

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID SOUTH AFRICA



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August 4, 1993

Mr. Graham Barr
Chairman of the Board
Headstart
2nd Floor Corner House
62A Sir Lowry Road
Cape Town

Subject: South Africa Shelter and Urban Development
Support (SUDS) Project; Grant Agreement with
Headstart; Agreement No. 674-0312-G-SS-3078-00

Dear Mr. Barr:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Comprehensive Anti-Apartheid Act of 1986, as amended, the Agency for International Development (hereinafter "USAID") hereby enters into this Grant Agreement (hereinafter "Agreement" or "Grant") with Headstart (hereinafter "Headstart" or the "Grantee") and obligates the sum of \$1,000,000 to provide support for a program described in Attachment 1, entitled "Schedule," and Attachment 2, entitled "Program Description," of this Agreement.

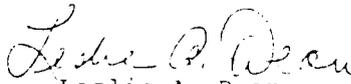
This Agreement is effective as of the date this letter is signed by an authorized USAID representative. The Agreement and obligation shall apply to commitments made by the Grantee in furtherance of program objectives during the period beginning on the effective date of this Agreement and ending March 1, 1996.

This Agreement is entered into with the Grantee on the condition that the funds will be administered in accordance with the terms and conditions set forth in Attachment 1, "Schedule," Attachment 2, "Program Description," Attachment 3, "Standard Provisions," Attachment 4, "Disbursement of and Accounting for Agreement Funds," Attachment 5, "A.I.D. Geographic Code 935 List," Attachment 6, "Guidelines for Financial Audits Contracted for by Foreign Recipients," and Attachment 7, "Grantee Certifications". This letter and the seven attachments just described, which have been agreed to by your organization, constitute the Agreement.

BEST AVAILABLE DOCUMENT

We request that you and a member of the Board of Trustees of Headstart sign the original and one (1) copy of this letter and then return the original to USAID/South Africa.

Sincerely,


Leslie A. Dean
Director

Date: August 9, 1993

ACKNOWLEDGED AND ACCEPTED
For Headstart

By:
Title:
Date: _____

By:
Title:
Date: _____

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions and Additional Provisions as Applicable
4. Disbursement of and Accounting for Agreement Funds
5. A.I.D. Geographic Code 935 List
6. Guidelines for Financial Audits Contracted for by Foreign Recipients
7. Grantee Certifications (Grantee Signatures Required)

ATTACHMENT 1
SCHEDULE

I. OVERVIEW OF AGREEMENT

The purpose of this Agreement is to establish a revolving construction finance facility which will enable Headstart to develop affordable inner city housing for black South Africans in Cape Town.

II. PERIOD OF AGREEMENT

The effective date of this Agreement is the date of signing of this Agreement by an authorized USAID representative. Unless otherwise agreed to by USAID in writing, the expiration date is March 1, 1996, meaning that no USAID funds under this Agreement shall be applicable to goods not furnished or services not performed for the program by this date.

III. AGREEMENT FUNDING AND PAYMENT

A. USAID hereby obligates the amount of \$1,000,000 for eligible program expenditures under this Agreement.

B. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3 - Additional Standard Provision 1, entitled "Payment - Periodic Advance," and Attachment 4, "Disbursement of and Accounting for Agreement Funds."

IV. FINANCIAL PLAN

A. Financial Plan

The Financial Plan for funds obligated under this Agreement is set forth in Table 1 below. Revisions of this Plan shall be made in accordance with Mandatory Standard Provision 4 of this Agreement, located in Attachment 3 and entitled "Revision of Grant Budget." The Grantee is authorized a 15% deviation between line items, provided that USAID is notified in writing of such budget changes in the Grantee's following Disbursement Report. However, any deviation in excess of 15%, or any increase in the total Grant, must be approved in advance in writing by the Director, USAID/South Africa.

Illustrative Financial Plan
(SAR)

<u>Item</u>	<u>Total</u>
Headstart Revolving Construction Finance Facility	2,900,000
Audit	35,000
Evaluation	<u>65,000</u>
Total	3,000,000

B. Level of Assistance

The total Rand amount in the Financial Plan (Table 1) above is the maximum Rand amount available under this Agreement. The conversion rate from U.S. Dollars will be the prevailing rate at the time of conversion as determined by the Controller, USAID/South Africa. To determine the U.S. Dollar amount of disbursements to the Grantee under the Agreement, an exchange rate of R3.00 to one (1) U.S. Dollar will be used. Notwithstanding the above, in no event will the total Rand amount provided to the Grantee under the Agreement exceed the obligated Dollar amount provided for in Section III. A., above.

Due to exchange rate fluctuations, the total amount of Rands available after converting the total obligated U.S. Dollar amount into Rands may exceed the Rand Budget. If the Grantee desires to use such excess Rands to finance additional eligible program expenses, it may submit to USAID a written proposal for use of such funds. If USAID is in agreement with the Grantee's proposal, the Agreement may be modified to provide for the authorized expenditures. USAID reserves the right to deobligate any Dollars in excess of those needed to fund the Rand Budget. However, should changes in the exchange rate result in fewer South African Rands being available than budgeted for, the Grantee will be responsible for financing the shortfall, since the U.S. Dollar amount prevails.

V. REPORTING

The Grantee will submit to USAID, in a timely manner, written semi-annual progress reports on activities funded and general performance under the Agreement. The content of the semi-annual reports will be mutually agreed upon between the parties hereto but should include a brief description of program accomplishments during the preceding six months and a discussion of any problems encountered and how they were resolved. The Grantee will also submit in a timely manner, and in form and substance satisfactory to USAID, a written final report on all activities financed by the Agreement.

VI. ADMINISTRATIVE SUPPORT COSTS

N/A

VII. TITLE TO PROPERTY

N/A

VIII. AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for all procurement with A.I.D. funds under the Agreement is the United States, the Republic of South Africa and countries included in A.I.D. Geographic Code 935, meaning that all goods and services financed by this Agreement shall have, with respect to goods, their source and origin and, with respect to the suppliers of services, their nationality in the United States, the Republic of South Africa or in other countries included in A.I.D. Geographic Code 935. To the maximum extent practicable, goods and services financed with funds provided under this Grant should be procured from the United States. Please refer to Attachment 5 for a list of countries included in Code 935.

IX. SPECIAL PROVISIONS

A. Procurement

1. Scope: This provision is applicable to the extent that local cost financing is otherwise authorized by the Agreement. It does not require procurement in South Africa where offshore procurement could otherwise occur.

2. Policy: In the procurement of goods and services in South Africa, the Grantee shall, to the maximum extent practicable, award contracts to individuals who or organizations which have been disadvantaged by apartheid and are responsive and appropriate providers of goods and services.

3. Definitions: Individuals and organizations disadvantaged by apartheid shall mean: (1) South African individuals of black, "colored" or Asian descent whose principal place of business is in the Republic of South Africa; and (2) private partnerships or commercial firms which are incorporated in or organized under the laws of the Republic of South Africa, whose principal place of business is in the Republic of South Africa, and which are more than 50 percent beneficially owned by South African persons of black, "colored" or Asian descent. The Republic of South Africa includes the so-called "independent" and "self-governing" homelands.

B. Competition

Except as otherwise provided in Sub-Section A. above, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, free and open competition.

C. Staff Recruitment

The Grantee agrees that all staff recruitment for positions funded by USAID will be carried out through an appropriate competitive process and that salary levels will be in accordance with community and professional standards. Further, the Grantee agrees to exercise its best efforts to recruit, train, employ and promote black South African technical and managerial staff, possibly in conjunction with the Peninsula Technikon and the CUSSP mentoring subproject.

D. Travel and Per Diem

No funding for travel or per diem is provided through this Agreement.

E. Political Affiliation

The Grantee agrees that programs funded under this Agreement will be made available to individuals and groups regardless of their political beliefs or affiliations. The Grantee shall not discriminate in its hiring practices or in the provision of its services against individuals or organizations who associate themselves with any particular political philosophy. The Grantee shall periodically review the level of actual provision of its services to assure that persons or organizations sympathetic to certain political groupings or philosophies are not intentionally excluded from activities funded by USAID.

F. Financial Review

A financial review of Headstart was carried out in September, 1992. The Controller's Office found that Headstart has adequate financial management systems and capabilities to responsibly utilize, administer and account for USAID funds provided through this Agreement.

G. Conditions Precedent to Disbursement

USAID will disburse funding up to R2.9 million under this Agreement to establish the revolving construction finance facility subsequent to submission to USAID by Headstart, in form and substance satisfactory to USAID, of the following documentation:

- detailed implementation plans for the Devon and Dublin St. projects, including favorable technical appraisals by CUSSP advisers;
- a marketing plan for each project, including a detailed methodology by which black South African clients will be

6

identified and assisted to obtain mortgage finance, applicable subsidies, etc.;

- a sample of a binding sales agreement which will delimit the ability of speculators to acquire and resell, for windfall profits, units to be developed;
- a financial management plan, including a separate bank account for all funds to be disbursed under this Agreement, which will ensure that all proceeds from sales of units financed utilizing funding under this Agreement are recycled to the construction finance facility for reuse in future, acceptable projects;
- evidence of all clearances necessary to implement construction of the projects; and,
- detailed cash flows indicating peak construction finance requirements for the two projects, as favorably reviewed by CUSSP advisors.

X. STANDARD PROVISIONS

The Standard Provisions applicable to this Agreement are contained in Attachment 3, entitled "Standard Provisions."

Agreement No. 674-0312-G-SS-3078-00

**ATTACHMENT 2
PROGRAM DESCRIPTION**

I. OVERVIEW OF THE AGREEMENT

This Agreement provides support to Headstart for a revolving fund to finance the development of affordable inner city housing for low income, black South Africans in Cape Town.

II. BACKGROUND

Headstart is a Section 21 company established in 1989 for the purpose of developing model "infill" housing alternatives for low income black South Africans. Until the imposition of apartheid "black spot" laws in the 1960s and '70s, Cape Town was a relatively well integrated city with a viable mix of housing types, income groups and races living amicably in the central urban area. Under the apartheid regime, however, this situation was reversed with the most notorious example of "black spot" relocation occurring in District Six where thousands of low and middle income black South African families were evicted and their affordable housing demolished.

Headstart seeks to reestablish Cape Town's former mix of races and income groups within the city's center. The organization's first major housing project is the 133 unit, walk-up (e.g. four story) Springfield Terrace located directly across the highway from District Six. Springfield Terrace, which was completed in December 1992, is the first low to moderate income housing project to be built in the center of Cape Town (and, for that matter, any other South African city) for decades. This project has provided Headstart with an invaluable learning curve particularly with regard to the difficulties involved in securing mortgage finance for black South Africans even in well located, highly bankable neighborhoods.

Headstart has identified 13 additional inner city locations in Cape Town which could accommodate up to 1000 low cost, medium rise residential units. The organization has acquired two of these sites--known as Dublin Street and Devon Street-- and is seeking construction finance of about R4.5 m to develop approximately 100 new units. Building upon the Springfield Terrace design and implementation experience, Headstart is poised to introduce a variety of innovations (in the South African context) including modular construction and a "sites and services" approach to medium rise buildings (e.g. owners undertake most interior finishing) which will significantly advance the state of the art of affordable, inner city housing design in the country.

The rationale for providing a grant for a revolving construction finance facility to Headstart is that, in the continuing absence of an affirmative policy of lending to low income black South Africans by the building societies, Headstart (and all other developers attempting to address this market) will continue to face abnormally high carrying costs while going through the labor intensive process of assisting their black clients to qualify for mortgage bonds, first-time home owners subsidies, etc. Even if Headstart could secure conventional bridging finance for its projects, accumulated interest charges during the unavoidably prolonged sales period would add up to 40% to the cost of units, thereby rendering the units unaffordable to the intended beneficiaries. Funding provided through this Agreement will allow Headstart to continue development of important models for inner city redevelopment in advance of the installation of a new, representative South African Government (SAG) which is widely expected to address the issue of mortgage finance for black South Africans as a matter of high priority.

III. PROBLEM

Due to the effects of the apartheid regime, black South Africans have virtually no access to affordable inner city housing in South African urban areas.

IV. PURPOSE

The purpose of this Agreement is to support the establishment of a revolving construction finance facility which will allow Headstart to continue development of affordable infill housing for black South Africans in Cape Town as a model housing alternative for wider application upon installation of a representative SAG.

V. PROGRAM DESCRIPTION

A. The Program

The revolving construction finance facility to be established by Headstart utilizing funding provided through this Agreement will operate in a simple and straightforward fashion. Headstart will prepare detailed implementation plans for the Devon and Dublin St. projects in the Woodstock neighborhood of Cape Town. Headstart will utilize the revolving construction finance facility to cover costs of construction of these projects. These costs will be recovered from eventual sales to black South African clients and recycled to the construction finance facility for utilization in future projects, of which Headstart has already identified more than 10. Funds provided through this Agreement will be utilized solely for the purpose of financing the construction of affordable inner city housing for sale to black South Africans.

Funds will be released under this Agreement upon submission by

Headstart to USAID of documentation detailed in Section IX.G. of Attachment 1 to this Agreement.

B. Evaluation and Audit

Funding is also provided through this Agreement for an evaluation and an audit. The detailed scope of work and budget for the evaluation will be agreed by Headstart and USAID at a later date.

C. Implementation Plan

Submission of Detailed Devon and Dublin St. Implementation Plans (as defined in Section V.A. above)	August, 1993
USAID Disbursement to the Construction Finance Facility	September, 1993
Commencement of Construction	November, 1993
Completion of Construction and Sales	July, 1995
Evaluation and Audit	December, 1995

FISCAL DATA AND CLEARANCES:

1. Fiscal Data:

Agreement No: 674-0312-G-SS-3078-00

Grantee: Headstart

Appropriation: 72-113/41014

BPC: GSS3-93-21674-KG13

Reservation Control No: B930294

Amount: \$1,000,000

Total Project Obligations To Date including Current Grant
Obligation: \$

30,000,000

Total Project Authorization Amount: \$30,000,000

Agreement Completion Date: March 1, 1996

Project Assistance Completion Date (PACD): May 12, 1996

Funds Available: 5 FUNDS AVAILABLE

ACCT: C. J. Gordon

Date: 09/21/93

Draft: DDeGroot, HUDD [Signature]

Clearance: JHagger, HUDD [Signature]

DRathbun, GDO [Signature]

JAddleton, PRO [Signature]

DKeene, RLA [Signature]

GHensley, CONT [Signature]

WFord, DD [Signature]

BEST AVAILABLE DOCUMENT

11

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, USAID/SOUTH AFRICA

DATE: July 3, 1993

THROUGH: Jeremy Hagger

FROM: Dave DeGroot

SUBJECT: South Africa Shelter and Urban Development Support (SUDS) Project (674-0312); Headstart Agreement No. 674-0312-G-SS-3078-00

I. PROBLEM

Your approval is required to obligate U.S. \$1,000,000 of FY1993 funds under the SUDS Project (674-0312) through a Grant Agreement with Headstart, as described herein.

II. AUTHORITY

Pursuant to Redelegation of Authority No. 452, the Director, USAID/SA, has authority to authorize and execute grants, and amendments thereto, with indigenous non-governmental organizations (NGOs) in an amount not to exceed \$5.0 million per grant.

III. DISCUSSION

Headstart is a section 21 company incorporated in 1989 for the purpose of developing affordable low cost housing for black South Africans in inner city, "infill" areas in Cape Town. Cape Town was at one point arguably the least residentially segregated major urban area in South Africa. Under the apartheid regime, however, "black spots", including District Six, were systematically destroyed during the 1960s and '70s. Thousands of black South Africans were relocated from their formerly mixed, in both socioeconomic and racial terms, neighborhoods in Cape Town's inner city to distant group area settlements in Mitchell's Plain, the Cape Flats, and beyond.

Headstart was established, with support from British Petroleum and other major corporations, to attempt to recreate the relative socioeconomic and racial heterogeneity which characterized Cape Town in the pre-apartheid era. The organization's first affordable inner city housing project, the 133 unit Springfield Terrace, was completed at the end of 1992 and is now almost fully occupied by low and moderate income black South Africans. Building on the Springfield Terrace experience, Headstart has identified 13 additional inner city sites in Cape Town which are appropriate for low cost, medium rise housing. This type of housing solution has been identified in the SUDS Strategy, PID and PP as an important alternative model to be supported by USAID as part of the overall goal of supporting creation of integrated urban living environments in South Africa.

In the process of implementing the Springfield Terrace project, Headstart learned a number of valuable lessons.

Primary among these is that the prevailing policy of SA building societies is to provide long term mortgage finance to low and moderate income black South Africans, if at all, only on a case by case basis. The effect of this policy is that all applicants for units at Springfield Terrace have been required to undergo prolonged qualification procedures, adding significantly to Headstart's carrying costs.

Headstart has, therefore, proposed that USAID provide seed grant financing for a revolving construction finance facility. This facility will allow Headstart to develop and sell medium rise units to low and moderate income black South Africans at affordable prices without the unaffordable burden of compounded interest on conventional bridging finance. Construction finance invested by Headstart, utilizing USAID grant funds, would be recovered from eventual sales and recycled through the facility to new projects.

This proposed Grant will allow Headstart to continue construction of affordable inner city housing, specifically at the Dublin and Devon St. sites in Woodstock, which are owned by Headstart and will accommodate approximately 100 units. These types of projects constitute an important alternative housing model to be evaluated and, hopefully, promoted by a representative South African Government (SAG), once it is in place.

USAID support, as described in more detail in Attachment 2, would be in the form of R3.0 million, including funds for an evaluation and an audit, as seed capital for Headstart's revolving construction finance facility.

IV. ISSUES

Through the development of this Agreement, the following issues have been identified and addressed as presented below:

A. Action Plan and Strategic Objective

This proposed Agreement was discussed and approved during the FY93 SUDS Action Plan review held in February. This activity is consistent with the SUDS strategic objective of supporting increased home ownership among the low income black South African population.

B. Grantee's Illustrative Budget and Cost Negotiation

The Housing and Urban Development Division (HUDD) conducted verbal negotiations with Headstart to establish its priorities for funding. As a result of these discussions, it has been determined that Headstart requires seed funding for establishment of the revolving construction finance facility. Running costs of Headstart will be met through support provided by corporate donors. Headstart's proposed budget has been reviewed within the Mission as part of the grant approval process and has been determined to be fair, reasonable and

allowable for a grant of this nature. The grant file contains sufficient support for this determination. This Agreement will obligate \$1,000,000 of FY93 funding.

C. Noncompetitive Justification

Although competition is to be encouraged in the award of grants and cooperative agreements to NGOs (Handbook 13, Chapter 2B), Chapter 2B3a permits exceptions to competition where the proposal "is not solicited by A.I.D." and where the proposal is "unique, innovative, or proprietary and acceptance would be fair, reasonable, and would represent appropriate use of A.I.D. funds to support or stimulate a public purpose." Headstart has submitted an unsolicited proposal, and it is the determination of HUDD that the activity is "unique" and "innovative". As discussed above and in more detail in Attachment 2, Headstart is the only organization in the country currently developing affordable inner city housing for black South Africans. In addition, Headstart is employing innovative design technologies in order to decrease costs and increase affordability. Because this activity is consistent with USAID program objectives and is unique and innovative, acceptance of the Headstart proposal would be fair and reasonable and would represent an appropriate use of USAID funds.

D. Technical and Management Capability

The proposal submitted by Headstart, extensive interviews conducted with Headstart management and staff, and the successful completion of the Springfield Terrace project by Headstart have provided satisfactory evidence of the organization's technical and management capability.

E. Financial Management Capability

Headstart received a satisfactory rating on a financial review commissioned by the Controller's Office in September, 1992.

F. PVO Registration Determination

The proposed Grantee does not qualify as a Private Voluntary Organization, as defined in A.I.D. Handbook 3, Appendix 4C and 88 State 356010 because it does not solicit or receive contributions from the general public.

G. Grantee Contribution

A Grantee contribution (financial and/or in kind) of not less than 25% of total grant project costs will be provided. This requirement will be met by Headstart through contribution of the land it owns upon which the Devon and Dublin St. projects will be built, and through in kind contributions of office space and supplies, technical services, etc.

H. Sustainability

The sustainability of the proposed construction finance facility will be achieved through recovery of costs from eventual sales of completed units, as described in more detail in Attachment 2.

I. Potential for Profiteering

At the Action Plan, the issue of potential profiteering (e.g. acquisition and resale of Headstart units for windfall profits) was raised. Headstart has submitted copies of its sales agreement which delimits this possibility through an explicit buy-back clause for a period of 5 years from initial sale. This agreement has been examined within the Mission and does appear to minimize the potential for profiteering.

J. Land Aquisition Issue

At the Action Plan a question was raised as to the means by which the Dublin and Devon St. sites were acquired by Headstart. Headstart's lawyers presented documentation demonstrating that Headstart acquired these sites through bidding at an open, public auction.

K. Affirmative Action

While Headstart has taken commendable affirmative action initiatives in ensuring that its Board of Directors is representative of the majority South African population, the organization's technical staff remains almost exclusively white. The Grant Agreement includes a covenant under which the Grantee agrees to exert its best efforts to recruit, train, employ and promote black South African technical and managerial personnel, possibly in conjunction with the Peninsula Technikon and the Community and Urban Services Support Project (CUSSP) mentoring subproject.

L. Standard Issues

1. Section 611(a) Requirements - Consistent with Section 611(a) of the FAA, adequate technical and financial planning underlie the proposed Agreement and reasonably firm cost estimates have been established. Such planning is evidenced by the Agreement program itself, as described in Attachment 2 of the proposed Agreement, which contains a detailed methodology for implementing Agreement activities and attaining specified Agreement outputs. The Illustrative Financial Plan is based on reasonably firm cost estimates for program activities.

2. Payment Verification Requirements - Payment verification requirements for the Grantee are satisfied by: (a) the specification of financial management and reporting procedures in the attached Agreement; (b) the certification, to be obtained based upon a follow on financial review, by the

USAID Controller of the recipient organization's ability to handle initial Agreement disbursements; and (c) provision in the proposed Agreement for annual audits of use of Agreement funds.

3. Recurrent Costs - No recurrent costs will be financed through this Agreement.

4. Selection of a Grant as the Assistance Instrument - It is the determination of HUDD that, in accordance with Handbook 13, Chapter 6, a grant is the appropriate assistance mode to be utilized, as A.I.D. is not procuring goods or services and does not require a substantial degree of operational control or involvement in project implementation. The attached document is, in form and substance, a grant as defined by A.I.D.

V. RECOMMENDATION

It is recommended that, pursuant to your authority under Redlegation of Authority No. 452, you: (1) approve noncompetitive selection in accordance with the justification provided above; (2) authorize the proposed Agreement to Headstart by signing below; and (3) execute said Agreement, as attached, by signing on the appropriate page and line as indicated.

Approved: Leslie A. Dean
Leslie A. Dean
Director

Disapproved: _____

Date: August 9, 1993

Draft: DDeGroot, HUDD [Signature]
Clear: JHagger, HUDD [Signature]
DRathbun, GDO [Signature]
JAddleton, PROG [Signature]
DKeene, RLA [Signature]
GHensley, CONT [Signature]
WFord, DDIR [Signature]