. The housing needs of the huge and important black market have clearly not been met.

Traditionally, there have been two main suppliers of housing for black South Africans: government and the informal sector. The apparatus through which the South Africa Government (SAG) provided housing was highly convoluted, involving a multiplicity of central, regional and local government authorities, and resulted in the development of the sprawling townships. That system has now virtually collapsed, and little if any formal low-cost housing is being produced in the country. The informal sector, however, continues to produce housing as evidenced by the rapidly growing "shack" towns which encircle most of South Africa's major metropolitan areas.

Although there are an estimated 5,000 small black owned construction "firms" in South Africa, the vast majority are found in the informal sector. Those black contractors that do have the experience and capacity to work in the formal sector usually operate as labor-only sub-contractors to established white owned firms. Their ability to work independently is sometimes constrained by their lack of broad based management experience but more often results from their limited access to building sites and to finance. Those few independent black builders and contractors that do have the capacity to grow and to develop land, in turn providing serviced building sites to other black builders, are also constrained by their lack of access to finance. The PSHG Project seeks to address those finance constraints impeding the empowerment of black-owned residential

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[4]"Hostels" in the South African context are single sex worker dormitories usually located near the place of employment; some hostels are enormous with 5,000 or more men in a single building. Hostel occupants may be drawn from a single African ethnic group alien to the majority of other African people in the area.

construction related business. A complementary program funded through USAID/South Africa's Shelter and Urban Development Support Project, the South Africa Black Construction Assistance Program, will assist black-owned construction businesses to improve their management capacity and to effectively compete in the market.

With South Africa's historic national elections in April of this year, housing has rightly been placed on the top of every political agenda, and all of the major political parties have agreed that the production of housing must be greatly increased. Most experts in the housing field are estimating that at least one million new units must be constructed over the next five years, which would imply a five to six fold increase over 1992's housing production. The consensus is that these units should be built almost exclusively by and for black South Africans, who have been, and continue to be, the poorest housed segment of the population.

The financial cost of producing housing at those levels will be huge. Government alone will not have the financial resources to provide all the needed new housing, particularly given the multitude of other social and economic problems that only the government can tackle. There are large numbers of black South Africans, employed and unemployed, whose incomes are insufficient to purchase or rent adequate housing, without government assistance or subsidies. There are, however, many black South Africans with sufficient income to purchase houses but who currently cannot get access to mortgage financing.

Yet South Africa has a strong and sophisticated financial sector, including private banks of all types, insurance companies and other financial entities that are recognized as world class companies. The housing finance sector, represented by building societies and mortgage lending operations of commercial banks, has operated in South Africa for over a century and collectively has total assets in the neighborhood of 8 billion rand. But, these mortgage lenders have not served the black community in a significant way. Only 3 percent of these institutions' loan portfolios consists of loans for black owned housing. Nevertheless, these housing finance institutions (HFIs), as well as other financial institutions, could make funds available for housing finance for black South Africans, given an appropriate set of conditions which responded to their perceived risks of this new market.

2.2 The Financial Sector, the Community and Housing for Black South Africans

The rationale here is simple. The private sector can achieve an acceptable level of risk through the structuring of "compacts" at the local level to ensure a form of partnership between community based organizations and housing developers and their financing

organizations. Existing funds within the formal finance sector will be put to work making mortgage loans to black South Africans who can afford to buy a home, however basic, and to black-owned developers, builders and contractors who can produce those homes. Since the potential market is so great, all that is required is the development, construction and pricing of housing solutions that this market group can afford. However, it is necessary to overcome the political and economic hurdles that face and will continue to face South Africa if this housing is to be built. Nevertheless, both the financial institutions and other formal sector institutions, as well as the organizations representing black South Africans, want to seek out solutions to the housing problems of the latter's constituency. A catalytic agent can help in this process.

The introduction of external funds in the form of a US Housing Guaranty Loan is one such catalyst. The size of the project, coupled with the untied use of the foreign currency, will be sufficiently attractive to South African HFIs to encourage them to match the HG funds with their own funds to provide a pool of mortgage loans for qualified black South Africans. While the amount of commingled funds is far from sufficient to meet the overwhelming need as described above, the success of this project will help convince the South African financial institutions to enter the mortgage lending market for black South Africans in a much larger way. The expected ability of the private sector to meet the housing needs of all employed South Africans will thereby permit the government to meet the housing needs of those South Africans whose incomes are still insufficient to participate in private sector market rate projects.

But, the PSHG Project will accomplish much more than just provide additional housing opportunities for low-income black South Africans. It will lead to growth in employment of black South Africans as a direct result of the housing output of this project, since most of the construction workers will be black South Africans. It will also result in increased involvement and growth of black private enterprises, particularly in the construction and building supply sectors related to housing and infrastructure development. Finally, there will be an increase in the participation of community based organizations with financial institutions, professional associations and private developer and construction interests in the development of affordable shelter solutions for urban black South Africans.

The PSHG Project will help to create the necessary combination of formal sector financial institutions working with voluntary community based organizations, yet bringing into this mix burgeoning black businesses of all types, to provide housing for the disadvantaged South African community. It offers a historic opportunity for black owned and managed business in such areas as

land development, mortgage lending, building, contracting and building supplies to participate in the growing housing market. Further, it brings together, often as joint venture partners, groups that heretofore have seldom collaborated to achieve the elusive goal of housing for all South Africans.

2.3 Project Goal and Purpose

(a) Goal

The goal of the Project is to provide economic empowerment through the provision of affordable shelter for disadvantaged South Africans. The Project goal is consistent with the Mission objective of increasing broad-based black ownership, employment and participation in all levels of the economy and directly addresses the target of delivering community based, private sector financed housing to disadvantaged South Africans (USAID/South Africa Strategy Concept Paper 1993, page xi).

(b) Purpose

The purpose of the Project is to assist in the development of a private sector shelter program which will permit employed urban black South Africans to obtain mortgage financing to purchase or build low-cost affordable housing, and which will permit black developers, builders and contractors to obtain construction financing to develop and build affordable housing.

The Project purpose will have been achieved if the following conditions have been met by the end of the Project:

- Private sector housing finance institutions (HFIs) are fully involved in providing low-cost housing for employed black workers;
- Community Based Organizations (CBOs) and HFIs have cemented strong working relationships to provide low-cost housing opportunities; and
- Black enterprises have emerged from the program in a stronger economic position in the building industry.

(c) Outputs and Inputs

In order to attain those objectives, the Project will provide an investment of the rand equivalent of $225 million in the housing finance sector, resulting in approximately 16,450 new mortgage loans to black South Africans.

Other targets of the Project include:

- Over 50 Community Based Organizations (CBOs) will become involved in the housing projects financed under this Project.

- Not fewer than three South African financial institutions will have participated in this Project, one of which will be a black-owned institution, either as a primary or secondary borrower.

- At least two black developers will have developed housing projects financed under this Project per phase.

Finally, this project will play a key role in providing information about alternatives for the future development of sound urban management and housing delivery systems. The project will serve to demonstrate to the public and private sectors a financially viable and effective private sector model for housing delivery. In the process, the project will bring important elements of South African society into closer and more harmonious contact so that the application of these resources can lead to a more equitable urban environment for the entire population.

2.4 Project Description

(a) Overview

The Private Sector Housing Guaranty Project will provide $75 million in housing guaranties (HG) to South African financial institutions. These institutions will then grant mortgage loans to eligible employed urban black South Africans so they can purchase low-cost affordable housing. These institutions will also provide construction financing to black developers, builders and contractors so that they can develop and build affordable housing. Financial institutions participating in this project will be required to match the housing guaranty funds by a 2:1 ratio, meaning that the local institution must allocate the rand equivalent of US$2 for each US$1 in housing guaranty funds. This will provide a total of $225 million for mortgage lending. In addition, mortgage loan beneficiaries will be expected to make minimum down payments equal to 5 percent of the unit cost.

The Project will be implemented in up to six annual phases or tranches over the period FY 94-00, with an initial $30 million tranche in FY94. However, authorizations may take place over a shorter period depending on the demand for the project and the continuation of the waiver of the $25 million annual limit on HG authorizations. The availability of sufficient funding under the HG Reserve Requirement would also have an impact on the implementation schedule. Under the financial plan in this PP, it is anticipated that the Project will be accelerated and implemented over a four

year period, however, it could take place over an even shorter time span.

The authorization and subsequent implementation of Phase One of this project will have important ramifications for all later phases. Phase One, as discussed fully in the PP section on Implementation, is being designed at a time when South Africa is underegoing momentous change. Not only is there a new government in place, but there are certain to be many new initiatives, incentives and players as the government begins to grapple with the myriad housing problems that have been accumulating over the years. Therefore, Phase One may have to be modified during its implementation to take into consideration the changing political and economic environment.

The lessons learned in the implementation of Phase One will be highly relevant in the design and authorization of later tranches. The key to the success of all phases, and thus to the success of the project, is that there must be enough flexibility designed into the project to permit the participating agencies, including USAID, to modify the project as needed to achieve the project goal and purpose.

The Project will be focused on urban and peri-urban areas. In the initial phase, most Beneficiaries will be employed black South Africans who have incomes of less than R2,625 ($750) monthly and who meet the credit requirements of the participating South African housing lenders. Income levels may be varied in subsequent phases of the project consistent with changes in South African inflation, wage rates, costs etc. In most instances, the beneficiary for the mortgage loans will be a mid level or clerical worker employed by a major manufacturing or service company, or a government agency. The borrower for the construction loans will be a black business or joint venture acting as a residential builder, contractor or developer. The on-going and augmented USAID Shelter and Urban Development Support (SUDS) Project will provide necessary technical assistance and training to community based organizations and black construction firms involved with the PSHG Project to help ensure their success. The involvement of black owned and managed businesses will be a major criteria in the selection of institutional borrowers and the housing projects developed under this project.

The Project is also expected to leverage large amounts of financial resources from local private sector financial institutions for investment in mortgage and construction loans for black South African households and businesses. The involvement of black owned and managed businesses will be a major criteria in the selection of institutional borrowers and the housing projects developed under this project.

Unfortunately, there are few black owned land developers, builders and construction companies with the experience to produce the building sites required and build large (100-plus units) formal housing development projects. This is due, in part, to the inability of black business to obtain the finance needed for land development and construction. To address these constraints, implementing institutions in the PSHG Project will be required to utilize black owned and managed businesses to the maximum extent possible. Targets for the involvement of such businesses are notionally set at 20 percent of the total local currency generated by the HG loans. The actual target will be negotiated in the Program Agreements to be signed between USAID/SA and the institutional borrowers.
The situation among black-owned suppliers and manufacturers of buildings materials is equally deficient; there are no black-owned building material distributors or wholesalers with the capacity to supply a large housing project, either in part or whole. One of the tasks of the SUDS Project is to develop the capacity within the black private sector to become involved in these activities. Therefore, the two projects, SUDS and PSHG, complement each other by addressing both the supply and the demand side of the issue.

(b) Selection of Implementing Agencies

Under the PSHG Project, various types of institutional borrowers will be the implementing agencies. The institutional borrowers will include housing finance institutions, insurance companies, pension funds, and other financial institutions that agree to meet the terms and conditions of the Project as described in this PP.

At a minimum, a financial institution must meet the following criteria to participate in the PSHG Project:

- Demonstrate to USAID that it is a credit-worthy institution.
- Have the technical capability to assess and finance housing projects, and to make and service mortgage and construction loans.
- Have entered into a compact with a South African community based organization to facilitate the provision of housing finance to disadvantaged South Africans.
- Present preliminary housing projects that include targets for promoting maximum utilization of black businesses in the development of the projects.
- Agree to match the HG funds on a 2:1 ratio.

In addition, the capacity of the borrower to ensure the physical

quality and environmental soundness of the housing being constructed and to provide a full array of consumer protection measures to the homebuyer, and all the rights that home purchase entails, will be a factor in selecting the borrower.

To date, one financial institution in South Africa, Nedcor Bank, Ltd, has met these criteria. Pending further negotiations, Nedcor will be authorized to borrow the first tranche of $30 million from an eligible US lender prior to September 30, 1994. Other financial institutions will be eligible to participate as borrowers in subsequent phases if they meet the above criteria. Black owned financial institutions will be encouraged to participate in the PSHG either as a primary borrower or as a secondary borrower in conjunction with other financial institutions.

(c) Local Community Participation

Participation of community groups and similar entities will be required under the PSHG Project. Developers will incorporate one or more community groups into the project team responsible for designing and implementing each individual housing project. The community group may be an existing group in the area where the project will be developed, or in areas where no local community group already exists, it may be a new group created for this purpose. In the latter case, the involvement of a regional South African community based organization in creating a new group will be useful. Community groups will be an integral part of the project, involved in all phases of the housing project, including preliminary planning, approvals, design, implementation, management, etc. The universe of community groups will include labor unions, churches, cooperatives and similar types of organizations. (See Annex D for a description of community groups and their role.)

(d) Who Qualifies for a Loan

Eligible black urban households purchasing either new or existing housing, and black developers, builders and contractors providing that housing will qualify for participation in the PSHG Project. Due to the current economic and political uncertainties in South Africa, it is difficult to determine the percentage allocation between mortgage loans on new housing versus existing housing, however the actual breakdown in Phase One will provide guidance for future phases. In general, the housing units must be affordable to families earning no more than R2,625 a month ($750), although up to 20 percent of the investments funded by the participating financial institutions' contributions may be granted to families earning more than this amount in order to encourage neighborhood integration. New housing developments will be located in open areas within the urban centers to make use of existing infrastructure (water, sewer, electricity, roads, schools, health clinics, etc.) and to contribute

to the ending of racial segregation in housing. New housing developments may also be located in proximity to existing urban areas where there is demonstrated effective demand and serviced building sites exist. Types of housing will include single family houses, row houses or apartments. When possible, small houses will be designed so that they can be expanded as family resources and needs dictate.

Loans on existing housing units may cover a wide gamut of housing solutions. The loan may include funds to upgrade and expand the purchased home. Families purchasing rehabilitated housing units either as a single family home or in a multi-family complex will be eligible for loans. Program lenders may make loans to cooperatives, housing associations, condominiums ("sectional title"), or other appropriate legal forms, as well as more traditional single family ("fee simple") loans.

Borrowers of the HG funds will be required to document that the local currency generated by the program has produced housing for the eligible beneficiaries. To meet this accounting requirement, the implementing institution may either document the value of end-user mortgage loans made to eligible beneficiaries, or, the implementing institution may document the value of the houses occupied by eligible beneficiaries that were directly produced by construction loans made by the implementing institution. The specifics of the program accounting requirements will be negotiated and included in the Program Agreements to be signed by USAID/South Africa and the institutional borrowers.

2.5 The Project Elements

(a) Financial Institutions.

The participation of South African financial institutions is key to the success of this Project. Not only will they act as borrowers of the HG funds, but they will also provide matching funds equal to twice the amount of the HG. They are assuming the financial risk that the beneficiary loan may not be repaid. The financial institutions selected to participate in the Project will be responsible for a number of key actions, including selection of eligible housing projects, ensuring black business and community based organization participation, monitoring project development, accepting and approving applications from individual borrowers, servicing the mortgage loans and finally repaying the US Investor.

While only one financial institution has been clearly identified for participation in the PSHG Project, steps are being taken to identify others, particularly black owned financial institutions. The "reserve" requirements of the HG Project imply that only the strongest and largest financial institutions will be eligible to

participate. Therefore, black owned financial institutions may have to enter into arrangements with larger institutions in order to provide USAID with the requisite borrower guaranty. Initial conversations with black owned institutions reveal that they are aware of the necessity of such financial requirements and that they will take steps to meet them.

(b) Developers/Builders.

The overall responsibility for developing a housing project that fits the criteria for the PSHG Project will be in the hands of developers and/or builders. Developers, who may be individuals or companies, will identify appropriate sites for housing projects and will put together all the ingredients necessary to design, build and sell the project. Those arrangements include financing, design and planning, legal, organizational, management, construction and sales, among other requirements. The developer will direct the development team formed from among the companies and individuals providing the necessary skills. It is the developer, in conjunction with the financing institution, who will have the primary responsibility of identifying the appropriate community based organization as well as of assigning to the CBO a relevant and comprehensive role within the development team. It is also the developer who is responsible for bringing black enterprises into the development of the housing project.

In general, the developer will work closely with the financial institution providing the construction and mortgage financing, and whose project development guidelines must be followed in order for any housing project to be qualified under the terms of the HG Project. The developer will also collaborate with the CBO network to identify and incorporate a CBO(s) in the project itself.

Institutions involved in the PSHG Project will be required to utilize and to provide finance to black owned and managed businesses to the maximum extent possible. Targets for the involvement of such businesses are notionally set at 20 percent of the total local currency generated by the HG loans. The actual target will be negotiated in the Program Agreements to be signed between USAID/South Africa and the institutional borrowers. Those institutions may include black developers, builders and contractors either singly or in joint ventures.

(c) Project Beneficiaries.

The Project will be focused on urban and peri-urban areas. **In the initial phase, most Beneficiaries will be employed black South Africans who have incomes of less than R2,625 ($750) monthly and who meet the credit requirements of the participating South African housing lenders.** Income levels may be varied in subsequent phases

of the project consistent with changes in South African inflation, wage rates, costs etc. In most instances, the beneficiary for the mortgage loans will be a mid level or clerical worker employed by a major manufacturing or service company, or a government agency. USAID/South Africa will seek to ensure through Program Agreements that the borrowers will exercise their best efforts to provide a majority of loan support to "Africans", who are the most disadvantaged by Apartheid. The borrowers for the construction loans will include black businesses or joint venturers acting as a residential builder, contractor or developer. The on-going and augmented USAID Shelter and Urban Development Support (SUDS) Project will provide necessary technical assistance and training to community based organizations involved with the PSHG Project to help ensure its success. The involvement of black owned and managed businesses will be a major criteria in the selection of institutional borrowers and the housing projects developed under this project.

In order to promote racial integration, up to 20 percent of the investments funded out of the participating financial institutions' contribution may be targeted for black South African families with incomes in excess of R2,625 ($750) monthly, so long as the purchase price of the housing unit financed by the HFI does not exceed R120,000 ($34,285). The purpose of this exception is to facilitate the integration of existing white urban and suburban neighborhoods where black South Africans can afford to buy housing, albeit at somewhat higher prices. Nevertheless, modifications to the income limit will be subject to negotiations with the financial institution participating in this and later phases of the HG Project.

In addition, prospective beneficiaries must not own other urban residential real property of any type. Beneficiaries must show a history of stable employment and have a positive credit rating. In short, he/she must be able to meet all the usual credit requirements of the lender, just so long as the beneficiary's monthly income is less than the maximum permitted. Further, the beneficiary must be able to provide a down payment and meet all required closing costs. Normally, his/her monthly mortgage payment must not exceed a fixed percent of total monthly income, as determined by the lender.

The inability of financial institutions to enforce foreclosure on many properties where the borrower is delinquent has resulted in a drying up of mortgage lending to most black borrowers. To overcome this limitation to mortgage lending, in order to ensure repayment, most financial institutions are resorting to employer guaranties and salary check-offs for lower-income borrowers combined with structured programs of homeowner education. Unless and until the situation that has inhibited foreclosure changes or until some guaranty mechanism is created, it is likely that most individual borrowers will be employees of companies and entities that provide a

mechanism to help ensure loan repayment.

(d) Community Based Organizations (CBOs).

The provision of affordable housing contemplated under this project will necessitate the involvement of community based organizations that have served the disenfranchised black South Africans so well for decades. The role of these CBOs will be critical to the success of any housing project. All new housing developments will involve one or more community organizations, such as "civics" (community representative structures found in nearly all black communities), labor unions, religious organizations, cooperatives, etc. Identifying the appropriate organization will be the responsibility of the developer.

All financial institutions participating in the PSHG will need to enter into a "Compact" with a broad-based community organization to assist in the organizational aspects of all housing projects. In cases where a community organization does not exist, a nationally-based community organization could help in the creation of a housing project focused community organization. Succinctly, the role of the CBO in any housing project will be to guard the interests of the beneficiaries, while at the same time, as a member of the development team, provide advice to the development team on the needs of the prospective beneficiaries and in the design and implementation of the project. It is not necessary for the beneficiaries of a housing project to be members of the organizing CBO.

(e) Black Businesses.

A major objective of the PSHG Project is to increase the involvement and growth of black enterprises in the development and production of housing. While black South Africans comprise the bulk of the construction labor force, they are generally the least skilled and the lowest paid. Moreover, they are virtually non-existent in management, nor do they own or control any of the major developmental, construction or supply companies. To enhance the capacity of black businesses, developers will be required to promote the participation of black South Africans in those housing fields where they are under-represented. In all likelihood, black South Africans will benefit most from the increased use of black contractors and subcontractors, and in the upgrading of skills of black construction workers from unskilled to more highly skilled categories. A goal of the PSHG Project is to provide professional opportunities for those black construction enterprises which have received mentoring and/or training under the Mission's SUDS grant program.

Although there are an estimated 5,000 small black owned construction

"firms" in South Africa, the vast majority are found in the informal sector. Those black contractors that do have the experience and capacity to work in the formal sector usually operate as labor-only sub-contractors to established white-owned firms. Their ability to work independently is sometimes constrained by their lack of broad-based management experience but more often results from their limited access to building sites and to finance. Those few independent black builders and contractors that do have the capacity to expand and actually to develop land, including providing serviced building sites to other black builders, are also constrained by their lack of access to finance. The PSHG Project seeks to address those finance constraints impeding the empowerment of black owned residential construction related business. A complementary program funded through USAID/South Africa's Shelter and Urban Development Support Project, the South Africa Black Construction Assistance Program, will assist black owned construction businesses to improve their management capacity and to effectively compete in the market.

One of the major impediments to the expansion of opportunities for black owned businesses in the housing construction and supply industries is inadequate access to construction and bridging finance. In South Africa, unlike the United States, construction firms rather than developers or homeowners are often required to obtain construction finance until the sale of property. For a variety of reasons, South African lenders have been reluctant to extend credit to black owned construction and supply firms. The reasons have ranged from the perceived inexperience and high risk of these relatively small businesses to outright racist lending practices.

In order to address the credit needs of these black owned businesses and enhance their opportunities to benefit from the PSHG Project, USAID/SA will coordinate closely with the Micro and Small Enterprise Loan Portfolio Guarantee (LPG) program administered by the Global Bureau's Office of Investment and the Mission's Private Sector Division. The LPG program is designed to address credit market imperfections in the micro and small business lending sector. In many developing countries, as in South Africa, banks overvalue the risk of this market and undervalue its potential profitability. In South Africa, this credit market imperfection is exacerbated by the legacy of apartheid. USAID/SA has successfully utilized the LPG program with four South African banks to encourage them to extend credit to black owned micro and small enterprises. The LPG Program works by extending a guarantee of 50 percent of principal to cover losses incurred on loans to eligible beneficiaries. The program also provides training to instruct (1) the participating banks on the techniques of micro and small business credit assessment, and (2) micro and small entrepreneurs on how to perform basic accounting, and prepare a business plan and credit application. The four guarantee facilities under the LPG program in South Africa are

with Standard Bank, Nedcor Bank, First National Bank and FutureBank. USAID/SA will work with these four banks to market the LPG facilities and make credit available for black owned developers, builders, construction and supply firms participating in activities under the PSHG project.

(f) The SUDS Project.

The on-going SUDS Project, a $50 million USAID initiative, will provide the bulk of the technical assistance for the PSHG Project in the initial phases. It is expected that technical assistance will address three major activities related to the PSHG Project: (1) project promotion, marketing and institutional assistance, (2) project evaluation, and (3) support for participating black owned enterprises.

(1) Project promotion, marketing and institutional assistance. Technical assistance will be utilized generally to expand the scope of the project and work with financial and community based institutions to improve the effectiveness of the project. This will include:

- Working with Perm to keep Phase One moving ahead;
- Refining the qualification requirements of future borrowers and participants;
- Meeting with and providing information to potential institutional participants; and
- Recommending, identifying and qualifying program borrowers.

Project provided technical assistance could also be utilized to plan and implement workshops to representatives of institutions expressing an interest in the PSHG Project.

For Phase One, it is anticipated that technical assistance requirements will include one consultant for two weeks per month, for four to six months on an intermittent basis.

(2) Project evaluations. A comprehensive evaluation will be carried out during June 1995. Essentially, the evaluation will review what has occurred in the project to date, and also look at developments in the housing sector following the change in government. Recommendations will then be made for how the Project should proceed in the future. A similar evaluation may be required in 1997 and at the end of the project, depending on how long it takes to utilize all project funding.

(3) Supporting and targeting black owned businesses. An

important objective of the Project is to develop the capacity of black-owned businesses in the construction and housing sector. The current capacity, as explained more fully elsewhere in this paper, is low. The SUDS Project is already involved in working to develop this capacity, and, therefore, the Mission is already gaining valuable information on the environment in which black South African firms work and their capabilities. SUDS provided technical assistance will help the Mission to get an accurate picture of the current situation, identify constraints affecting the black owned firms and recommend measures to alleviate those constraints. Institutions involved in the PSHG Project will be required to utilize and to provide finance black owned and managed businesses to the maximum extent possible. Targets for the involvement of such businesses are notionally set at 20 percent of the total local currency generated by the HG loans. The actual target will be included in the Program Agreements to be signed between USAID/South Africa and the institutional borrowers. Those institutions will include black developers, builders and contractors. Finally, targets will be revised on an annual basis for the involvement of these firms in the PSHG Project.

2.6 USAID/South Africa Development Strategy.

The USAID program in South Africa is rooted in the Comprehensive Anti-Apartheid Act (CAAA) of 1986 and was initiated to hasten the demise of apartheid as well as help prepare black South Africans for a leadership role in a democratic, non-racial, post-apartheid South Africa. As the process of political change continues, there is an increased emphasis on dealing with the damaging legacies of apartheid in areas such as education, housing and urban development and electrification. On July 2, 1993, the White House Press Office released the following text after President Clinton's meetings with President de Klerk and Mr. Mandela: "The President noted that the Administration is working with Congress and anti-apartheid groups to develop additional support measures once negotiations have progressed to the point where it is appropriate to lift remaining sanctions. Among these measures are...a Housing Investment Guaranty Program." This emphasis was reinforced in President Clinton's July 4, 1993, speech in Philadelphia in which he specifically identified housing as a critical area for future USAID assistance to the country. In the development of this PSHG Project, USAID/SA has conducted extensive outreach with and received general support from "extra-parliamentary" groups who are active in formulating proposed policy for the shelter sector.

USAID's program in South Africa has three specific objectives: (1) political empowerment through the development of a democratic, human rights-based South Africa; (2) social empowerment through the establishment of an equitable and effective education system; and (3) economic empowerment through an increase in broad-based

ownership. There is some overlap between sectors, with activities in one sector often reinforcing and supporting those in another. The PSHG will comprise an important element in the Mission's economic objective as stated above and will directly support the Mission's Strategic Target to "deliver innovative and viable community based, private sector financed housing to disadvantaged South Africans."

The PSHG Project described in this Project Paper represents a major component in USAID's broader private sector mobilization initiative. First, assistance in the housing sector promotes opportunities for the majority population to attain home ownership and gain a greater stake in the South African economy. By accumulating equity through the increased ownership of fixed assets, disadvantaged South Africans will, in the long run, have a greater ability to mobilize resources and access credit for entrepreneurial endeavors. Second, the existence in South Africa of financially strong private sector financial institutions with significant amounts of available funds offers a unique opportunity for the PSHG Project to leverage large amounts of private capital to help resolve the social problems, associated with the extreme shortage of affordable housing for the majority of South Africans.

Third, considerable opportunities exist for private black contractors and construction businesses to benefit from the rapid and pervasive process of urbanization which typifies South Africa. The PSHG Project will support an expansion of opportunities for black entrepreneurs by encouraging financial institutions and developers to utilize black owned construction and material supply enterprises. Finally, the PSHG will contribute directly to enhancing the economic empowerment of South Africans disadvantaged by apartheid by increasing the opportunities for community-based organizations to participate in the urban development process.

There are also important links between the PSHG Project and other activities in the USAID/SA portfolio. For example, in the area of human rights and civil society, USAID already directly supports community-based organizations which play an important role in community development, including housing. The incorporation of CBOs in the housing development process
will further strengthen the role and effectiveness of these key organizations in human rights and civil society.

2.7 Other Donor Activities

USAID is the largest single donor in the housing and urban sector in South Africa. The PSHG Project will far exceed the activities of all the other donors combined in this key economic sector. At the present time, however, the World Bank is discussing with the Government of South Africa the possibility of providing up to $1

billion annually for metropolitan infrastructure for a 3 - 5 year period (South African estimates for the cost of needed infrastructure, water and sewer, etc., is on the magnitude of $15 - 30 billion). The purpose of this program, if implemented, will be to extend basic utilities to black areas that are generally adjacent to main service lines, but have not yet been connected to these services. These areas will include squatter areas as well as townships that lack one or more of the basic infrastructure services. Services contemplated under this program will include water, sewer, roads and possibly other still unspecified services. By providing these basic services, the World Bank Program would complement the PSHG Project. The construction and financing of housing will not be an element of the World Bank program nor will electrification. It is unclear when or if this program will be approved and implemented.

Other significant donors include the following:

- The Canadians, through the International Development Research Center, have played an important role in establishing the Institute for Local Governance and Development (INLOGOV). INLOGOV has also received additional, major funding from SUDS.

- The British Overseas Development Administration has funded some training and study tours related to housing and the environment.

- The Japanese chair the Donor Coordination Committee on Housing and Urban Development.

- The European Union, the largest single donor in South Africa, has provided grants to a number of non-profit organizations in the housing field. Most recently, the EU approved a $30 million grant to a group of NGOs and trade associations, including the South African National Civic Organization (SANCO) and the Building Industry Federation of South Africa, to train construction workers and build low-cost housing. Nearly $2 million will be used to provide no less than 1,000 black South Africans with advanced, technical construction skills and 50 black South Africans with entrepreneurial skills, while at the same time, the remaining $4 million will be used to pay for materials' costs for very basic dwelling units for the workers trained under this grant. The details of the program are now being finalized, and it will probably commence in the second half of this year.

2.8 Relevant Experience with Similar Projects.

Since its creation in 1961, the USAID Office of Environment and Urban Programs (G/ENV/UP), formerly called the Office of Housing and

Urban Programs, has designed and implemented over one hundred Housing Guaranty projects in 40 countries. Since 1987, G/EUP has initiated five Housing Guaranty Projects (each covering several loans) which are different from the standard guaranties in two important ways: the U.S. bank loans guarantied by USAID were made directly to intermediate financial institutions for on-lending for housing purposes and USAID received no host country guarantee. The India Private Sector Shelter Projects (HG-001-003) are certainly among the projects most relevant to the proposed PSHG Project. In this case, the borrower was a parastatal commercial bank, the State Bank of India, which also provided the guaranty to the U.S. Government, while the implementing agency was a private sector housing finance institution for the first two loans and a national housing bank for the third. The initial loan was approved in 1981, and subsequently, two more HG loans were authorized for a total of $125 million in HGs. The result of the HG project was the establishment of a nationwide mortgage finance system consisting of several hundred companies, all of which are granting mortgage loans to low-income employed Indians. To date, all the HG loans are current, and no significant implementation problems have occurred. In many circles, the housing finance project in India is considered one of the most successful HG projects.

3.0 COST ESTIMATE AND FINANCIAL PLAN

3.1 Cost Estimates.

The total cost of the project is expected to reach $236.8 million, of which $75 million is in Housing Guaranty funds and the remaining amount in contributions from the local financial institutions (R525 million, which is equivalent to $150 million) and down payments from the project beneficiaries (R41.3 million or $11.8 million).[5] The cost breakdown by source in millions of US dollars and rand is as follows:

Source	US $	Rand	Total (in $)
Housing Guaranty Project	75.0 M		75.0 M
SA Financial Institutions		525.0 M	150.0 M
Down Payments		41.3 M	11.8 M
TOTAL	**75.0 M**	**566.3 M**	**236.8 M**

[5] As of February, 1994, the exchange rate is calculated at 3.5 Rand to 1 US Dollar.

The funds will be used to finance mortgage loans, the majority of which will be for the purchase of new housing though construction loans may be provided for in the individual Program Agreements. The breakdown of fund uses in dollars and the equivalent amount of rand is:

Use	US$	Rand equivalent
Mortgage/Construction Loans	225.0 M	787.5 M
Down payments	11.8 M	41.3 M
TOTAL	**236.8 M**	**828.8 M**

3.2 The Financial Plan.

The PSHG funds will be authorized for a total LOP of up to six years. Nevertheless, it is expected that if significant market demand warrants (as influenced by the level of U.S. interest rates and other factors), the PSHG Project may be disbursed over a four year period as follows:

Fiscal Year	Amount
1994	$30 M
1995	15 M
1996	15 M
1997	15 M

South African financial institutions will borrow the HG funds from a US lender at market rates for similar U.S. Government guarantied transactions. At the time of borrowing, the South African institutional borrower will access the funds at prevailing rates and negotiate the most favorable terms and conditions possible. Most likely, the term of the loan will be 30 years, with a ten year grace period on payment of principal. The interest rate may be fixed or variable, or involve any number of financial permutations. If the loan were contracted today, the interest rate would be around 8 percent for a fixed rate loan, excluding an initial, one time USAID 1.0 percent fee.

The rand generated by the HG funds, in turn, will be used to make mortgage and construction loans to South African black borrowers at local market rates, which today would be 15.25 percent interest rate, 20 year term and 5 percent down payment. The expected margin in this case would cover an estimated 4 percent for administrative costs and profit, and a residual reserve amount for perceived lending risks.

3.3 Use of Reflows

The amount of reflows is calculated based on the difference between the amount of money repaid on the HG portion of the Project by the beneficiaries to the Borrower and the amount the Borrower is required to repay the US investor. For every $1 million in HG loan over the first 10 years (assuming a 10 year grace period on an 8 percent US loan), the annual payment to the US Investor would be $80,000. Repayments from the beneficiaries, which cover both principal and interest, would be about $162,000, giving a difference of $82,000 annually. Over ten years, that difference would amount to $820,000 in reflows for each $1 million in HG loans. During the second ten years of a $1 million HG loan, the loan is being amortized over a 20 year period (years 11 through 30 of the HG loan), which is the same amortization schedule as the loan to the beneficiaries; therefore, there is no reflow.

Hence, the only reflow under this project might occur during the first ten years, and this is strictly contingent on the borrowing and lending terms of the financial institution participating in the project. However, based on the example given above, there is a preliminary estimate for a reflow of $820,000 for each $1 million of HG loan (dependent upon the other variables proving accurate). Nevertheless, this hypothetical reflow is based on the stability of the dollar - rand exchange rate which will probably vary significantly.

Since the purpose of this project is to increase the flow of funds to this sector of the housing market, over and above the amount to be generated by this Project, the financial institu-tions are expected to reloan all reflows to qualified borrowers under the same conditions outlined in this PP.

4.0 IMPLEMENTATION PLAN

As stated earlier, the PSHG Project will be implemented in tranches or phases. In general, implementation of all phases will follow a similar procedure except that the Mission has requested a delegation of authority from the Africa Bureau to approve all subsequent phases in the field. Implementation of Phase One is fairly straightforward, since the institutional borrower has been identified and fairly detailed discussions on how the project will be designed and implemented have been held between the borrower and USAID. Subsequent project implementation may vary somewhat from this, because the requirements of other financial borrowers may be different, particularly if the borrower is not a traditional housing lender. Therefore, optional implementation plans are also covered in this section.

Implementation of Phase One, as discussed below, will take place

over a 12 - 18 month period with eligible expenditures deemed commencing on January 1, 1994. Subsequent HG obligations will be made annually until all phases have been implemented and the entire $75 million in HG authorization utilized.

In all phases, USAID will select the Institutional Borrower, based on requests submitted by prospective financial institutions following the selection criteria outlined earlier in this PP. The requests will be carefully studied by the Mission for the soundness and quality of the request. The financial status of the institution will also be assessed. Finally, the institution will have to demonstrate a commitment to the development of black owned businesses.

Presently, there are virtually no black owned financial institutions capable of taking on this task. However, the Mission will actively seek out such institutions, and will work closely with the SUDS Project, which is assisting in the development of institutions which could be selected as an Institutional Borrower under the PSHG Project.

After USAID has selected a Borrower, it will enter into a Program Agreement with the Borrower, which spells out the terms and conditions under which USAID will authorize the Borrower to seek out and contract a loan from a US Lender. These conditions include, but are not limited to, the amount of the authorization, the schedule, beneficiary income and house cost limits, targets for the participation of black businesses, involvement of community based organizations, etc. Once the Borrower has contracted a loan, USAID will provide a full faith and credit guaranty to the US Lender. In turn, the Borrower will guaranty to USAID the full repayment of the loan. During the life of the project (LOP), USAID will monitor and evaluate the implementation of all project phases, in accordance with the procedures outlined in Section 5.0 of this PP.

It should be pointed out that in some instances, an organization may play more than one role in the implementation process. For example, a borrower may also function as the Implementation Agency, or a developer may carry out a dual role as the builder. Nevertheless, all the different roles will be covered by one or more of the several parties participating in the overall implementation process.

4.1 Implementation of Phase One.

The Perm, which is the mortgage lending division of Nedcor Bank, Ltd., has made a formal request to USAID for a $30 million Housing Guaranty loan. Under this Phase One activity, Nedcor will borrow the HG funds from the US Lender and will provide the guaranty to the

US Government. In turn, Nedcor will authorize the Implementing Agency, the Perm, to make mortgage loans in the rand equivalent of the US dollar HG loan. The Perm will then utilize the rand generated from the HG, estimated at R105 million, along with an additional R210 million of its own funds, to mobilize a pool of mortgage funds equal to about R315 million.

The Perm is currently evaluating a number of preliminary housing project proposals submitted by developers and builders to ascertain their feasibility under the PSHG Project. Given the size of the overall project, Perm will accept several housing proposals from different developers to utilize the entire $90 million in available mortgage funds.

The Perm will select housing developers who are able to organize a development team composed of all the organizations involved in some aspect of the project. With the Perm as a key member of the team, the other members will include community based organizations, of which there may be several, the architect and engineer, the builder, the realtor, and other specialized services such as lawyers and educational groups. Perm has developed a set of criteria which it will use to (1) select the developer and his/her team for the project, (2) select a specific housing project and (3) select the beneficiaries for that project. Perm will place considerable emphasis on the need to ensure the integrity and success of the housing project. Therefore it anticipates involving both employers and labor unions in the development and the beneficiary selection process, particularly if employee salary deductions are used for loan repayment. The criteria mentioned in this paragraph are listed in the Technical Analysis Section of this PP.

For a new or a substantial rehabilitation project, the Perm will provide construction finance to the Developer to build or rehab the project. Once construction is authorized, the builder will construct model units to be used by the developer, in conjunction with the Perm, to promote sales. Prospective buyers will either make an application at the Perm branch office nearest the site, or at the applicant's place of work, where the Perm may send a representative to take applications. One of the key elements in the success of a Perm-financed project will be the use of pre-sale of units, and one of the best ways to accomplish this is to line up employers who will agree to have reserved a specific number of units for its employees. Normally, this will work best when these employers live in the general vicinity of the site, and where the unions have identified those employees who lack adequate housing. In all cases, the Perm will approve all applicants for mortgage loans, which is the final step in deciding who will occupy the housing units.

As sections of the housing project are completed, closing will take place and approved applicants will move into their new or remodeled

homes. The Perm will set up a monthly repayment procedure and schedule for each homebuyer. When the employee salary deduction procedure is used, the Perm will often negotiate a monthly repayment procedure with the employer covering those workers in his/her facility. Prior to moving into the unit, the family will be required to undergo a new homeowner's educational course, which will explain to the homebuyer his/her rights and responsibilities. Like the voter education projects now underway, the Perm believes this step to be crucial in ensuring the success of the project, particularly since nearly all beneficiaries will be first-time homebuyers.

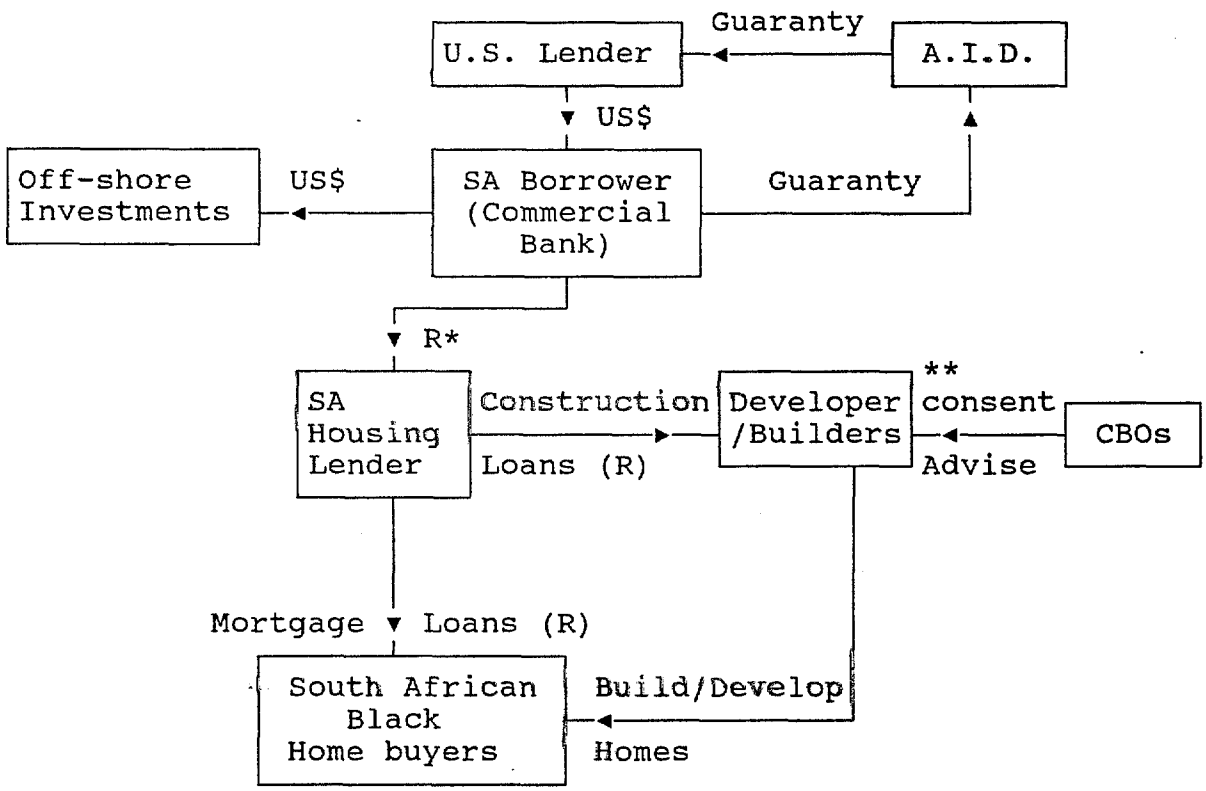
As the loans are amortized, Nedcor will repay the US Lender for the HG-financed component of the Project. Any reflows resulting from this transaction will be used by Perm to make additional mortgage loans to qualified applicants under this same project.

Mortgage loans made since the 1st of January, 1994, to beneficiaries who fulfill the eligibility requirements of the PSHG Project, will be accepted under the Project.

In order to promote racial integration, up to 20 percent of the investments funded out of the Perm's contribution may be targeted for black South African families with incomes above $750 so long as the purchase price of the housing unit does not exceed $34,285 (R120,000). This program component would permit these applicants to purchase homes and apartments in middle class urban and suburban neighborhoods that previously have been restricted to white South Africans. The inclusion of loans of this amount will help to promote racial integration. Since the PSHG Project is limited to black South Africans, this is one way to help achieve racial integration in housing.

The Procedural Diagram below shows this development process more clearly.

PROCEDURAL DIAGRAM



* Includes rand generated by HG Loan as well as internally generated rand.

** There may be several variations of the builder/developer process.

Further, the role and responsibilities of the various institutions participating in Phase One are summarized below:

Agency or Entity	Role
USAID	■Authorize the HG Project ■Provide a full faith and credit HG to the US Lender ■Select and approve Nedcor as the Borrower ■Negotiate and sign an Implementation Agreement with the Perm ■Monitor the implementation of Phase One of the PSHG Project
Nedcor	■Borrow $30 million from a US lender ■Provide USAID with a loan guaranty ■Make available in rand the equivalent of $60 million to Perm ■Repay to the US investor the dollar loan
US Lender	■Provide a loan of $30 million to Nedcor
Perm	■Receive and approve loan applications ■Provide the equivalent of $90 million in mortgage loans to black South Africans ■Select housing projects presented by developers ■Provide construction or bridging loans to housing developers ■Service mortgage loans
Private Developer	■Develop land and individual housing projects to serve employed black South Africans ■Put together Joint Ventures to develop these projects ■Contract a builder to build the projects, or if the developer is also a builder, build the projects ■Sell the housing units
Building Contractor	■Work with black sub-contractors to enable them to participate on the job .Build the housing project ■Turn over finished housing project to the developer

CBO	■Participate in the venture ■Vet the plans and designs prepared by the developer and team ■Provide education to prospective beneficiaries of the project
Architect/Engineer	■Design the project ■Supervise construction of project
Local/Province Gov't	■Sell land ■Issue necessary approvals ■Monitor construction/implementation

4.2 Additional Implementation Phases

(a) Procedure for Selecting Borrowers.

A large number of financial institutions, developers, CBOs, and other interested parties, including the ones listed below, have approached USAID about participating in future phases. As the project evolves, USAID will prepare a package of information to provide to all interested participants. This package will provide information on the HG Project in general, a description of the PSHG Project, the terms and conditions under which an organization can participate in the project, and the procedures to be followed to participate.

The next step is to actively promote the PSHG Project in South Africa. USAID/SA will develop and carry out a number of workshops in the major cities of South Africa, whose participants will be those organizations that have expressed interest in the PSHG Project. The agenda of these workshops will cover the components of a housing project, and how these components can be put together to develop a project. The workshops will also facilitate networking since representatives of different organizations in the housing sector will be present. Time will be provided after the workshops for individual consultations with workshop participants.

The final step is the evaluation and selection of borrowers under later phases, following the criteria outlined in Section 2.2 above. USAID/SA will establish a procedure through which prospective borrowers will submit their credentials, and a transparent process for selecting a borrower for each phase.

(b) Prospects for Following Phases

Discussions have been held between representatives of USAID

and various financial institutions to ascertain the latter's interest in participating in the PSHG Project. None of these institutions are presently ready to commit to participation in the Project, nevertheless, several have begun to forge ahead in the preparation of a proposal. The following examples will give a better idea of ways other financial institutions might participate in later phases.

(1) MIBA, a black controlled merchant bank, has expressed an interest in putting together a development venture whereby a financially strong company, such as an insurance company, would act as the Borrower and provide the rand equivalent of the US Guaranty Loan. MIBA would be the implementing agency, while an HFI would match the US guaranty loan contribution.

(2) Theta Securities, a financial securities company, has drafted a concept paper under which a collateral fund would be created to permit a number of housing finance institutions access to even larger sums of money for on-lending to the target group. Theta is currently refining this concept paper with a view of presenting it to USAID if the concept is deemed feasible.

(3) Future Bank, a substantially black owned commercial bank, has also expressed an interest in the Project, however it has not yet been able to devise an arrangement through which it could participate. Given the small size of Future Bank, it would have to bring in a larger financial institution to provide the financial guaranty to USAID.

(4) Boumat Limited, a major building materials manufacturer and supplier, is interested in developing a home improvement plan for low-income black South Africans. To date, this plan is in the early concept phase.

4.3 Mission Management of the PSHG Project

The project proposed in this PP is broad and interdependent with the Mission's existing SUDS project. Considerable effort within USAID's HUD Division will be devoted to the start-up of this program and subsequently to its management. The day-to-day implementation of project activities, which is comprised essentially of overseeing the development of housing projects and providing loans to individual borrowers, is of course carried out by the financial institutions themselves. The Mission's role will be to monitor the activities of the financial institutions, to fund necessary technical assistance

and to implement required monitoring and evaluation.

The HUD Division is presently staffed with two senior U.S. Direct Hire Housing and Urban Development Officers. It is anticipated that at least one full-time senior South African FSN housing professional will be recruited during FY94 to assist with PSHG program management. In addition, a full time US/PSC will be hired mid-year to assist with program implementation. All PSC and FSN positions will be funded under the SUDS project. It is further anticipated that a third U.S. Direct Hire senior Housing and Urban Development Officer will be assigned to HUD Divison prior to the end of FY 1994.

One of the most important tasks in the early years of the Project will be reviewing new requests sent in by financial institutions and selecting the ones with which the Mission wishes to sign additional implementing agreements. This task will be carried out by Mission personnel, with short-term technical assistance as required. Any short-term technical assistance required for the project will be funded under the SUDS Project, or such other project as the Mission deems most appropriate, as will any evaluations and/or audits that require USAID funding. USAID/SA's Controller's office will provide such support as is necessary, although FA/FM/LM in USAID/W has primary responsibility for paying claims to the U.S. Investor under the HG loan.

5.0 MONITORING AND EVALUATION

5.1 Evaluations.

The evaluation requirements of this project takes into consideration the following facts:

- The PSHG Project is being developed in phases, with only the Phase One borrower identified and its capacity assessed to date. The same process must be carried out for all other potential borrowers.

- Activities prior to June 1995 will provide a wealth of information on how to design and develop subsequent phases. Therefore, an evaluation of activities prior to June 1995 will be carried out for use in the development of later phases.

- A new national government will be in place beginning in May 1994, with a new agenda, priorities, initiatives and players that might necessitate modifying the PSHG

Project. Possible changes in the banking and investment legislation might include prescribed lending and a kind of community reinvestment act, both of which will have a major impact on private sector HFIs.

- Proposed legislation and rules in the housing sector, particularly relating to subsidies and lender guaranties, will come into effect over the next few months, and they will most certainly have a significant impact on the PSHG Project.

- A considerable amount of information and baseline data will be gathered over the next few months as a result of surveys now being undertaken (e.g., the Building Industry Federation of South Africa's (BIFSA) inventory of black construction enterprises). This information, as well as the information and lessons learned from the implementation of Phase One of the PSHG Project, will be highly valuable for development of future phases.

- Finally, proposed changes in the US foreign assistance legislation that affect the HG Project, coupled with a better knowledge of the market demand for low-income housing, will require the project schedule to be fine-tuned. It is now proposed to last anywhere up to six years, depending on these and other factors, but may well be completed in only four years or less.

In light of the above, a project evaluation will be carried out during June 1995, funded under the SUDS, or other appropriate, Mission Project. The purpose of this evaluation would be to:

- Review progress made in the PSHG Project and recommend any necessary changes or modifications.

- Assess the impact of the new government's actions and new legislation on the PSHG participants and the development of all project phases, particularly, on phases subsequent to Phase One.

- Evaluate the criteria for selecting qualified borrowers and review the progress made to date in involving other borrowers in the Project, especially black owned HFIs.

- Review and revise as needed targets for the involvement of black businesses in the Project, as well as other desirable targets, based on newly available baseline data and the results of the PSHG Project to date.

- Develop a realistic schedule for implementation of the remaining Project phases.

If the schedule for full implementation of the Project is relatively short, i.e., less than three years, then only a final evaluation will be required, since the June 1995 evaluation will cover many of those aspects associated with an interim evaluation. If the Project is projected for implementation in three or more years, then a mid-term evaluation would be necessary. The purpose of the mid-term evaluation is to assess the Project's progress, taking into account the Project modifications resulting from the above mentioned evaluation.

5.2 Monitoring.

There are three aspects to monitoring this Project. One is monitoring of the outputs that USAID expects this Project to achieve. The second is monitoring the creditworthiness of borrowers. The third is the USAID staff requirements to carry out Project monitoring.

USAID/South Africa, through the Housing and Urban Development Division, will be responsible for monitoring the creditworthiness of the borrowers and the performance of the mortgage and construction loans. In connection with monitoring the creditworthiness of borrowers, USAID/South Africa will arrange for review of quarterly and annual audited financial statements, utilizing USAID/Washington and local accounting expertise as necessary, and will arrange for annual updates of the CAMEL[6] analysis of borrowers as part of the annual re-estimates of risk required under the Credit Reform

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[6] The American bank rating system is called "camel" as the first letter of each component that is analyzed spells out that word. Camel is made up of the following: "C" is for capital adequacy. The system measures how much capital a bank has to protect its depositors and if this amount is sufficient. "A" is for asset quality. The system determines the collectibility of assets and off-balance sheet items, as well as the financial impact of problem advances. "M" is for management. The system evaluates a bank's management based on performance, policies established, controls, depth and adherence to law and regulation. "E" is for earnings or profitability. The system measures bank profitability to see if it is sufficient to support future growth. "L" is for liquidity. The system determines if a bank is liquid enough to met regular and most unexpected obligations.

Act and regulations. The CAMEL analysis includes an evaluation of the borrowers' capital, asset quality, management experience, earnings and liquidity. Also in connection with annual re-estimates, USAID/South Africa will arrange to re-estimate the value of collateral pledged by borrowers.

In connection with monitoring the performance of mortgage and construction loans financed under the Project, USAID/South Africa will do quarterly reviews of loan reports required to be submitted by borrowers also utilizing USAID/Washington and local accounting expertise as necessary. USAID/South Africa's reviews will examine the extent of delinquencies in the mortgage and construction loan portfolio (including determining the percentage of loans past due by more than 30, 60 or 90 days), examine the borrowers' provisions for loan losses, charge offs, etc., and make site visits.

Finally, the PSHG will build upon the lessons and results gained from the "Monitoring, Policy, Research and Evaluation Element" (MPRE) of the companion SUDS program. USAID/SA believes that the breadth and depth of experience and understanding that SUDS can produce is almost unprecedented. SUDS will be working through CUSSP in almost 50 communities and four major regions in South Africa. Through its 28 existing grants to South African NGOs totalling $20 million, SUDS is already deeply involved in the key shelter sectors for community based development and governance. This experience promises to yield insights that will be crucial to the policy reform and pioneering community based work that can help turn things around for those South Africans living in squalor.

Given the numerous different activities, SUDS was designed with a monitoring system and policy element, now called the Monitoring, Policy Research and Evaluation (MPRE) Program, that would convert the experience of this Project into guidance for future community based action and policy reform.

MPRE will have the responsibility and capacity to disaggregate information by sectors and communities from SUDS and PSHG activities. It will assess and analyze this information and feed it strategically into the policy and program formulation dialogue of a variety of user groups at the regional and the national levels. These user groups could be the new South African government, including regional and local governments, NGOs, future and existing black businesses, universities, donors and even the international community.

The HUD Division of USAID/SA will assign one staff member to monitor the PSHG Project as necessary. This staff member will

be assisted by short and long term consultants from time to time.

6.0 PROJECT ANALYSES

6.1 Technical Analysis (Phase One)

The technical analysis discussed in this section generally covers Phase One housing projects being financed by the Perm. The three most important project decisions that the Perm will make are: (1) selection of qualified developers, (2) acceptance of feasible housing projects on well suited sites, and (3) approval of qualified applicants. The Perm's policies for making those decisions are discussed below.

(a) Proposal and developer selection.

In general, proposals to Perm to develop specific housing projects are being generated in one of two ways: developers submit unsolicited proposals to Perm for funding consideration, or the Perm actively solicits new business proposals from developers already active with them. The Perm has agreed that it will actively solicit development and building proposals from eligible black developers and builders acting singly or in joint ventures. Perm is evaluating all these proposals based on a comprehensive set of criteria under what is referred to as "affordable housing finance projects" to ensure that a particular project is feasible. These criteria are provided to each developer so that he/she will understand clearly what Perm requires to evaluate a project. They include the following components, and are generally presented to Perm in the sequence in which they are listed below:

- An assessment of the site where the project will be developed, including future real estate growth potential, economic growth in the area, availability of local amenities and services, surrounding land use, soils suitability, transportation, banking facilities, and most importantly, the community representative structures (Civics) to be involved in the project.

- Information on the specific residential project, which encompasses a description of the project, its location, site maps, preliminary site and house plans, number and type of units, specifications, infrastructure, unit prices, financing pro forma etc.

- Information that developers and builders must submit to

prove they are qualified to undertake the project; such information covers their financial capability, management and technical skills, and quality control mechanisms.

Based on a favorable assessment of the project proposal information provided by the developer, Perm will approve the project. It will make a construction loan to the developer, who will initiate construction of the units.

(b) Site selection.

As a prudent lender, Perm is fully aware of the importance of location in the success of a real estate venture. Certain areas in the major metropolitan areas are experiencing a net outflow of people, with the demand for housing in those areas almost non-existent. On the other hand, some areas of those same cities are experiencing growth, for example, the northern sections of Johannesburg have seen an 8 percent population growth rate over the last year. Clearly, Perm will give priority to projects located in the growth areas, and shun the declining growth areas if and until the situation there is reversed.

Perm is also aware that areas that have served as buffers between white and black areas are very desirable, not only because they possess the infrastructure and services required for a new housing development, but also because they will encourage the integration of the two racially different communities. Informal surveys show that the demand for housing in those areas in quite high. For that reason, Perm will give priority to projects located in buffer areas.

Cost is also a factor in locating a site for new housing projects. Much of the vacant land, including the buffer areas mentioned above, are owned by a government agency, usually the municipality. In many instances, the municipality is willing to grant or sell the site for a nominal amount to a developer using it to build affordable housing. Since this will lower the overall project cost, Perm will encourage developers to seek out these sites.

(c) Beneficiary selection.

Once a project is approved, Perm will begin to receive applications from potential beneficiaries to purchase a unit in this particular project. To qualify for a loan, the applicant must meet a number of criteria, of which the most important are:

- Financial: the mortgage (bond) must not exceed 25 percent

of gross family income; the applicant must complete a loan application, undergo a credit check, submit a financial statement, and sit for a personal interview, etc.

- Personal: the applicant must be a black South African citizen or permanent resident, permanently employed by the same employer for at least three years, who agrees to attend education courses on home ownership.

- Cash and Deposit Requirements: Make a down payment equal to five percent of the unit cost, pay all closing costs, and, if required by the individual lender, purchase a life insurance policy and a homeowners insurance policy.

(d) Availability of Sites and Feasible Projects

The availability of suitable buildable sites will be an issue. There appears to be enough open land within and around the metropolitan areas to meet the need for land for affordable housing. However, for this PSHG Project, sites will be targeted which are within the municipal boundaries and possess both the necessary physical and social infrastructure. Both the Perm and a cross section of builders believe there is sufficient serviced land available to meet the needs of the Project.

(e) Availability of Labor and Materials.

If the PSHG Project and other planned housing activities are able to generate the necessary high level of new production, it will put a strain on the supply of building materials and skilled labor. The building industry believes that there is sufficient unused capacity in the building materials manufacturing businesses plus the industry has the ability to add capacity to meet the demand.

(f) Availability of Infrastructure.

The availability of infrastructure to complement the development of new housing projects can be problematic, depending on site location. The PSHG Project will emphasize in-fill projects developed on vacant sites within the city, where utility main lines are present and accessible for connection to the new units. This selection criteria will also ensure that required services, such as schools and clinics, are also available for the new units.

(g) Illustrative Housing Project.

Below is an illustrative housing project in a preliminary development stage that might be appropriate for financing under the HG Project. It should be emphasized that this housing project has not been finally accepted by Perm for financing under the Project, nor are there any assurances that it will be accepted. The purpose here is to illustrate a process through which a housing project could be developed under the PSHG Project.

The Jeppestown Oval Precinct Housing Project is a proposed new multi-family development on some 3.3 hectares of centrally located city land owned by the Municipality of Johannesburg. It is part of a larger area slated for redevelopment and rehabilitation of existing properties, including housing. The Johannesburg City Council, which owns the site, invited interested developers to submit proposals for the construction of new housing on this section of the site. The winning proposal, of five submitted, was prepared by a Joint Venture headed by Griniker Construction Ltd, one of the largest construction companies in South Africa.

The original proposal contained two options: 228 units in two story buildings or 278 units in three story buildings. The Perm has been reviewing the plans and suggesting ways to limit costs, especially for the two bedroom units, to ensure that the final product is affordable to the client group. Assuming 228 units are built, the project would consist of four types of housing as follows:

# of units	type	size	Est. Cost
34	3 Bedroom	58 m2	R63,800
126	2 "	51 "	56,100
50	1 "	37 "	40,700
36	Studio	29 "	31,900

Griniker, as developer, project manager and builder, has formed agreements with a number of organizations to develop the project, putting together what is referred to as a joint venture. The principal participants in this joint venture and the role of each one is as follows:

- Perm: Provision of construction and mortgage finance.
- Seneque Smit Maughn-Brown and Associates: Planning and architectural services, as well as community development services.
- National Union of Mineworkers and National Union of Metalworkers of South Africa: Identify potential beneficiaries from among their membership.
- Community Based Development Program: Provide assistance

in developing a community based organization.

- Johannesburg Area Civic: Identification and organization of a local CBO.
- Community and Urban Support Services Program: Training for homebuyers and capacity building.
- Ninham Shand: Engineering and infrastructure studies
- Norval, Wentzel, Steinberg: Economic analyses.
- Entrepreneurial Development Southern Africa: Assistance to black businessmen.

In addition to the parties identified above, employers who have agreed to assist their workers in obtaining housing under this Project, may also enter into the joint venture. Some of these employers, such as PG Glass, have already been identified. In this case, several employers have operations in the same area where the housing will be built, and their employees are members of the two unions which are parties to the project.

Since the project will be developed in an open area where there are no community based organizations, there is a provision for the creation of a new community organization from among the homebuyers. Assistance from the Johannesburg Area Civic (JAC) will be used to assist in the identification of CBO participants. The SUDS Project's technical assistance component, the Community and Urban Services Support Project (CUSSP), is in contact with this development and has the resources and skills to assist in the development of a new project-based organization.

Griniker will establish a steering committee comprised of one representative of each of the above parties. The role of the steering committee is to develop further the policy and delivery framework necessary for the implementation of the housing project and to deal with particular issues such as the allocation procedures, cost implications of modifications and changes, additional opportunities, etc.

6.2 Institutional Analysis

As of the preparation of this PP, only one institution, Nedcor Bank, Ltd., has been identified as a participating institution. Discussions have been held with other financial institutions, as well as with other types of organizations that could play a role in the development of any housing project under this project. Therefore, a more complete analysis of Nedcor Bank is contained in this section, while only a brief explanation will be provided of several of the other financial institutions that have expressed an interest

in the project.

(a) Nedcor Bank, Limited is the banking operation for Nedcor Limited, a holding company. Nedcor Limited's activities consist predominantly of banking, trust and related financial services and it is listed on the Johannesburg Stock Exchange. The company's major shareholder is the South African Mutual Life Assurance Society, which together with its associates holds 52.6 percent of the fully paid shares.

Nedcor Limited had a successful year in 1993 in spite of the continuing recession and political turmoil. Net income increased by 19 percent to R486 million, while earnings per share increased by 36 cents, a growth rate of 19 percent over the previous year. Total assets grew by nine percent to R51.7 billion (about $14.8 billion). A private placement of R300 million of subordinate debt instruments was made last year which increased Nedcor's capital. As a result, the ratio of capital and reserves to risk adjusted assets is 9.4 percent as compared to 8.0 percent in 1992. This capital ratio compares favorably with the ratio of better capitalized banks internationally.

For Nedcor's banking operation, Nedcor Bank Limited, 1993 was an excellent year. Net income after taxes increased by 22 percent. Growth was experienced in all of its operating divisions, including corporate, commercial, personal and international divisions. Internationally, Nedcor Bank expanded its Hong Kong subsidy, Nedfinance Asia, as well its operations in other parts of Africa. In January 1994, it upgraded its presence in New York to that of a full-time representative office, reflecting its conviction that the U.S. will become an increasingly important market.

Perm, Nedcor Bank's mortgage lending division, with whom the Program Agreement for Phase One of this Project will be signed, also experienced growth in 1993. Total mortgage loans on the books amounted to R10.8 billion in 1993. Net income was R85 million, an increase of 22 percent over the previous year. While the Perm has focused on improving the quality of its mortgage lending, it has further reduced arrears and made progress in addressing the problem of foreclosed properties. However, more stringent lending criteria helped to restrict overall growth in lending to six percent last year.

Mortgage arrears dropped in 1993 through the active management of arrear clients and the establishment of centralized recovery units. Accordingly, the number of accounts in arrears fell by a significant percent. The Perm expects to continue making improvements in 1994.

Although Nedcor and its divisions include some of the oldest companies in South Africa,[7] it is adjusting to the new South Africa in a number of ways. Three years ago, it established the Community Development Fund, which has granted R15 million for projects in education, job creation, welfare and housing, youth development and community affairs. By funding projects at the grass-roots level, it assists communities that are trying to help themselves. Nedcor has also established NedEnterprise, which focuses on providing financing for small and medium enterprises. It is particularly focusing on the franchising field, which it believes has significant potential for black entrepreneurs. Financing packages aimed at black businessmen were formulated with both Shell South Africa and South African Breweries and a novel financial plan was developed to facilitate the introduction of health mini-clinics into informal settlements.

The Perm has long been the largest provider of mortgage loans for the black South African community. The percentage of mortgage loans to this segment of the community stands at 29 percent today, far in excess of the three percent average of all mortgage lenders. The Perm celebrates its 110th anniversary this year and continues is primary focus on mortgage finance. Its compact with the South African National Civic Organization (SANCO) in early 1993 further established Nedcor and Perm as the leading lender to the black community.

The Perm's key management personnel have a wide breadth and depth of experience in the mortgage finance sector. For instance, the Perm's Divisional Director has 26 years of experience in mortgage finance. All of the other key members of the Perm's management team have a substantial number of years of experience in the housing finance field.

Independently, in May 1993, Republic Rating Limited, the major rating company in South Africa, gave Nedcor Bank, Ltd. its highest rating (A.1+) in the short-term, and a high rating (AA) in the long-term. The improvement in Nedcor's financial position with respect to its risk weighted capital adequacy and in the area of mortgage arrears and foreclosures since the date of Republic's analysis, makes it highly unlikely that Nedcor's ratings have declined, and more likely would have improved.

(b) Other Financial Institutions.

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[7] Perm has been making mortgage loans for 110 years.

(1) MIBA. MIBA Holdings Limited was formed recently to establish a black controlled merchant bank, Merchant and Investment Bank (Africa) Limited (MIBA). MIBA Holdings has agreed to acquire all but one asset of Prima Bank Holdings Limited and the name of Prima Bank will be changed to MIBA. The restructuring of MIBA Holdings will give the company an estimated capital structure of R74.1 million in March 1994. Given MIBA's relatively small capital base, it will have to incorporate a stronger financial institution into any arrangement to participate as a HG borrower. Nevertheless, it has a strong management team and the potential to be a major player in merchant banking circles in South Africa.

(2) KFC. KwaZulu Finance and Investment Corporation Limited is a statutory development corporation whose purpose is to contribute to the socio-economic development of Natal/KwaZulu. In operation since 1978, it has undertaken a number of initiatives in small business development, housing, industrial, commercial and rural development, and training that are geared to improving the economic conditions of the people of this province. Funding for its activities is derived from its share capital, borrowing and savings deposits, and cash generated by operating activities.

Its housing division made R85.2 million in loans in 1993, increasing the balance of outstanding housing loans to R353.9 million. This balance represents 13,191 current housing loan accounts. The average housing loan in 1993 was R44,000, which is affordable to a worker earning around R2,300 plus monthly. Accordingly, it has established a strong record as a housing lender for families in the lower- and lower-middle income range.

Other than the building societies, KFC has one of the best track records in mortgage lending in South Africa, and certainly the best understanding of mortgage lending to black South Africans. While it is only operating in one of the nine provinces, it has plans to operate nationwide. It would bring a wide and deep experience in mortgage lending to any group participating in the HG Project.

(3) Theta Securities. Theta Securities was formed as a financial securities company in July 1993 to develop, market and trade in financial securities, both nationally and internationally. The four executive directors of Theta own 50 percent of the company, and are in the process of acquiring the remaining 50 percent from Sechold Limited, which was recently absorbed into a competing company. Its capital is R5 million. The Directors have worked together since 1988 and formed the Projects team at UAL Merchant Bank prior to their

departure to set up Theta. The company's activities are concentrated in five financial sectors: hybrid and derivative instruments, stripped bonds and cash flow related transactions, new and secondary market shares, interest rate treasury products, and socially desirable investments.

The last sector is concerned with developing instruments to unlock finance as they specifically relate to the new South Africa. The primary focus will be funding for low-cost housing, infrastructure projects and the promotion of small business enterprises. The team has been responsible for designing a number of innovative products, such as Collateralized Housing Investment Paper for low-cost housing finance, the Land Investment Trust debentures for funding the development of township land and the Electrification Participation Notes for funding electrification of the townships for Eskom. A total of about R860 million has been raised in the local capital markets for these projects.

Theta's management is young, dynamic and innovative. It is structured and positioned to capitalise on the rapidly changing financial markets. Owned by its principals, Theta seeks to find innovative solutions to financial market constraints and it prides itself on an ability to provide quick and effective responses to changing circumstances.

(4) Future Bank. Future Bank's genesis began in 1986 when First National Bank of Southern Africa established a working relationship with the Southern African Black Taxi Association. With the establishment of Future Bank in March 1992, this relationship was transferred to the latter. First National holds a minority interest in Future Bank, as well as a 12 year management contract with Future. The majority interest in Future is held by black South Africans, of which the Federation of African Business and Consumer Services (FABCOS) is a major shareholder. Future Bank reports that it earned a profit in 1993, its first full year of operation. Currently it has R200 million plus in assets. There are four offices located in three cities.

Future Bank has developed and implemented an affordable home loan scheme, whereby the Bank will make small R3,500 to R12,500 loans to employed South Africans whose employer agrees to guaranty a portion of the loan, and the borrower agrees to provide an additional up-front payment. The term is usually from three to five years. The property is not used as security for the loan, which keeps closing costs low. Only Future Bank approved suppliers and consultants may be utilized by the borrower.

(5) Boumat. Boumat Limited is a holding company for a portfolio of trading and manufacturing businesses. In turn, Boumat is a wholly owned subsidiary of Saficon Investments, a South African company with interests in the motor and building sector, and a total of 122 business operations throughout the country. Gross sales for Saficon in 1993 were R2.7 billion. Boumat has three major operations. Its building materials distribution operation, principally in plumbing and sanitary fixtures, floor and wall tiles, and builders hardware, employs 2,500 people in 55 locations. Its manufacturing operation produces Kwikot electric water heaters, CMP stainless steel products and Trident acrylic bathrooms, with eight plants employing 1,050 workers. Finally, it distributes piping, valves and meters relating to the movement of fluids, having six operations and 420 employees.

Boumat's involvement in the housing sector would be through the provision of home improvement packages in some not yet fully defined fashion. Boumat would envisage a program whereby it would provide building improvement supplies, for example water heaters to homeowners who wish to upgrade their homes. How this would fit into the PSHG Project is not clear at this time.

6.3 Social Soundness Analysis

The policy of apartheid in South Africa has created a society divided absolutely along strict racial lines. One consequence of this racial policy is that the physical design of South Africa's cities resulted in two cities side by side--one city for white South Africa and one city of the other races. The white city is generally prosperous, well-served and content with itself; the other city is poor, lacked services and resentful of the prosperity just next door.

The aftermath of this separation is nowhere more glaring than in a comparison of housing conditions in the two cities. While housing in the white city is comparable to that in the average European city, housing in the "other city" is as deplorable as any found in the poorest of the world's countries. New "shack" areas proliferate, while the other "townships" deteriorate. Overcrowding is the norm as virtually no housing has been built in years.

Yet with the recent elections, there is a conviction that something can now be done about eradicating the discrepancies between the two cities. But the housing problem is so huge that it will take a tremendous effort on everyone's part, and it will require the people of both cities to resolve the

problem.

A recent report on housing in South Africa attempted to estimate what is called the accumulated urban housing shortage as of 1990 by estimating the need and comparing that need with the actual stock of conventional housing. The table below shows that the shortage was about 1.3 million, nearly all of which was for the black population. In fact, the estimate showed that there was actually a surplus in the white housing stock.

ACCUMULATED URBAN HOUSING SHORTAGE-1990
(Thousands of Units)

Racial Group	Housing need	Housing stock	Shortage (Surplus)
White	1,607	1,756	(149)
Colored	576	484	92
Asian	214	210	4
Black	2,418	1,226	1,192 (1)
Total	**4,815**	**3,676**	**1,288**

(1) Excludes the white surplus stock
Source: De Loor Report, Housing in South Africa: Proposals on a Policy and Strategy

Today, the actual shortage may be anywhere from 10 to 15 percent higher than the figures given above, since virtually no conventional housing for black South Africans has been built since the date of the De Loor report. Nor does it cover the shortage in rural areas and in the hostels, which would add another 1.7 million to 1.8 million units to the shortage.

The PSHG Project can only attempt to address part of the housing need. Since it is a private sector project, it will be unable to serve families who cannot afford market rate loans. Nor will it attempt to reach black South Africans in the higher income brackets, since the project purpose is to serve families in the lower income brackets.

The table shown below gives a good idea of the overall market size for the PSHG Project. As mentioned above, households with incomes below the R900/1,000 level, which is also the poverty level, will have insufficient incomes to participant in a market rate program, and, therefore, will be unable to qualify for a mortgage under this project. Many households at the next level, R1,000 to R1,300, will be able to participate though not all will be able to do so. In some cases, they will be able to participate in a market rate program, especially if there is a capital subsidy which will lower the monthly payment to within their means.

The next two income groups shown below, that is, households with incomes between R1,300 and R2,100, are prime candidates to participate in the project. The total market size of these two income ranges is about 800,000 households and is considered the principal target for the PSHG Project.

URBAN HOUSEHOLD MONTHLY INCOME DISTRIBUTION
Projected to 1995

Racial Group	Monthly Income Range				
	R1000-1300	R1300-1700	R1700-2100	R2100-2900	Over R2900
Colored	76,048	63,152	73,369	57,384	223,495
Asian	17,923	17,130	25,285	24,884	103,315
Black	580,560	376,836	233,906	143,282	307,803
Total	674,531	457,118	332,560	225,550	634,613
Rounded to:	**675,000**	**457,000**	**333,000**	**226,000**	**635,000**

Source: Income Distribution Model, The Urban Foundation, September 1991.

Households in the next two higher income brackets also comprise a potential market under this project. Families with monthly incomes below R3,500 are also considered in the lower-middle income category. Moreover families in this slightly higher income group would be more likely to qualify for somewhat higher priced housing in formerly white suburbs.

Provision has, therefore, been made in the PSHG to permit up to 20 percent of the investment of the participating financial institutions' contribution to the program to be mortgage loans to be granted to families earning above R2,625 monthly.

There is no information on the effective demand for housing in any of the income groups. It is clear that the need is greatest at the lowest levels, not only because the raw numbers of families are greatest, but also because the incomes of these poorer families have not permitted them to purchase affordable housing in the past. However, project financing will only be sufficient to build about 16,450 units, which is about two percent of 800,000 households in the two incomes brackets targeted under this project. Based on the overall need for housing, it is fair to assume that at least two percent of the potential market will be ready, willing and able to purchase housing under the PSHG Project.

The implementation of the PSHG Project will provide access to formal credit mechanisms that previously have been denied to virtually all of the families that are being targeted under this project. This includes formally employed wage earners who have the income to finance and purchase a home, but not the opportunity due to the lack of financing and/or an affordable home. The withholding of housing finance to black South Africans has solidified many of the city and neighborhood barriers erected by apartheid policies. It is believed that the provision of long term, market-oriented, mortgage financing will materially contribute to redressing the lack of physical and social mobility for formally employed black South Africans.

Using the Perm's locational criteria for shelter solutions to be financed under the PSHG, many opportunities exist to develop in-fill housing on vacant land which lies between exclusively white neighborhoods, and neighborhoods now occupied by the colored and black community. It is also expected that many of the units which will be built and sold under the PSHG will be located in areas growing in economic importance across South Africa. In addition, the funds made available by PERM and other participating institutions for the purchase of existing housing stock significantly increases the opportunity for black South Africans to exercise, for the first time in recent history, the complete right to choose where they live.

Most of the formally employed population of black South Africans are members of labor unions. Union officials claim that up to 51 percent of their membership are women, many of whom live in informal shelter settlements and townships and

are heads of households. Therefore, in theory, women are as likely to be beneficiaries of the PSHG Project as men.

Finally, the PSHG Project requires participating institutions to involve black builders in the project, including the formation of joint ventures or partnerships with black owned contractors, building suppliers, and tradespeople who are located in or near the communities in which the housing will be built. The financial benefit to the affected communities will greatly contribute to the overall financial and physical health of these communities.

6.4 Gender Considerations

Women and children will certainly benefit from the South African Housing Project. However, because of the loan parameters it is difficult at this time to determine the extent to which women will qualify to participate in the project as borrowers. This is because women have generally been relegated to the lowest paid, more traditional roles of the South African economy. The following discussion is intended to assess and clarify women's roles, the key issues in South African society which impact them, and suggest ways which will alleviate gender bias in the Housing Guaranty Project.

(a) Background

Over the last one hundred years, the South African government enacted legislation that created a divisive society, one which emphasized the differences of people. Life roles were determined at birth by skin color and sex. Education, achievement, status and jobs of black South Africans, whether male or female, were predetermined.

It is often remarked that women in South Africa suffer a triple yoke of oppression: gender, race, and class. South African black women suffer additional disabilities, both in law and custom, as compared with black men. Some of these are rooted in the traditions of their indigenous cultural groups; some have been imposed by the oppressive structures in place for non-white groups; some are similar to those suffered by women in most countries around the world, relating to inferior job opportunities and unjust forms of discrimination found both in the law and in social relationships.

It was only in December 1993 that the act governing persons married under civil law was amended to abolish what is referred to as "the marital power" -- a husband's right to control his wife's decisions. Prior to this amendment, all

married African woman were considered to be minors, without the right to contract.

African women married under customary law were excluded from the amendment abolishing the marital power, and, therefore, are still deemed under law to be perpetual minors. In addition, traditional practices of discrimination are difficult to overcome and women often find themselves facing potential hostility from their families and communities if they try to enforce their legal rights. Rather than face isolation, they simply give up.

More subtle forms of systematic discrimination also occur in South African institutions. For example, married women were unable to retain title or obtain credit without their husband's assistance under the marital power legislation. This made it extremely difficult for them as individuals to borrow or qualify for formal credit, given their minimal credit history and lack of collateral.

Employment is one concrete way women can assert and empower themselves. However, the vast majority of women are found in the lowest skilled, lowest paid, and least protected jobs. Since World War II, more black women have been absorbed into the South African economy, primarily, however, in jobs that are extensions of women's traditional roles. According to the United Nations Center Against Apartheid, in 1980 approximately half of all black South African women who were employed worked in domestic service. This indicates the difficulty black women have faced in securing other types of formal employment.

In spite of these adversities, current anecdotal evidence suggests that over half of the employees in the manufacturing sector are women. The ANC Women's League recently published a pamphlet concerning gender differences in population, education, and occupation. According to those statistics, South African women hold 21.8 percent of what is referred to as semi-professional positions that require at least a three-year diploma (listed as school teacher, nurse, optician, pharmacist, librarian, computer programmer), as opposed to 13.5 percent held by South African men.

The other occupational categories listed in the ANC's "Status of South African Women" showed that women hold 0.3 percent of the managerial positions, 2.1 percent of the professional positions, 1.2 percent of the supervisor and artisan positions, 14.2 percent of the white collar worker positions (clerk, cashier, shop assistant, secretary, etc), 9.5 percent of the skilled and semi-skilled positions, 7.6 percent of the unskilled manual positions, and 86.3 percent of the domestic

positions.

As in the statistics of 1980, although South African women appear to be moving into the semi-professional positions, the vast majority of them are still to be found in domestic services. Further, in interviews conducted by The Women's National Coalition of 1,620 women from the ages of 24 to over 44, women articulated concerns which are universally recognized. They revealed that women earn less than their male counterparts, face discriminatory hiring practices, are less educated and given less opportunity to learn, are generally the first to face unemployment when firms retrench, are overlooked for promotions, face lack of child- and aged-care, and frequently experience sexual harassment.

Statistics show that the lifestyles of South African women are changing. Studies indicate that historically, men have outnumbered women in the urban areas, largely due to the legacy of colonial migrant labor systems. However, there is evidence of an accelerated movement of single South African women into towns and cities. According to a 1980 study, 36 - 47 percent of urban black families were headed by women.

Not unlike other areas of the world, the trappings of South African history, culture, values and ideology have determined that women are to be regarded as either property or children, and that salary scales, employment benefits, and working conditions reflect these generally held beliefs. In spite of the fact that the "domestic girl" is still a part of this tradition, it is repeatedly clear that African women are not satisfied with the role. On the contrary, in spite of the many obstacles, African women are moving into the urban areas, becoming more educated and more employable.

They have held numerous protests, have organized associations, labor and credit unions, and a variety of support and educational groups. South African women are becoming a force which, though long subservient, demands and deserves to be recognized.

(b) Real Property Rights

The rights of South African black women are regulated by laws which differ from those governing other groups. Although single, divorced and widowed women who are over the age of 21 have full contractual ability, the rights of married women vary depending upon a complicated set of laws which are determined by whether they are married under customary or civil law, the place of marriage, and the date of marriage.

(1) Civil Law

Civil marriages can be either "out of community of property" or "in community of property." If married "out of community of property," the spouses maintain separate estates throughout the marriage and have the right to purchase and sell property without the other's knowledge or consent. Upon divorce, the separate estates are dispersed; upon death, they are distributed according to will or intestate law.

If married "in community of property," the estate is joined and both spouses have joint administration. The purchase and sale of property requires the consent of both parties, unless it is shown that requiring consent creates an undue burden; and upon divorce, the joint estate is divided equally. Upon death, the joint estate is distributed according to will or intestate law.

(a) Civil Law Marriages Prior to December 2, 1988

The Black Administration Act of 1927 governs civil marital relationships of all African individuals who were married before December 2, 1988. At that time, the Marriage and Matrimonial Property Law Amendment Act was enacted, amending the Black Administration Act. Under the 1988 Act, civil marriages entered into prior to the commencement of the act are automatically out of community of property, unless the parties stipulated otherwise by notarial registration within two years of the commencement of the act. Accordingly, most marriages prior to 1988 are out of community of property, the spouses have separate estates, and they can freely sell and purchase property without the other's knowledge or consent.

Upon death or divorce, as mentioned earlier, the separate estates of those married out of community of property are generally distributed according to intestate law or will. However, the Matrimonial Property Act of 1984, which commenced on November 1, 1984, required marriages out of community of property which were entered into after that date to be subject to what is referred to as an "accrual system," unless the parties specifically excluded it in an "antenuptial" (or prenuptial) contract. The effect of the "accrual system" occurs at death or divorce, whereby the difference of the total value of gain of both estates acquired during the time of the marriage is divided and dispersed equally. Therefore, for those persons married out of community of property after November 1, 1984, the accrual system governs, unless an antenuptial agreement was executed. Civil marriages occurring prior to 1984, while automatically out of community of

property under the 1988 Act, are not under the accrual system.

(b) Civil Law Marriages After December 2, 1988

The legal position of women who are married under civil law after December 2, 1988, is governed by the Marriage and Matrimonial Property Law Amendment Act of that year. Under the 1988 Act, all marriages entered into after that date are in community of property, unless the parties execute an antenuptial agreement. Accordingly, the majority of spouses married after 1988 must obtain the consent of the other spouse when purchasing or selling property unless it is shown to be an undue burden.

The accrual system does not automatically apply to marriages in community of property, rather the property of the estate is divided equally upon divorce and dispersed according to intestate law or will upon death. If an antenuptial agreement is executed which stipulates that the marriage is out of community of property, however, under the 1984 Act the accrual system will automatically apply, unless it is specifically excluded in the antenuptial agreement.

(2) Customary Law

Although "the marital power" was abolished by the General Law Fourth Amendment Act of 1993 as it applied to civil marriages, this authority continues to exist for those women married under customary law. According to "the marital power" provision, a woman who is married under customary law is in a subordinate position and subject to the control of her husband. The husband alone has the legal right to determine the domicile, the number and education of children, and the full control of the marital estate. A woman is deemed to be a perpetual minor, subject to the guardianship of her father before marriage, her husband upon marriage, and a male patrilineal relative on dissolution of the marriage or the death of her husband.

Practically, the effect of the marital power is that a woman married under customary law does not share in the control of the family's financial resources, nor can she open a bank account or borrow funds without her husband's assistance. A woman has no contractual capacity and may not sue or be sued without her husband's assistance in a court of law. Upon death of the husband, the wife is considered to be a minor or dependant. She cannot claim damages for loss of support, and the property of the marital estate is divided equally among all of the minors -- including the wife and the children.

Two narrow remedies have been provided to give relief from the effects of the marital power. (1) Under the Black Administration Act, all "nonmovable" property and all land which is not in a tribal settlement is capable of being devised by will. (2) The Black Administration Act was amended in 1985, to declare that real property (buildings and land) is to be governed by civil law rather than customary law. Women were granted the capacity to buy, sell, and borrow money for the purchase of real property, and enforce and defend real property rights without their husbands' assistance.

In all other areas, however, and for thousands of women, both single and married, South African civil law operates in conjunction with a myriad of unwritten indigenous customary and codified laws to determine their rights.

The Project will ensure that Agreements governing transactions under this Project include provisions that take into account the status of women, including the following:

- In all cases, the gender of the borrower(s) will be noted on the application form, and that information should be made available for review on a quarterly basis; and

- Where the borrower is married, both signatures will be required for the purchase and sale of property under the Project;

The law that codified what is referred to as "the marital power," whereby the wife is unable to contract without her husband's signature, was abolished as it applied to those married under civil law in December, 1988. As noted above, this law has had the effect of excluding married women from opening bank accounts, obtaining credit and retaining title in their own right, and has made it difficult, if not impossible, for women to establish credit histories, maintain collateral, and meet formal requirements of banking institutions.

- Financial institutions under the Project will be required to commit their institutions to consider these circumstances when conducting loan assessments and to consider other mechanisms, such as employer references, in establishing creditworthiness.

If the borrowers are married under customary law, the marital power continues to apply. In 1985, however, the marital power was amended to give African women married under customary law the capacity to buy and sell real property, borrow against it, and retain and defend title. According to customary law, upon

death of the husband, the dependents, that is, the wife and each of the children, share the estate equally.

- Financial institutions under the Project will be required to commit their institutions to exercise best efforts to educate homeowners as to the desirability of executing a will as part of the loan application process, specifying the surviving spouse as the sole beneficiary of the property in its entirety, and subrogating all other claims originating from other sources.

Generally, black South Africans, and, in particular, black South African women, have not had the opportunity to participate in credit initiatives, such as the PSHG Project, nor have they established familiarity with banking institutions and their services.

- Financial institutions under the Project will be required to commit their institutions to providing a packet of educational information to each applicant as part of the mortgage application process. Borrower's rights and obligations, married women's rights and obligations, and consumer protection rights in general, will also be included.

The historic existence of discrimination against black South Africans, both male and female, and the inexperience of the banking institutions in addressing the needs of black South Africans, and more specifically, women, is recognized

- Financial institutions under the Project will be required to commit their institutions to disseminating gender-specific educational information to loan officers, and reviewing their hiring practices to ensure race and gender sensitivity, as well as equity.

6.5 Economic Analysis

Over the past three decades, growth in GNP has progressively declined, falling from an annual rate of 5.7 percent in the 1960s, to 3.4 percent in the 70s, then even further to 1.5 percent in the 80s, and finally to a negative 0.7 percent in the first few years of this decade. Concurrently, the economically active population have grown from 7.6 million in 1970 to an estimated 14.5 million in 1993, while unemployment has increased from 19.1 percent of the population in 1970 to 47.0 percent in 1993, predominately among the black community. This combination of an increasing population, massive unemployment and a declining economy explains why the economic and social conditions of black South Africans are so

disturbing.

At the same time, investment has fallen precipitously. During the 1970s, 28 percent of GDP was expended in investments compared to only 68.9 percent in consumption. By the 1990s, investment had declined to 15.0 percent, while consumption has risen to 82.9 percent. The decline in investment resulted in the creation of fewer jobs and is part of the reason why unemployment has skyrocketed. A significant part of the rise in consumption has been the increase in overall government expenditures, particularly over the past four years. In 1990/91, 30.4 percent of GDP consisted of central government expenditures, compared with 34.2 percent in 1993/94. The single largest increase over this period was in social service expenditures which grew from 12.6 percent of GDP to 15.0 percent. Although overall social expenditures were increasing, government expenditures in housing, an important social expenditure, declined from 0.5 percent to 0.4 percent. Interestingly, the largest single percentage decline was in defense expenditures, which fell from 4.2 percent to 2.9 percent, a decline of 69 percent. Yet while government's priorities have changed, investment in the housing sector has suffered.

South Africa's foreign debt totalled US$17.3 billion at the end of 1992, the latest year that information is available. Foreign debt in US dollar terms has declined in each of the last five years, falling from a high of $22.6 million in 1987 to the figure given above for 1992. In addition, foreign debt as a percentage of gross domestic product, declined progressively from 28 percent in 1987 to 15.1 percent in 1992. It should also be pointed out that foreign debt as a percentage of export earnings was only 61.1 percent in 1992, a significant improvement over the 89.6 percent figure shown in 1987. Concurrently, interest payments to total export earnings fell from 8 percent in 1987 to 6.7 percent in 1992.

The table below gives a better idea of South Africa's foreign debt situation.

SOUTH AFRICA'S FOREIGN DEBT

	1987	1988	1989	1990	1991	1992
Total Foreign Debt (US$)	22.6B	21.2B	20.6B	19.4B	18.1B	17.3B
Percent of Gross Domestic Product	28.0%	24.3%	23.1%	19.0%	16.8%	15.1%
Percent of Total Export Earnings	89.6%	79.3%	78.2%	69.4%	65.3%	61.1%
Percent of Interest Pymts to Export Earnings	8.0%	8.0%	8.5%	8.8%	7.5%	6.7%

Source: Quarterly Bulletin, December, 1993, South African Reserve Bank

The $75 million dollar Housing Guaranty will add only a minuscule amount to South Africa's foreign debt. Assuming the foreign debt has not changed substantially since 1992, that is, it remains in the $17.3 billion range, then the HG will increase the nation's foreign debt by 0.0043 percent. Given the low ratio of interest payments to export earnings, the servicing of this additional debt is clearly feasible.

We do not anticipate any significant foreign exchange risk for participating financial institutions under the PSHG Project for several reasons. First, although there will be no sovereign guarantee for borrowings, we expect that the private sector financial institutions that will participate as

borrowers will be fairly large institutions with wide access to foreign exchange. For example, the borrower for Phase One of the project will be Nedcor Bank, Ltd. Nedcor is a major banking institution with total assets of approximately US$15 billion. Nedcor has substantial offshore accounts in dollars and other hard currencies. Although Nedcor has indicated that the exact amount of their offshore accounts is confidential, we believe that these are multi-million dollar accounts in cash and various securities. Through its offshore accounts, Nedcor has the ability to invest hard currencies in its trade finance and currency trading operations and, thus, earn hard currency.

Second, Nedcor's obligation to repay the HG loan will be a general obligation of the financial institution and will not be tied to the performance of the local currency mortgage and construction loans. Nedcor's earnings on the local currency loans or delinquencies in these loans will not affect Nedcor's obligation to repay the HG loan. In other words, Nedcor, and not black South African families, will bear the foreign exchange risk of the HG loan. Through its offshore accounts, Nedcor will have sufficient access to hard currency to service the expected debt service on the HG loan (assuming an 8 percent fixed rate loan, annual debt service would be approximately $1.3 million). Thus, a default on the HG loan -- a general obligation -- by Nedcor would likely occur only in the unlikely event that Nedcor had suffered a major financial catastrophe, such as bankruptcy. We anticipate that subsequent borrowers under the project would also have access to hard currencies in offshore accounts and would pledge their general obligation for repayment of the HG loan. Accordingly, foreign exchange risk will not be a significant problem in the PSHG Project.

ANNEX B

LOGICAL FRAMEWORK MATRIX

PROJECT GOAL	INDICATORS OF GOAL ACHIEVEMENT	MEANS OF VERIFICATION	ASSUMPTION
■ To promote economic empowerment through the provision of affordable shelter for disadvantaged South Africans.	■ Increase in numbers of disadvantaged black South Africans who are better housed.	■ Monitoring of statistics and analyses produced by foundations, universities, NGOs, and other organizations that will demonstrate numbers and quality of shelter solutions. ■ Regular evaluations which will assess progress toward achievement of the goal.	■ The political transaction process proceeds smoothly, with the emergence of a new government sympathetic to growth-oriented, market-based development.
PROJECT PURPOSE	**CONDITIONS THAT WILL INDICATE PURPOSE HAS BEEN ACHIEVED (EOPS)**	**MEANS OF VERIFICATION**	**ASSUMPTIONS FOR ACHIEVING PURPOSE**
■ To assist in the development of a private sector shelter project which will permit employed urban black South Africans to obtain mortgage financing to purchase or build low-cost affordable housing and which will permit black developers, builders and contractors to obtain construction financing to develop and build affordable housing.	■ Private sector HFIs are fully involved in providing low-cost housing for employed black workers ■ CBOs/HFIs have cemented strong working relationship to provide low-cost housing opportunities ■ Black enterprises emerge from program in a stronger economic position in the building industry	■ HFI loan records and documentation. ■ Annual project activity summary reports ■ Project evaluations	■ HFIs and SANCO/CBOs continue working together. ■ Affordable housing can be produced for employed black SAs ■ Other HFIs and potential lenders enter loan market

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OUTPUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	ASSUMPTIONS
■ Increased volume of long term mortgage finance. ■ Increased production of low-income housing. ■ Growth in employment of black South Africans. ■ Increase in black construction related enterprises. ■ Increased participation of CBOs with the formal housing finance sector.	■ 16,450 shelter solutions ■ Over 50 CBOs involved in housing programs with HFIs ■ 3 HFIs, one of which will be a black-owned HFI, will be a borrower ■ 2 black developers will develop housing projects	■ Annual project activity summary reports ■ Project evaluation	■ More mortgage finance becomes available ■ Low-cost housing is affordable to target group ■ Employment opportunities uncovered ■ Black enterprises are able to enter construction markets ■ CBOs are able to work with HFIs.
INPUTS	**FINANCING ($ 000)**	**MEANS OF VERIFICATION**	**ASSUMPTIONS**
■ Housing Guaranty Funding. ■ Local Housing Finance Institution Loans matching HG funds by a 2:1 ratio. ■ Short term technical assistance from SUDS project. ■ Participant Training from SUDS.	■ $75 million in HG funds. ■ $150 million in rand equivalent. ■ Down payments from beneficiaries equal to 5 percent of loan funds or rand equivalent of $11.8 million	■ USAID disbursement records ■ Project Files ■ Annual PSHG Report ■ Periodic project evaluations ■ Project audits ■ Other USAID documents and reports.	■ Approval of PSHG PP. ■ Availability of funding over LOP. ■ Working environment and CBO network continues to be conducive to this program.

ANNEX C. The Shelter & Urban Development Support (SUDS) Project

The $30 million Shelter and Urban Development Support (SUDS) Project [No. 674-0312] is one of the major USAID activities in South Africa. The overall purpose of this project is to promote economic empowerment of black South Africans by supporting the improvement, increased production and greater ownership of affordable housing in the urban areas. Under this program, funds are available for a variety of programs including the development of new ways to finance housing, support for black contractors, training in the field of local government and legal aid for housing.

The beneficiaries of the SUDS Project are selected NGOs and CBOs which receive grants to help finance activities which are covered under the terms of the SUDS Project. In addition, training will be made available for an expected 30 organizations and some 1,000 South Africans in the area of basic community development and management. Finally, it is expected that about 17,500 improved plots and/or new low-cost housing units will be financed. Beneficiaries will include the great majority of poor black South Africans who are living in sub-standard urban housing.

The proposed Private Sector Housing Guaranty Project (PSHG) will relate closely to the SUDS Project. SUDS is already working with CBOs which could also become involved in the PSHG project. This relationship will be particularly useful in dealing with critical issues, such as preventing mortgage boycotts. While SUDS is reaching much further down the income scale than PSHG, there is still an overlap in individual project beneficiaries within the two projects which will strengthen both of them. Finally, the lessons being learned under the SUDS Project will facilitate the initiation of the PSHG program and, ultimately, help ensure the latter's success.

One of the key components of the SUDS Project is the Community and Urban Services Support Project (CUSSP). The purpose of this project component is to assist low-income communities in the field of housing and urban development and to demonstrate effective solutions to South Africa's housing problems. Under CUSSP, a team of specialists is available to provide assistance to selected communities in the fields of planning, engineering, architecture and building, community development, and training and capacity building. The team can also give advice and small grants to community organizations. To date, typical projects assisted under the CUSSP component include self-help housing and site and service projects, upgrading

projects, inner-city rehabilitation projects.

To date, grants have been made to 26 Community Based Organizations and Non-Governmental Organizations in the general areas of Policy and Institutional Development, Finance and Construction Management Assistance. Summaries of several typical grantees and their activities follow:

Housing Consumer Protection Trust (HCPT)

Although HCPT was formed in March, 1993, it is governed and guided by a highly experienced group of Trustees drawn from 21 established organizations. This coalition was formed to protect the rights of low-income black South Africans who are entering the urban housing market for the first time. HCPT believes that low-income families are being exploited because they often have inadequate information on the workings of the housing sales market and their rights and obligations. The three major goals of the HCPT program are:

1. The introduction of legal mechanisms to ensure that low-income families have reasonable protection against undesirable sales practices;

2. The development of projects dealing with the licensing of builders and the establishment of an independent licensed professional group to inspect the quality of home construction; and

3. The establishment of regionally located Advice Centers to provide ready access to the legal and technical services offered by HCPT.

Lawyers For Human Rights(LHR)

LHR continues to be one of the most effective apolitical human rights organizations in South Africa. In 1990, LHR developed a Housing Rights Unit to deal with issues in this critical area. USAID recognizes that this unit has significant experience in working with the PSHG's target population. Recent experiences in the provision of low-cost housing show that many consumers are first time home buyers and may not have an appropriate understanding of modern construction techniques and quality standards, as well as little to no understanding of the concept of mortgage lending and its attendant interest and term provisions. HCPT's objectives are to educate consumers on these subjects and also to identify consumer rights. The Housing Rights Unit has created mechanisms and processes to deal with consumer issues related to all aspects of home ownership as well as housing

construction standards.

Mortgage Installment Guaranty Association (MIG)

MIG is a non-profit association incorporated in 1991 for the sole purpose of establishing a mortgage payment guaranty revolving fund. It was established by a group of predominately black businessmen, based in Natal, who are concerned with the increasing difficulties faced by low income black South Africans in obtaining mortgage finance. This problem is due to a number of factors. First of all, there is concern over establishing an accurate default rate for this segment of the market. Second, politically motivated boycotts over consumer issues, such as faulty construction, have also played a role in the increased default rate. Third, the lending policies of financial institutions have not adjusted to the realities of the low-income market.

MIG attempts to address these problems by providing educational programs which will lead to a greater understanding of the obligations of home ownership and mortgage borrowing. Moreover, the MIG program provides installment guaranties which will make it possible for the borrower to maintain his/her investment even if they are temporarily unemployed. This should overcome prospective lenders' reluctance to provide mortgage loans for the lower income segment of the housing market.

SUDS is insistent on the involvement of black South African businesses in the projects initiated under this program. Black South African artisans, tradesmen, contractors, suppliers, and builders are expected to directly benefit from the business activity generated under SUDS. Moreover, SUDS and CUSSP have been actively engaged in assisting these groups to enter the marketplace and to establish themselves as competent and responsible participants in South Africa's economy. Below are summaries of two business associations that SUDS has funded:

The South African Black Construction Assistance Program (SABCAP)

SABCAP, a black-led organization in South Africa, grew from the initial meetings of a program development group comprising three representatives of the African Builders Association (ABA) and three from the National African Federated Building Industry (NAFBI). The two associations together represent more than 5,000 black contractor members.

The SUDS grant to SABCAP has helped establish a nationwide

program to assist black building contractors to compete fully and effectively for private and public construction works in South Africa. SABCAP also facilitates the development of local construction capacity through practical assistance. It recognizes that small contractors have limited time for formal training and can only afford on-the-job assistance or short weekend courses. SABCAP prefers to assist contractors on-the-job by providing advisors, not "trainers" and, should specific needs arise, a limited number of focused seminars.

SABCAP clients are black contractors, or groups of individual builders who want to improve their technical and management skills. Participating contractors pay SABCAP a fee which is supplemented by project funding.

Entrepreneurial Development Southern Africa (EDSA)

The SUDS grant to EDSA helped establish another nationwide program to aid black building contractors compete and participate fully in private and public construction works in South Africa. EDSA began its initiative to promote economic development, job creation and housing for the majority population through a program to train small building contractors at three levels of competence. The most basic course is designed to give the individual tradesman the knowledge required to sell only his/her labor on piece-work jobs. The second course teaches the administrative skills required to manage a single house-building contract. An advanced course caters to the needs of contractors wishing to move into multi-unit projects. EDSA's training methodology is very flexible and responsive to the clients and to their particular market. EDSA selects the trainees from within the community where the training takes place, tailors the courses to the expressed priorities of the participants, and then selects and trains trainers from within the community.

USAID grant support to EDSA also permits the institution to make available bridging finance to small black contractors in Durban and Cape Town. EDSA is a major source of bridging finance for the emerging black construction industry in South Africa, therefore, EDSA's role is critical to the participation of black owned builders in building projects. The availability of bridging finance addresses a key constraint to the success of the small contractor, and it is essential to the implementation of the SABCAP Program, as well as, to a large degree, the stated goals of USAID's housing programs. The lessons learned and data generated from the EDSA program will provide models and successful examples which will expand the majority population's access to commercial finance.

ANNEX D. The Role of Community Based Organizations (CBOs)

The PSHG Project requires the active participation of CBOs in the development and implementation of housing projects funded under this project. Both the formal building and financial sectors in South Africa recognize that families in communities affected by the development of housing must be involved in the development process to ensure the successful implementation of the projects. One of the best ways to involve the people is through a voluntary community based organization.

The political and social changes now taking place in South Africa have come about, in part, as a direct result of a highly focused and organized network of community based groups. Most of these groups are referred to as civics, and they generally exist in all South African black communities. Over the years a nationwide structure has developed with SANCO at the apex. SANCO operates much like a trade association, by formulating policy and lobbying for its policies and membership at a national level. In addition, SANCO has organized eleven regional offices that focus on policy at a particular regional level. On a more operational scale are SANCO's zonal offices which work directly with the individual civics, of which there are about 2,000 nationally. The number of zonal offices vary by region; for example there are five zonal offices in the Transvaal region.

The role of the civics and other such organizations that have played a political role over the years will certainly change. With the coming of democracy and the election of representative bodies at the local, provincial and national levels, their political activism role will be less important. In addition, funds to support the nationwide civics, particularly funds from exterior sources, will probably decline as priorities are refocussed. While it is desirable that at least some of these groups continue in the future and even prosper, there is little agreement as to what their role should be in the future.

The more adaptable and better organized groups will shift their focus from protest politics to one of participation in the rebuilding of the physical and social fabric of black South African society. In fact, SANCO and many of the regional and zonal civics have already focused their attention on the issue of housing and have become relatively knowledgeable in their understanding of housing and related shelter issues. For one, the USAID-funded SUDS Project has focused its attention on building capacity in the local CBOs to confront and deal with the myriad of shelter-related problems. And while many CBOs represent competing interests,

they have become and will continue to be among the principle organs of an active civil society which are critical to the success of a fully participatory democracy.

The civics are not the only type of CBO that have played a role in community development. Religious organizations, trade unions and cooperatives are also active. Churches have long been active participants in the transformation of the South African social and political environment and are strong and stabilizing forces in their communities. Trade unions exercise similar influences with their memberships. While cooperatives have been closely identified with white South Africans, they have and will increasingly become, a community development tool of the black South African community as well.

The massive investment in the shelter sector promised by all parties, will, if realized, surely challenge the effectiveness of many CBOs. But it will also provide an opportunity for the CBOs to demonstrate that they can play a major role in improving the living conditions of the black South Africans they represent. In some instances, like the PSHG Project, increased external funding will demonstrate that the CBOs can work with the predominately white South African private sector to achieve a common goal--better housing for all.

The Roles of CBOs In PSHG Funded Projects

The specific role of CBOs in the development of housing for black South Africans will cover a wide range. On the national level, it is expected that a financial institution will enter into an agreement or compact with a nationwide community organization that will outline in broad terms what each party will contribute to develop housing for the CBO's constituency.

A good example of this type of arrangement is the Perm/SANCO Compact, which was signed in February 1993. Under this Compact, a joint National Working Committee, Regional Coordinating Committees, and Local Implementation Committees were created to facilitate the establishment and maintenance of appropriate banking services for formally employed disadvantaged South Africa. Central to this agreement is the provision of access to this population group of long-term market-related credit for housing. The Perm/SANCO Compact provides for the establishment of procedures to resolve problems related to Perm-financed projects including, but not limited to, issues of delinquencies on loan repayments. The Compact limits the applications of its provisions to parties located near or in the housing developments funded by the Perm.

On the local level where a housing project will be implemented, Perm will incorporate a local CBO into the housing project development team or, if a CBO does not exist in the area in which the project is built, Perm will work with a zonal Civic to identify and/or organize a locally-based CBO. Then, in conjunction with that local CBO, Perm may organize a Trust to develop the project.

The PSHG Project will build on the progress made by organizations like SANCO and the Perm, as well as the many NGOs involved in the housing sector, to ensure community participation is an integral part of the development of housing projects for black South Africans. It is expected that this development process will empower CBOs and its individual members to take part in the design, implementation, and management of each housing development.

A major problem is that the vast majority of black South Africans have little or no experience with the process leading to and including home ownership. Most builder/developers, financial institutions, and the CBOs have come to recognize this problem and have committed themselves to the proposition that the success of all housing developments hinges on the homebuyer having a full understanding of the rights and responsibilities of home ownership. There is a long history of misunderstandings and outright fraud in the sale and construction of housing for black South Africans that, if continued under the PSHG or any housing project, will doom the prospects for building housing on the massive scale that is now envisaged. Therefore, in the South African environment, the provision of education on shelter development, mortgage lending, sales, etc. is imperative for prospective homebuyers under the PSHG Project.

The Association of Mortgage lenders, the trade association for housing finance institutions, in consultation with SANCO, has adopted the following principles for its membership to help guide the consumer and community education process:

- Education to potential home owners is to be undertaken with and not for the communities;
- The education process must be conducted in such a manner so that skills are transferred to the communities and its members; and
- Each respective participant in the housing process must assume responsibility for the educational component which relates to its area of involvement.

In general terms, the involvement of CBOs is fundamental to ensuring that this process takes place in the housing developments with which they are involved.

Specifically, the role of the CBOs is to (inter-alia):

- Facilitate the educational process generally described above;
- Organize and facilitate public meetings to elicit shelter related needs of the community;
- Coordinate with organizations like a local civic to ensure that existing local community resources such as skilled and un-skilled labor, building trades contractors, and building materials suppliers, are involved in the housing development, thereby increasing the participation of black owned enterprises in the building industry;
- With the assistance of CUSSP and other SUDS-funded organizations, provide education to end users on the rights and responsibilities of mortgage repayment requirements and home ownership;
- Advise the developer and the local government authority on the communities' requirements for open and recreational space, transportation, and educational and health facilities; and
- In some cases, identify to the developer and/or financial institution possible project beneficiaries. However, the financial institution will reserve the right to qualify each individual participant for financing.

In summary, the role of the CBOs will be both advisory and participatory. The organization of an area project committee, Community Development Trust, or other form of partnership with the other development partners (builders, financial institutions, or local authorities) will ensure that the communities and potential beneficiaries participate in the critical development decisions which relate to the shelter solutions they seek.

ANNEX E. The Role of Black Businesses

There are a large number of black owned businesses in the housing sector; however, they are generally quite small and financially and technically weak. The huge and fragmented black business sector employs almost 1 million workers, frequently on an interim basis, generating about 3 billion rand in construction business in 1992 alone.
In the area of house construction, there are few black owned construction companies that are qualified to develop land or to build large (100 plus units) formal housing projects. In general, black owned construction companies restrict their building activities to single houses in and around the townships and to upgrading and expanding of existing housing. Seldom do these black owned construction companies employ more than ten workers at a time. Among the thousands of small black owned construction "firms" in South Africa, the vast majority are found in the informal sector. Those black contractors that do have the experience and capacity to work in the formal sector usually operate as labor-only sub-contractors to established white owned firms. Their ability to work independently is sometimes constrained by their lack of broad based management experience but more often results from their limited access to building sites and to finance. Those few independent black builders and contractors that do have the capacity to grow and to develop land, in turn providing serviced building sites to other black builders, are also constrained by their lack of access to finance. The PSHG Project seeks to address those finance constraints impeding the empowerment of black owned residential construction related business. A complementary program funded through USAID/South Africa's Shelter and Urban Development Support Project, the South Africa Black Construction Assistance Program, will assist black owned construction businesses to improve their management capacity and to effectively compete in the market.

One of the major impediments to the expansion of opportunities for black owned businesses in the housing construction and supply industries is inadequate access to construction and bridging finance. In South Africa, unlike the United States, construction firms rather than developers or homeowners are often required to obtain construction finance until the sale of property. For a variety of reasons South African lenders have been reluctant to extend credit to black owned construction and supply firms. The reasons have ranged from the perceived inexperience and high risk of these relatively small businesses to outright racist lending practices.

In order to address the credit needs of these black owned

businesses and enhance their opportunities to benefit from the PSHG Project, USAID/SA will coordinate closely with the Micro and Small Enterprise Loan Portfolio Guarantee (LPG) program administered by the AID/Washington Global (G) Bureau's Office of Investment and the Mission's Private Sector Division. The LPG program is designed to address credit market imperfections in the micro and small business lending sector. In many developing countries, as in South Africa, banks overvalue the risk of this market and undervalue its potential profitability. In South Africa, this credit market imperfection is exacerbated by the legacy of apartheid. USAID/SA has successfully utilized the LPG program with four South African banks to encourage them to extend credit to black owned micro and small enterprises. The LPG Program works by extending a guarantee of 50 percent of principal to cover losses incurred on loans to eligible beneficiaries. The program also provides training to instruct (1) the participating banks on the techniques of micro and small business credit assessment, and (2) micro and small entrepreneurs on how to perform basic accounting, and prepare a business plan and credit application. The four guarantee facilities under the LPG program in South Africa are with Standard Bank, Nedcor Bank, First National Bank and FutureBank. USAID/SA will work with these four banks to market the LPG facilities and make credit available for black owned developers, builders, construction and supply firms participating in activities under the PSHG Project.

The situation among black owned suppliers and manufacturers of buildings materials is equally deficient. There are few black owned building material distributors or wholesalers with the capacity to supply a large housing project, either in part or whole. Building material manufacturers are usually relegated to small, garage-operated businesses that can only produce sufficient amounts of basic building materials, such as blocks, doors, windows, trusses, etc., for the local home industry.

The problems facing black owned businesses in the construction sector mirror the problems that all black owned South African businesses confront. Non-availability of credit and financing, lack of experience, etc. inhibit black South Africans from competing effectively in this larger market. Moreover, the competition consists of large, well-financed, highly skilled white owned businesses with decades of experience and mutual working relationships in the construction field.

Conversations with representatives of contractors, suppliers and trade associations indicate that the situation is on the

verge of changing. White dominated businesses appear to recognize that their prosperity, and even their survival, depends on fostering a strong and vibrate black involvement in the building industry. Therefore, the relevant trade associations are attempting to come up with some solutions for involving black businesses, although given the low level of residential construction today, and particularly, the almost non-existence of formally constructed housing for the black community, these solutions are for the most part still on the drawing board.

To address the problems faced by black owned construction firms, USAID/SA has provided substantial assistance through the SUDS Project. Specifically, USAID/SA has provided assistance to the African Builders Association (ABA) and the National African Federation for the Building Industry (NAFBI), to help them form the South African Black Construction Assistance Program (SABCAP). SABCAP was formed to be the unified apex organization of the black construction industry in South Africa. SABCAP now sits down regularly with the Building Industries Federation of South Africa (BIFSA), the Association of General Contractors (AGC) and the National Association of Home Builders (NAHB) to discuss ways to join forces and create alliances to serve the informal sector. This interaction and communication between these groups will help ensure that there will be a major role for black businesses in the new South Africa.

The Building Industries Federation of South Africa (BIFSA) represents some 5,000 building companies encompassing building contractors, subcontractors, merchants, suppliers and manufacturers. As the national coordinating body, it is in a position to influence the direction the industry takes with respect to black businessmen in the industry, most of whom are not members of BIFSA. Through SABCAP, black owned construction firms have begun to have an influence on BIFSA's policies.

BIFSA believes that the vast majority of the 1 million homes that are expected to be built for the black community over the next five years will be built by black contractors. But since there are relatively few black contractors with the capacity to develop land and to build housing on such a large scale, the only feasible way to achieve this level of construction is for white contractors to form joint ventures with black businesses. Under this arrangement, black South Africans will play an equal role to white developers and builders in the construction of housing projects. BIFSA believes that this will be the only politically acceptable way to build the one million homes.

An alternative being promoted by some members of the sector is for white land developers to allocate serviced building plots to black builders. Under this arrangement, the black builder will complete a section of the project.

Another more conservative alternative being promoted by some builders is for white general contractors to make real subcontracts with black businesses. Under this arrangement, the white general contractor would announce a tender for black subcontractors who would complete components of the project, for example, foundations, masonry, painting, plumbing, roofing or electrical installations. However, since the level of work will be much greater than previously, a black tradesman will be assured of more work and thereby he will be able to offer work on a continuous basis. In this way, he/she may be able to consolidate his company as a provider of black skilled workers, and will be able to grow in size as a construction company. A next step would be to undertake jobs as a general contractor.

Black manufacturers of building materials will be hampered by their inability to supply quality materials in the quantities that the builders demand. Probably the only solution here is for the major building material manufacturers to set up a system whereby they can subcontract for the manufacture of certain materials, based on the major suppliers' specifications.

Entry by black South Africans into the building supply business will also be difficult. Establishing and expanding a building supply business, where competition is tough and margins thin, is hard for anyone, particularly when the industry is dominated by large suppliers. Buying an existing supply business is one possibly, assuming one is for sale. Opening a franchise is another, although a hardware or building supply franchise is not now being offered in South Africa.

One possible role for black suppliers seem to be organizing buyers cooperatives among small suppliers serving the townships and other black communities. The cooperatives would be able to buy in bulk and thereby compete with the large established suppliers. Then if a new housing project is being built in the vicinity of those suppliers belonging to the cooperative, they would be in a position to supply large amounts of materials required by the builder. Such a cooperative has been established in Natal/KwaZulu, although it is not yet acting as supplier.

Another suggestion is to have large suppliers open branch

stores in black communities and to staff the store with all black South Africans. The downside to this alternative is that small black owned supply stores would be put in jeopardy, and the likelihood is that some would go out of business. This option would allow black managed branches to be competitive with white managed branches.

Another solution is to promote improvements in black owned homes, where black contractors would be the logical supplier of both the goods as well as the service. For example, the installation of water heaters in black homes would require black plumbers to stock water heaters and then install them. In this way, the plumber would become a major supplier of water heaters and thus, take the first step in opening a supply store.

The eventual role of black business in the building industry will depend to a large degree on the willingness of white owned companies to open up competition to black businesses as well as to provide overt assistance in this effort. However, this will not occur without a concerted effort by the organizations and trade associations that represent the black businessman. Organizations like the Foundation for African Business and Consumer Services (FABCOS) have a major role to play in the policy, lobbying and investment efforts of black businesses. Its twelve affiliated associations make it a major force in creating opportunities for black businesses. More specifically, the joining together of white and black associations in the building industry to create the Council for Construction in South Africa (COCOSA) will help to promote black involvement in this important industry.

ANNEX F. Environmental Analysis

Introduction

The PSHG Project received a **Categorical Exclusion** in its Initial Environmental Examination (IEE) dated 21 January 1994 pursuant to Section 216.2(c)(x) of USAID's Environmental Procedures (22 CFR 216), i.e., on the grounds that it will provide support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution.

However, USAID ' s current environmental policy also requires that it ensure that all of its development activities are implemented in an environmentally sound manner. In this regard, the Project IEE also called for an environmental study of the capacity and experience of each HFI to factor environmental considerations into the design and construction of its projects. The IEE specified that this environmental study should include: (1) a survey of the rules and procedures applicable to each HFI (both legal regulations and internal procedures); (2) an examination of the training provided to individuals charged with carrying out such rules and procedures; and (3) sample inspections of previously completed projects to determine if the rules and procedures are applied appropriately. The results of this study should be incorporated into the PHSG Project Paper and taken into consideration in determining whether any additional covenants or conditions should be incorporated into agreements with the U F T

This environmental analysis provides the information and recommendations called for in this PSHG environmental study. The following sections provide a brief overview of salient "environmental" rules and procedures applicable for housing sector developments within South Africa, together with a recommended approach for implementing the PSHG in an environmentally sound manner.

Environmental Analysis

1. Current Practices

At present, housing development in South Africa is governed by a comprehensive set of rules and regulations pertaining to the national, provincial and local levels of authority. Those aspects of the national-level legislation relating to the environment are concisely summarized in a series of publications recently completed by the Department of Environmental Affairs of the Ministry of Environmental Affairs (DEA/MEA) entitled Guide to Legislation

Concerning Natural Environment, Pollution Built Environment and Cultural Environment (Vols. 1-4, respectively; P. Teurlings (MSc), February 1993, DEA). Despite the fact that much of this legislation has been enacted at the national level, in practice, the fundamental responsibility for the effective implementation of these policies and procedures has been delegated to the various local-level authorities throughout the Republic. Thus, as presently practiced, the most important regulations in this regard include the various provincial level ordinances governing housing development requirements within their respective jurisdictions which, for urban areas, are administered largely by the local urban authorities, i.e., Town Planning Ordinance (27/1949) (Natal), Town Planning Ordinance (9/1969) (Orange Free State), Town-planning and Townships Ordinance (15/1986) (Transvaal), and Land Use Planning Ordinance (15/1985) (Cape Province).

HFIs, as well as all other housing development interests in South Africa, must comply with these regulations in gaining the necessary zoning and construction permits and approvals for their various development proposals. In practice, however, the primary responsibility (and resultant legal liability) for compliance with these regulations usually rests with the consultant developer/planning and architectural and engineering (A&E) firms and building construction contractors associated with the HFI in the pursuit of a particular development project.

A cursory review of these various regulations indicates that, while no explicit environmental review requirements are provided for within these procedures, they generally provide for adequate coverage of the salient environmental aspects of any given development proposal. An examination of two recent housing development proposals, i.e., the Jeppestown Oval Precinct Project (a proposed "in-fill" housing development project within Johannesburg city discussed in the PP text) and the Golden Highway Development Project (a proposed "greenfield" or buffer area housing development project also within the greater Johannesburg metropolitan area), largely verifies this contention regarding the general environmental soundness of these current procedures. Moreover, this finding is further supported by a brief field examination of similar existing or "built" housing schemes also within the greater Johannesburg city area, which clearly reveals a generally high standard of environmental integrity.

However, despite these generally positive findings, a major shortcoming of these existing procedures is that there is no explicit requirement for a discrete and/or comprehensive examination of the environmental implications of any given development proposal or projects, unless clearly warranted by the specific conditions pertaining to a particular development proposal, e.g., a former mining or industrial site, obvious pedological or hydrological

constraints, etc. Under such circumstances, the possibility clearly exists for overlooking potentially significant environmental implications of a development proposal to the eventual detriment of the intended beneficiary homeowners, the adjacent community and/or the greater public good.

B. **Proposed Procedures**

In response to these shortcomings, the South African Government has taken the initiative to complete new comprehensive environmental regulations governing future development throughout the Republic. The first step in this process was the passage of the Environmental Conservation Act of 1989 ("the Act") (73/1989) which provides as a matter of general policy for:

- The protection of ecological processes, natural systems and the natural beauty as well as the preservation of biotic diversity in the natural environment;

- The promotion of sustained utilization of species and ecosystems and the effective application and reuse of natural resources;

- The protection of the environment against disturbance, deterioration, defacement, poisoning or destruction as a result of man-made structures, installations, processes, or products or human activities; and

- The establishment, maintenance and improvement of environments which contribute to generally acceptable quality of life for the inhabitants of the Republic of South Africa.

The Act provides for the establishment of various administrative bodies, e.g., the Council for the Environment, the Committee for Environmental Management, etc., and for the enactment of appropriate regulations for implementing this new environmental policy. The most important aspect of the Act for the present purposes is its new requirement for the preparation of Environmental Impact Assessments (EIA) for the control of activities which may have a detrimental effect on the environment, e.g., land use and **transformation, water use** and disposal, transportation, waste and sewage disposal, recreation, etc., and for those activities proposed for certain other restricted or otherwise "limited development areas", e.g., zoning and re-zoning of land, for example, in "greenfield" development schemes.

In March 1994, the South African Government's Department of Environmental Affairs (DEA) published more detailed proposed regulations and definitions for implementing this new environmental impact assessment policy directive in the official Government

Gazette (Notice 171 of 1994) for public comment prior to enactment as provided for within Section 26 of the Act. While the Notice provides for a 60-day period for public comment in connection with the proposed regulations, given the current major political transformation underway in South Africa, it is difficult at this time to predict with any certainty whether or not, when, and in what final form, these proposed regulations will actually be placed into effect. It is worth noting in this regard, **however, that** initial consultations with concerned members of the anticipated new majority government in South Africa indicate a good appreciation of and support for such environmental concerns. Therefore, it is most likely that this new policy and associated regulations will probably be endorsed in some similar form and pursued by the new government without undue delay.

In acknowledgement of the current uncertainties associated with the final enactment of this legislation, the DEA is requesting that these regulations be followed on a voluntary basis until such time as they can be formally ratified as a matter of law. To facilitate this initial implementation and in recognition of the newness of this more formal EIA concept and procedures to South African development interests, the DEA has taken the initiative in preparing and publishing a new series of guideline publications, entitled The Integrated Environmental Management (IEM) Guideline Series (DEA, 1992), describing in "layman's terms'' the new SAG Environmental Policy, the Integrated Environmental Management Procedure (Document 1), Guidelines for Scoping (Document 2), Guidelines for Report Requirements (Document 3), Guidelines for Review (Document 4), Checklist of Environmental Characteristics (Document 5), and Glossary of Terms Used in Integrated Environmental Management (Document 6).

A detailed examination of these new environmental regulations and associated guidance documentation indicates that they are excellent with respect to content, form and substance. To illustrate this point, consider the following section on the new Environmental Policy with respect to the urban environment:

"Urban development and management must as far-as possible be guided in such a manner that all the inhabitants can live a healthy, safe and dignified life in an aesthetically and culturally acceptable environment. This would include the following:

- A holistic environmental approach will form an integral part of all facets of urban planning and development. This includes the built environment and natural environmental elements taking into account the socioeconomic factors. Consultation with all interested and affected parties is a fundamental element of this policy;

- A compact and functionally more efficient city structure will be pursued with a continued emphasis on orderly spatial development to make the maximum use of available land possible. Buffer zones should be established between residential and industrial areas;

- All development will be planned and managed in such a way that all forms of pollution are, where possible, eliminated; and

- Environmental expertise and the involvement of local communities will be promoted in order to ensure acceptable standards and living conditions." (DEA, 1994, p. 5)

Procedurally, this new IEM procedure largely follows USAID's own Regulation 216 in calling for a successive series of steps or stages a proposal must undergo within the design, approval and implementation process, i.e., Proposal Development and Classification, Initial Assessment, Scoping/Impact Assessment, Review/Decision/Appeal, and Implementation/Monitoring/Audit. Overall, the IEM procedure is designed to focus time and attention on the most significant environmental concerns by filtering out less environmentally significant activity proposals at the earlier stages of review. The procedure is particularly noteworthy in its highly participatory approach, calling for maximum public review and comment throughout the proposal development and implementation process.

Based on all of the above, no recommendations are included herein for suggested revisions or improvements to these proposed new environmental policies and procedures, as they are quite satisfactory as is and in full accordance with all salient USAID environmental policies and procedures.

C. Implementation Capacity

As indicated above, while at least the more significant "environmental" aspects of most development activities have been considered under the old, existing project approval process for quite some time, this more formal, distinct IEM procedure is new to South Africa. Accordingly, there currently exists an expected unfamiliarity with some of its more complex inherent principles and practices. The degree of this unfamiliarity varies, both between the different stakeholder groups participating in the development process and **within** those stakeholder groups, depending largely on the amount of prior exposure to such procedures in the past.

For example, major leading South African developers, A&E and construction consultant firms and contractors can generally be expected to have a greater amount of experience and expertise in the

application of these procedures due to their work on similar international or other country development projects, and their association with other country firms already conversant with such environmental assessment procedures. Other smaller consultant firms and contractors can be expected to exhibit a lesser degree of expertise concomitant with their prior exposure to such procedures.

This same variable capacity can also be expected among local government authorities responsible for reviewing and approving the various reports and other documentation submitted in accordance with these procedures. In some of the larger urban areas, such as Johannesburg and Cape Town, government authorities may already possess the requisite capacity to properly administer these new procedures; whereas, in the smaller local authorities, this capacity probably will not exist. Local government capabilities in this area **will also be** further stretched by the creation of several additional new provincial or state authorities under the new constitution.

Similar observations can be made regarding the other project stakeholder groups, i.e., HFIs, CBOs and prospective beneficiary homeowners. The last two groups, in particular, can be expected to require a greater amount of attention in this regard, due both to their lack of exposure to such environmental considerations in the past and to the great opportunities for public participation provided for in the new procedures (an approach which is directly contrary to prior "development" practices pursued within South Africa).

It must be noted herein that, despite the relative newness of these IEM procedures in South Africa, there exists a relatively great amount of experience and expertise on this subject throughout the Republic (especially in comparison with other countries in the region). In the interest of further strengthening this indigenous environmental capacity and promoting the long-term success of these new policies and procedures, this existing capacity should be utilized to the maximum extent possible in meeting project requirements in this area. In this manner, it is hoped that South Africa could eventually serve as a "model" country in this respect, providing sound environmental leadership and promoting sound environmental management throughout the greater Southern African region.

It should also be noted that, contrary to the recommendations included in the IEE cited above, this analysis **has not** focussed on the environmental policies and procedures and implementation capacities of participating HFIs. **This** modification in this scope of work is justified **on the grounds** that, within South Africa, the primary responsibilities (and ensuing legal liabilities) for the proper (environmental) design and approval of development projects **rest with the** local authorities and the various developer, A&E and

construction consultant firms and contractors acting in behalf of and in association with the HFIs on any given project activity. For this reason, it was considered to be neither appropriate nor sufficient in this instance to focus this analytical effort on the HFIs, as this is not where the critical responsibility and, hence, the need for proper environmental procedures and expertise lies. However, discussions with representatives of the Perm (the initial project HFI) indicate that they are most supportive of implementing all Project (as well as their other) activities in an environmentally responsible manner. In accordance with this desire and in the interest of promoting environmentally sound development throughout South Africa (in agreement with salient USAID policy on this subject), it is recommended that concerned representatives of participating HFIs also benefit from the various recommended environmental capacity-building measures outlined below.

Recommendations

Based upon the above analysis, the following recommendations are provided for the final environmental design and implementation of the PSHG Project:

1. That all principal Project development activities be designed and implemented in accordance with the new South African Integrated Environmental Management Procedure, as embodied in the Environmental Conservation Act of 1989 and associated documentation as it may be amended from time to time. This stipulation should be the subject of an explicit covenant in the Project Agreement with the PSHG Project borrower.

2. That sufficient SUDS, or other appropriate Mission Project, funds be made available to provide the technical assistance services required to:

(a) train key Project participants in the new South African IEM procedures; and

(b) supplement existing South African environmental assessment expertise where so warranted or required.

The recommended IEM training program could be implemented as a series of workshops associated with each provincial/state area, utilizing proposed Project-financed development activities as demonstration "case studies". Implementation of these workshops should rely, to the maximum extent possible, on available South African expertise for maximum local relevance and effectiveness of delivery. These workshops should also be implemented in close collaboration with the DEA to ensure a proper and consistent interpretation of new national SAG environmental policies and procedures.

Conclusions

If implemented as recommended above, the PSHG Project will be executed in an environmentally sound and sustainable manner, fully consistent with all salient USAID policies and procedures.

ANNEX G

A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts:
5C(1) - Country Checklist; and 5C(2) - Assistance **Checklist.**

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent Pps.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1994 Foreign Assistance Appropriations Act ("FY 1994 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country- specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

5C (1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics Certification

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of nonagricultural commodities under P.L. 480. This provision also does not apply to assistance for child survivai and AIDS programs which can, under section 542 of the FY 1993 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant directsource of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) Has the President in the April 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

N/A

(2) With regard to a major illicit drug producing or drug-transit country for which the President has <u>not</u> certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such

certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

N/A

2. **Indebtedness to U.S. citizens (FAA** Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

N/A

3. **Seizure of U.S. Property (FAA** Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

N/A

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1994 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No.

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction

by mob action of U.S. property?

No.

6. **OPIC Investment Guaranty** (FAA Sec. 620(1)): Has the country failed to enter into an investment guaranty agreement with OPIC?

N/A (Assistance is not to the South African Government).

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No.

8. **Loan Default** (FAA Sec. 620(q); FY 1994 Appropriations Act Sec. 512 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1994 Appropriations Act appropriates funds?

(a) No.
(b) No.

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." -This approval by the Administrator of the Operational Year Budget can be the **basis** for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages **taken** into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

While South Africa has been deprived of it's UN membership due to arrearages, this has been taken into account by the Administrator's approval of OYB.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1994 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

(a) No.
(b) No.

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No.

13. **Countries that Export Lethal Military Equipment** (FY 1994 Appropriations Act Sec. 573): Is assistance being made available to a government which **provides** lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act?

No.

14. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1905, exported (or attempted to export) illegally from the United States any material, equipment, or technology which could contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

The situation remains the same as last year; the Dept. of State has not determined that any of the events under Sec. 669 of the FAA that would trigger the imposition of sanctions have occurred.

16. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

No.

17. **Military** Coup (FY 1994 Appropriations Act Sec. 508): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

N/A

18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, **abuse** or forced conscription into military or **paramilitary services?**

N/A. Assistance is not to the South African government.

19. **Parking Fines (FY** 1994 Appropriations Act Sec. 574): Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of September, 1993?

Yes.

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No.

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

N/A

52C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources.

Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

(a) Yes.
(b) Yes.
(c) Yes.
(d) Yes.
(e) No.
(f) No.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project provides guaranties for U.S. banks lending to South African private sector.

3. **Congressional Notification**

a. General requirement (FY 1994 Appropriations Act Sec. 520; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Congress has been notified of this activity.

b. **Special Notification requirement** (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

Yes.

c. Notice of account transfer (FY 1994 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

d. Cash transfers and nonproject sector assistance (FY 1994 Appropriations Act Sec. 537(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

No South African legislation is required to accomplish the purpose of this project.

6. Water Resources (FAA Sec. 611(b): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. Cash Transfer/Nonproject Sector Assistance Requirements (FY 1994 Appropriations Act Sec. 537): If assistance is in the form of a cash transfer or nonproject sector assistance:

N/A

a. **Separate account: Are all** such cash payments **to be maintained by the** country in a separate **account and not** commingled with any other funds (unless such requirements are waived by Congressional notice for **nonproject sector** assistance)?

N/A

a. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and **disbursements from the separate account?**

N/A

(2) Will **such local** currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

8. **Capital Assistance** (FAA Sec. 611(e)): If proJect is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives (FAA** Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) Yes.
(b) Yes.
(c) Yes.
(d) Yes.
(e) No.
(f) No.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project provides guaranties for U.S. banks lending to South African private sector.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Local institutions are required to match U.S. contribution by 2:1 margin.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A

12. Trade Restrictions

a. Surplus Commodities (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. **Textiles (Lautenberg Amendment)** (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made **components) be used directly to procure** feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

N/A

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

N/A

14. **PVO Assistance**

a. Auditing and registration (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding sources** (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States Pvo (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?
N/A

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those **same offices?** (See Handbook 3, Appendix 6G for agreements covered by this provision). N/A

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

17. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, D," and Sec. 51):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.)

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.)

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No.

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such-organization would violate any of the above provisions related to abortions and involuntary sterilization?

No.

18. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Yes, the Project calls for integration of coops into project activities.

19. **U.S.-Owned Foreign Currencies**

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1594 Appropriations Act Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services?

N/A

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A

20. **Procurement**

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

N/A. Project does not involve procurement of goods or services.

b. **U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing **countries except as** otherwise **determined in accordance with the** criteria of **this** section?

N/A

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. **Non-U.S. agricultural procurement** FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity **is less** than parity? - (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when

they are **particularly** suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.
No.

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

i. **Consulting services** (FY 1994 Appropriations Act Sec. 56): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

j. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

K. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

k. **Chemical weapons** (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may

be used for chemical weapons production?

No.

21. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.q., construction) project, will U.S. engineering and professional services be used?

N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Yes

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): **If for** construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

Yes

22. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

23. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes

24. **Narcotics**

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or **through** individuals or entities which we know or Yes. have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes.

25. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land **reform program certified** by the President?

Yes.

26. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes.

27. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

Yes.

28. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

Yes.

29. **Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

30. **Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes

designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

31. **Marine Insurance** (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring **that U.S. marine insurance companies have a fair** opportunity to bid for marine insurance when such insurance is necessary or appropriate?

N/A

32. **Exchange for Prohibited Act** (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

33. **Commitment of Funds (FAA Sec.** 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of **5 years** from the date of the contract or agreement?

No.

34. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

No.

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

No.

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1994 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export could lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a **similar** agricultural commodity; or (2) in support of research that is intended **primarily to benefit U.S.** producers?

N/A

2. **Tied Aid Credits** (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Community based organizations are explicitly involved in the project.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes, by targeting development of black owned businesses.

6. **Special Development Emphases (FAA** Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local **level,** increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

Project purpose is to provide loans to low-income black families, many of whom are headed by women. Project utilizes community based **organizations in planning and implementation, and targets development of black-owned businesses.**

7.- Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Local **private sector borrowers must provide $2 for every $1 provided by** USAID.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes.

9. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

10. Disadvantaged Enterprises (FY 1994 Appropriations Act Sec. 55): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are-black Americans, Hispanic Americans, or Native **Americans, or who are economically or** socially disadvantaged (including women)?

N/A

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes.

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, **removal,**

and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. **Government agencies and** other donors of **the immediate** and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of **the** alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; () the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of **the** rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(1) No.
(2) No.
(3) No.
(4) No.
(5) No.
(6) No.

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of

the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and **applicable A.I.D.** regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes.

13. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

14. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

15. Deobligation/Reobligation (FY 1994 Appropriations Act Sec. 510): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

16. Loans

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

Only loans to private sector at commercial market rates.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

Yes.

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

Yes; all loans at commercial market rates.

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

17. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

Project purpose is to provide loans to low-income black families, many of whom are headed by women. Project utilizes community based organizations in planning and implementation, and targets development of black-owned businesses.

18. **Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding implementation, and targets development of black-owned businesses available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

19. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

20. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban

poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent **to which** assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

21. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

N/A. Only local PVOs involved.

c. research into, and evaluation of, economic development processes and techniques;

N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

Project provides loans for low-income families and targets small black-owned enterprises.

22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

N/A

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

N/A

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 31(d)): Will **ESF** funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial N/A capacity of the government or recipient to

Project provides loans for low-income families and targets small black-owned enterprises.

22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

N/A

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

N/A

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 31(d)): Will **ESF** funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial N/A capacity of the government or recipient to

maintain from its own resources, and (c) responsive to a significant development priority initiated by the **country to which** assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the **FY 1993** Appropriations Act. note, as well, **that** although a comparable provision does not appear in the FY 1994 Appropriations Act, the FY 1993 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 1994.)

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