

PD-ABP-424

***SOUTH AFRICA***  
***BASIC SHELTER***  
***AND***  
***ENVIRONMENT HOUSING***  
***GUARANTY PROJECT***  
***(674-HG-002)***  
***PP***  
***ANNEXES A - M***  
***AUGUST 1995***



**List of Abbreviations and Acronyms**

<b>ASM</b>	<b>Asset Swap Mechanism</b>
<b>BSE-HG</b>	<b>Basic Shelter and Environment Project-Housing Guaranty</b>
<b>CSS</b>	<b>Capital Subsidy Scheme</b>
<b>CBO</b>	<b>Community Based Organization</b>
<b>CUSSP</b>	<b>Community and Urban Services Support Program</b>
<b>CP</b>	<b>Conditions Precedent</b>
<b>DOH</b>	<b>Department of Housing</b>
<b>EDIS</b>	<b>Economic Development Information System</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GNU</b>	<b>Government of National Unity</b>
<b>HG</b>	<b>Housing Guaranty Program</b>
<b>HUDD</b>	<b>Housing and Urban Development Division of USAID</b>
<b>KFC</b>	<b>Kwa-Zulu Finance Corporation</b>
<b>LOP</b>	<b>Life of Project</b>
<b>NAD</b>	<b>New Activity Description</b>
<b>NGO</b>	<b>Non-Governmental Organization</b>
<b>NHF</b>	<b>National Housing Forum</b>
<b>NHFC</b>	<b>National Housing Finance Corporation</b>
<b>NTRL</b>	<b>Non-traditional Retail Lenders</b>
<b>NURCHA</b>	<b>National Urban Reconstruction and Housing Agency</b>
<b>PIP</b>	<b>Project Implementation Plan</b>
<b>ProAg</b>	<b>Program Agreement, the basis for borrowing under the HG program</b>
<b>PP</b>	<b>Project Paper</b>
<b>PPC</b>	<b>USAID Office of Policy and Program Coordination</b>
<b>RLE</b>	<b>Retail Lending Entity</b>
<b>RDP</b>	<b>Reconstruction and Development Program</b>
<b>SAHT</b>	<b>South African Housing Trust</b>
<b>SARB</b>	<b>South African Reserve Bank</b>
<b>SANCO</b>	<b>South African National Civic Organization</b>
<b>SLP</b>	<b>Serviced Land Project (in Cape Town)</b>
<b>SUDS</b>	<b>Shelter and Urban Development Support Project</b>
<b>TA</b>	<b>Technical Assistance</b>
<b>USAID</b>	<b>United States Agency for International Development</b>
<b>USG</b>	<b>United States Government</b>

**Currency: South African Rand (R3.6/\$1.00)**

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## PROJECT PAPER

### BASIC SHELTER AND ENVIRONMENT HOUSING GUARANTY PROJECT (674-HG-002)

#### 1.0 EXECUTIVE SUMMARY

##### 1.1 Project Summary

The Basic Shelter and Environment Housing Guaranty Project (BSE-HG) will assist the Government of National Unity (GNU) to implement a housing policy that will lead to better shelter conditions for millions of disadvantaged South Africans. The GNU's housing policy addresses the key political, economic and social needs in the shelter and urban sectors. The successful implementation of this policy, with USAID assistance, will be a significant step in the resolution of South Africa's housing problems that include over eight million persons living in squatter camps and other informal settlements. At the same time, the implementation on the GNU housing policy and programs will alleviate many of the social pressures and inequities that threaten the successful evolution of a democratic South Africa.

The *Project goal* is to increase opportunities for access to and ownership of assets by historically disadvantaged South Africans while supporting economic development. The *Project purpose* is to increase access to capital for expanded ownership of shelter through strengthened financing mechanisms focusing on the role of the private sector.

Through the Basic Shelter and Environment Housing Guaranty Project (BSE-HG) USAID will provide up to \$130 million in Housing Guaranties (HG) to finance low-income shelter for disadvantaged South Africans. The HG guarantees will be augmented by a USAID/South Africa technical assistance grant to the Department of Housing (DOH) of up to \$6 million. Those or other technical assistance funds will be used to support institutional development, analysis of environmental issues, education programs for very low-income households, outreach to women-headed households, grass-roots training on improvements to the micro-residential environment, macro-environmental and disaster-mitigation planning. In addition, the USAID/South Africa technical assistance grant will also support the expansion of capacity in community-based retail lenders, institutional development of the National Housing Finance Corporation (NHFC), and the implementation of NHFC sectoral and baseline studies for project monitoring, evaluation and policy research. Those data, augmented by USAID/South Africa's on-going program monitoring, evaluation and economic studies, will provide the basis for a continuing policy dialogue with the DOH.

The BSE-HG Project will cover a four year period (FY95-99), with an expected start date in August 1995 and, over the life of the Project (LOP), may include a number of

programming options. In Option One South African private sector companies will provide capital for low-income housing through the purchase of equity in the new NHFC. In Option Two, the GNU will borrow the HG-guaranteed US dollars and directly capitalize the NHFC. In Option Three a private South African bank will borrow HG-guaranteed funds and make shelter loans to low-income urban households and construction loans to eligible contractors and developers. Under each Option, for each dollar borrowed under the HG, at least twice the equivalent in Rand will be made available for eligible activities. Over the life of the Project, up to \$130 million in HG funds will be authorized, meaning that up to \$260 million in activities will be supported.

BSE-HG Project beneficiaries will be disadvantaged urban South Africans with household incomes of R1,500 and less per month who meet the participating financial institutions' credit requirements. Through the BSE-HG Project, USAID will focus special attention on shelter finance for women-headed households, which comprise about 34 percent of all low-income families in the target population.

Strong consideration will be given to activities that are located in the GNU Reconstruction and Development Programme (RDP) Presidential Project areas and to activities in those communities where USAID is now supporting other community-based shelter and related infrastructure development projects. The BSE-HG Project will finance construction, home mortgages and low-income shelter and micro-residential environment improvement loans in completely new "greenfield" developments; progressive housing projects on which a basic shelter will be constructed and/or improved on existing sites; informal settlement upgrading and consolidation; and in-fill projects where residential infrastructure currently exists.

The BSE-HG Project will be limited to urban areas, including "in-fill areas" between urban centers and their outlying townships and new developments located on the periphery of urban centers. In areas where large scale developments will be financed under the BSE-HG Project, participation of Community-Based Organizations (CBOs) will be a major component of the BSE-HG Project. CBOs are voluntary grass roots organizations that represent one or more aspects of a community or affinity group such as a "civic" or a labor union. Under the BSE-HG Project, developers and/or retail lending institutions will incorporate one or more CBO(s) into the project team responsible for designing and implementing housing projects. In general terms, the role of the CBO will be to ensure that the beneficiary families are receiving good value for their money through appropriate levels of direct involvement in all stages of the planning and development process. CBOs will also facilitate borrower education, consumer protection, and community representation in the public planning process.

BSE-HG Project eligible expenditures will include loans to individuals for non-mortgage consumer lending for housing, home purchase (mortgage), consolidation, upgrading, and physical and environmental improvements. Eligible expenditures will also include loans to businesses which are engaged in the provision of shelter and or shelter improvements including land development, home construction, consolidation, upgrading and other improvements, especially businesses owned and managed by members of South Africa's historically disadvantaged population.

The assistance interventions or outputs are expected to be an increase in the capacity of the institutions involved in the Project. The NHFC will be better able to function as a wholesale lender and to mobilize large amounts of capital from a variety of sources for low-income lending purposes. Interventions are also expected to improve the capacity in both the non-traditional and large retail lenders to serve low-income families. In addition, the BSE-HG Project funds are expected to serve as a catalyst in the mobilization of more capital for this market, including the infusion of additional funds from the large financial institutions in South Africa. Assuming that the average loan will be R10,000, then every \$1 million of BSE-HG Project loan funds, along with a matching \$1 million in South African capital, will provide financing for about 720 disadvantaged families. Finally, it is expected that significant housing and urban policy reforms will occur through the implementation of USAID's continuing shelter policy dialogue with the GNU.

## **1.2 Project Guidance and NAD Approval Cable**

This Project Paper (PP) has been written following the guidance presented in the Project Development Interim Directive, issued by USAID's Office of Policy and Program Coordination (PPC) in November 1994. Therefore, the design team has emphasized the linkages between the Project purpose and USAID/South Africa and USAID strategic objectives on achieving results and on maintaining flexibility in Project implementation.

This PP reflects the New Activity Development (NAD) approval cable, State 64439 of March 15, 1995 (Annex A). While no issues were identified in the cable, several observations and suggestions were noted, including the need to address the credit needs of female-headed households; to continue to apply USAID's innovative total team design methodology, which integrates ideas from a broad variety of local and international sources; to focus on the Project's impact on people, especially the environmental impacts and the impacts on female-headed households; to seek maximum Project impact by working with other USAID programs; and to assess the trade-offs between a private vs a public sector borrower to enhance the effectiveness of the program. The NAD approval anticipated a total HG authorization of up to \$75 million. Up to \$130 million in HG guarantees, however, may be generated by the same subsidy amount because of the reduced credit risk of probable borrowing institutions. This amount was approved in State 182490 of August 1, 1995 (Annex A).

## **1.3 Total Team Design**

The design process commenced in 1992 with USAID/South Africa's program to develop the capacity of some sixty-four Community-Based Organizations (CBOs) throughout South Africa to effectively engage in the planning and development of shelter and related residential infrastructure in their low-income settlements. That engagement at the community level provided USAID/South Africa with the community contacts and understanding of the needs of low-income South Africans that formed the base for BSE-HG Project design. These efforts continued in consultation with the GNU DOH and private sector institutions following the democratic elections in 1994. While seeking input from the CBOs in the informal settlements and our initial dialogue with the GNU, USAID commissioned the following several studies which formed the technical basis for the BSE-

HG Project design: Population and Incomes of the Target Beneficiary Group; Incremental Housing and the BSE-HG Program; Upgrading Squatter Settlements to Improve the Shelter Conditions of Low-Income Families; The Prospects of Using Rental Housing to Increase the Supply of Low-Income Shelter; Informal Financial Institutions in the Provision of Low-Income Shelter; Land and Property Transfer and Regulatory Issues Affecting the Provision of Low-Income Shelter; Issues and Opportunities in the Housing Sector.

USAID Housing and Urban Development (HUDD) officers met several times early in the design process with representatives of the GNU's DOH and Ministry of Finance to ascertain the need for and desirability of a HG loan to be complemented with grant assistance. Given a positive response from Housing and Finance, USAID determined that a Concept Paper should be developed to ascertain the best use for a HG project.

In November 1994, USAID held a two day roundtable discussion in Johannesburg to develop further the Project concept. Participants at this meeting included USAID representatives, South African experts, GNU representatives and consultants, USAID community-development staff, USAID's expatriate consultants, and representatives for the community perspective. During the many working sessions, the possible use of HG funds within the South African context was discussed, taking into consideration the findings of the sectoral studies that USAID had prepared, the policy statements contained in the housing section of the GNU's Reconstruction and Development Programme (RDP), and the draft of the GNU *White Paper* on national housing policy. At the conclusion of this meeting, the participants arrived at a consensus for the use of the funds and thus they were able to provide guidance for the formulation of a BSE-HG Project concept paper.

Based on the Concept Paper, whose contents were shared with the relevant GNU agencies, USAID/South Africa prepared a New Activity Description (NAD), which was approved by USAID in Washington in March 1995. The chair of the GNU International Donor Cooperation Committee has informally reviewed, and approved in principle, the BSE-HG Project as described in the NAD. The dialogue on the Project Paper design process has continued with the CBOs, representatives of South Africa's emerging contractors, CBOs, and DOH and its consultants to ensure broad-based participation in the Project design. During the BSE-HG Project Paper design stage, which began in late March 1995, further consultations were held with representatives of the South African traditional banking sector and their community-banking divisions; selected non-traditional retail lenders (NTRL), such as the KwaZulu Finance Corporation; and the GNU's South African consultants charged with establishing the NHFC and related housing programs.

During BSE-HG Project development, USAID/South Africa's "Total Team Design" process also actively engaged the participation of the Senior Housing and Urban Development Officer and Environmental Officers of USAID/REDSO/ESA and the Program and Project Development Officers, the Economist and Social Scientist in USAID/South Africa. Direct input and support was also obtained from USAID Global Bureau officers including: the General Counsel; the Office of Women in Development; and technical experts in finance, program development, disaster mitigation, energy and environmental policy.

## 2.0 STATEMENT OF THE PROBLEM

### 2.1 Background

The apartheid system of enforced residential segregation has led to the creation of black townships, which are spatially separate, overcrowded and under-serviced municipal entities with no inherent economic rationale, and with limited base for the provision of basic amenities. Essentially there were no housing alternatives for blacks outside of the urban townships. With the repeal of the pass laws in the mid 1980's, the spread of squatter areas and other informal settlements began in and around the formal towns and cities, which are the source of urban black employment. The rapid spread of squatter settlements has continued unchecked to the present day, in tandem with the continued lack of affordable housing for urban blacks. Current estimates are that around 25 percent of all housing in Gauteng is in squatter settlements, a proportion replicated or even exceeded in other major urban areas. For example, approximately 90 percent of all housing currently being built in the Gauteng Province, which includes the greater Johannesburg and Pretoria metropolitan area, is self-built.

The appalling shelter conditions in which most black South Africans live are exacerbated by the huge housing deficit. The Department of Housing now estimates a shortage of 1.46 million units in urban areas alone. This figure is calculated on the basis of relieving overcrowding in the townships, as well as providing a minimum basic level of serviced shelter provision for households in squatter areas. It is estimated that 8 million low-income South Africans living in or near urban areas currently lack adequate shelter, while the majority of shelter sites are poorly drained and lack an adequate water supply, basic sanitation and waste disposal. The South African GNU estimates that in order to provide acceptable standards of housing, to upgrade current squatter camps and other informal settlements, and to provide for new household formations, a minimum of 300,000 homes per year are required nation-wide over the next ten years. To place this production figure in context, the formal housing construction industry built only 30,000 homes nation-wide in 1994.

The lack of affordable housing affects the black South African population disproportionately, even though a significant number are employed with some form of secure income. Income levels among black South Africans in urban areas are, however, low, with more than 60% of all black households having monthly incomes below R1,500 and 40% earning less than R800. As a consequence of poor waste management, contaminated water, and poorly ventilated heating, lighting and cooking facilities, the incidence of morbidity and mortality (particularly among children) is very high in squatter camps and other informal settlements that lack residential infrastructure. Overall, there is an inadequate supply of affordable housing available to meet the demands of this potential market, in addition to which low-income black households, especially female-headed households, generally lack access to appropriate forms of housing finance.

The GNU is acting forcefully to resolve the massive housing problems. Within the context of its Reconstruction and Development Programme (RDP), the DOH has produced a national housing policy and strategy which is enunciated in its *White Paper: A New*

*Housing Policy and Strategy for South Africa*, published in December 1994. This important document is based on a recognition that there must be a partnership among the various tiers of government, the private sector and the communities in order to reach a consensus on how to resolve the housing problem. The GNU has set its national housing goal as enabling all South Africans to obtain at least basic shelter with secure tenure in a safe and healthy environment.

The policy statement calls for the GNU to increase the housing allocation of the total state budget to 5 percent and to deliver the target of 1 million housing units during the next five years. It lays down a number of key elements in achieving this goal, such as: the roles of the private sector, the state and the people; economic empowerment; sustainability and fiscal affordability; the special needs of women; and finally, the requirements for clean water, adequate drainage and waste disposal in the urban environment. It also stresses the need for the Government to support the housing process rather than try to undertake all the activities necessary for the delivery of housing. Most importantly, it focuses on the need to mobilize resources, in part through the establishment of a National Housing Finance Corporation (NHFC) to facilitate the mobilization of all types of housing credit, including credit from international sources, but also through the establishment of a saving-linked credit scheme to mobilize domestic savings.

The GNU is also attempting to address those problems that have prevented the resumption and increase in the flow of housing funds to disadvantaged South Africans. The establishment of the Mortgage Indemnity Scheme (MIS) will reduce the risk of lending in the townships, while the Builders Warranty Scheme will help ensure that quality housing will be built. Further, a special company, SERVCOM, has been created to tackle the problem of putting repossessed homes back into the market. Finally, the Government, along with the private sector, is working strenuously to reverse the boycott on repayment of home mortgages that was adopted partially as a political strategy against the former apartheid regime, and to change the environment of distrust that has prevented the resumption of lending in many poor communities. If the Government policies and programs are implemented as planned, housing finance will be available on a large scale to the intended market. But as these lending programs grow, the problem will then become one of the availability of sufficient capital to meet the demand.

## **2.2 The Financial Sector**

Implementation of the Government's housing policy will not be easy, despite the good intentions of all concerned. Constraints abound with respect to lending to low-income South Africans. One of the most significant is the limited capacity of the retail lending institutions to serve the low-income market. The large and well-capitalized banks have the capacity to provide mortgage loans, but due to a combination of factors including the still unresolved bond boycott, the continuing violence in certain poor communities, the proportionately high administrative costs, and the general perception that this market has little borrowing capacity, these lenders have made relatively few loans. The much smaller non-traditional retail lending institutions, such as regional finance companies and non-governmental organizations, are generally willing to serve this market. Many are plagued, however, with a limited capital base, poor access to wholesale finance, bad business

practices and inadequate capability, which result in interest rates of over 30% per year. Collectively, even the most qualified NTRLs can not meet more than a fraction of the housing production target even if they had unlimited access to capital. Their overall administrative and managerial resources are too meager to meet the need for the near future.

Access to construction financing is also a major constraint, especially to emerging, community-based builders. While the large builder/developers have access to bridge financing from the major banks, smaller developers lack this same access and instead are heavily reliant on subsidies for reimbursement of development costs. However, these subsidy funds are generally not released until the project is completed and the unit turned over to the buyer. Obtaining the necessary bridge financing is problematic because of the reluctance of finance institutions to offer loans to what are perceived as high risk builders and/or high risk projects, while delays in the disbursement of the subsidies can jeopardize even the most well-capitalized project. Overcoming this bottleneck is critical to the involvement of small builders and to the overall success of the BSE-HG Project financed projects.

### **2.3 Community-Based Housing**

The DOH *White Paper* has adopted the concept of incremental housing to ensure that the greatest number of families will be able to improve their living conditions over time, given the limited funds available. This policy provides for a home-site with essential infrastructure service and at minimum a basic shelter in the form of a one or two room house that the owner can later expand as financial circumstances permit. While incremental housing is a solution that has worked well in many countries, assuming a lending facility is available to continue to make home loans to the beneficiary, there are many indications that this concept is not wholly acceptable to all concerned in South Africa. Some still hold the conviction that only the provision of a complete four room unit will adequately meet the aspirations of low-income families. Resolution of this issue through the provision of an acceptable and affordable compromise solution remains one of the most pressing issues facing the Government.

Community participation in the delivery process is a cornerstone of the national housing policy and the rationale for the social compact as the starting point for all community activity. But the legacy of apartheid has left many communities with a high level of distrust which will inhibit their coming together with each other and with other parties to develop housing and better communities. USAID's nationwide community capacity building program, begun in 1992, has been in operation for three years and has provided the foundation for success in many regions in South Africa.

### **3.0 USAID STRATEGY TO RESPOND**

#### **3.1 USAID/South Africa Strategic Objectives**

The BSE-HG Project provides powerful support for USAID/South Africa's Strategic Objective Three (SO3), "to help increase opportunities for access to and ownership of assets by historically disadvantaged South Africans while supporting economic development," by helping to formulate the policies and establish the mechanisms that will facilitate home ownership and improved shelter conditions for below-median income urban households. The BSE-HG Project is also the principal means for attaining USAID/South Africa's Project Outcome (PO) 3.3, "quality of public debate improved through functioning policy forums on ways to maximize the role of the private sector in providing shelter and urban services;" and PO 3.5 "access to capital for expanded ownership of shelter through strengthened financing mechanisms focusing on the role of the private sector." It is the intent of the BSE-HG Project to help the GNU to initiate and establish a process through which the resources of the formal private sector, so long inaccessible to the majority population, can be harnessed and channelled towards improving shelter standards for the low-income masses. The BSE-HG Project will directly contribute both to the on-going debate on the role of the private sector in low-income housing production as well as to the actual transformation of that role.

#### **3.2 Relationship to USAID and Africa Bureau Goals**

The BSE-HG Project will support the USAID's Development Fund for Africa's goal of "... strengthening economic and political democracy by significantly enlarging the role of the private sector in the delivery of services" (in this instance shelter and related environmental services). The Project will significantly expand the role of South African private sector financial institutions in low-income shelter production by generating the Rand equivalent of up to \$260 million by them. These funds will either be loaned directly for low-income shelter and related services or invested in the NHFC, which will in turn provide capital to retail lenders for shelter-related loans to low-income families. In effect, the Project will transform the source and composition of low-income housing finance in South Africa by moving it from the public to the private sector and from the informal into the formal sector.

The Project also directly promotes the USAID Global Bureau's Strategic Objective of: "More sustainable cities, including reduced pollution and more environmentally sound urbanization." USAID/South Africa, through the Shelter and Urban Development Support Project (SUDS, 674-0312), will fund a technical assistance support program to accompany the BSE-HG Project. That technical assistance (TA) program will, in part, help to meet the USAID/Global Bureau goal to mitigate degraded environmental conditions and potential disaster conditions in low-income communities by supporting: environmentally appropriate physical planning and site selection; enforcement of environmental legislation vis-a-vis land development and housing construction; enforcement of building and land development standards; and improved shelter design to reduce air pollution and fire risks. In effect, the large-scale production of low-income housing construction and upgrading

expected to emerge from this Project will provide an unparalleled opportunity to help transform a system that previously catered to a privileged minority into one that will service the disadvantaged majority in an environmentally sustainable manner.

### **3.3 Relationship to GNU Objectives**

The RDP sets out five key programs to rebuild and develop the nation, one of which calls for meeting basic human needs, including housing. The RDP Paper states that it "aims at decent, well-located and affordable shelter for all by the year 2002. In the short-term, the aim is to build one million new low-cost houses in five years." It further states that by then, "the transfer of home ownership to long-term residents will be completed." Since the objective of the BSE-HG Project is to provide funds for low-income urban families to acquire their homes, thereby increasing asset ownership, the BSE-HG Project is fully compatible with the RDP goal of increasing the supply of housing and of transferring home ownership to long-term residents.

### **3.4 Other Donor Activities**

USAID plays a lead role in donor coordination in South Africa's shelter and urban sector by chairing the Urban Sector Donor Coordinating Committee. Other significant activities in the sector include the development of the World Bank's infrastructure planning model, assisted with USAID funding; the recently prepared RDP/DOH/IBRD Municipal Infrastructure Investment Framework paper; the European Union's support for inner-city rental housing programs in Johannesburg along with a grant to assist an association of non-governmental organizations active in urban projects; and the UN Center for Human Settlements (Habitat) study to formulate assistance programs for emerging contractors, funded, in part, by USAID. With its \$70 million SUDS Project (674-0312) and the \$75 million Private Sector Project (674-HG-001), however, USAID is currently the only donor that has committed significant funds to the shelter sector in South Africa.

### **3.5 USAID Relevant Experience with Other Projects**

USAID has designed and implemented the Housing Guaranty Program in over 40 developing countries for more than 30 years. With the exception of a few special programs, all of these HG loans have benefitted poor families whose incomes fall below the median level. Many of the HG Projects have been implemented through public and parastatal institutions which have proven successful when the institution's structure, capitalization, management, and policies are developed appropriately. USAID has also provided HGs to private sector institutions, including the recent and very successful Private Sector HG Project in South Africa.

## 4.0 PROJECT DESCRIPTION AND ACTION PLAN

### 4.1 Project Goal and Purpose

The *Project goal* is to increase opportunities for access to and ownership of assets by historically disadvantaged South Africans while supporting economic development. The *Project purpose* is to increase access to capital for expanded ownership of shelter through strengthened financing mechanisms focusing on the role of the private sector.

### 4.2 Project Rationale

USAID believes that the GNU housing policy is a realistic policy statement that addresses the key political, economic and social needs of disadvantaged South Africans as they relate to the housing and urban sectors. If the policy is implemented, it will go a long way to resolving the housing problems, while at the same time, alleviating many of the social pressures and inequities that threaten the successful evolution of a democratic nation. Therefore, given USAID's interest in seeing the GNU policy implemented, it is incumbent on USAID to support and participate in the GNU's efforts in this critical economic and social area.

The level of BSE-HG Project financing will provide only a fraction of the total financial requirements to meet the low-income housing need. Nevertheless, the BSE-HG Project and the related technical assistance program will support innovative housing solutions and processes that will serve as models. The BSE-HG Project will also facilitate GNU access to the massive private sector capital resources that are currently not available for low-income housing. The BSE-HG Project will thus have a much larger impact on the housing sector than might be expected from the relatively limited BSE-HG Project resources.

Finally, regardless of whether the Projects is directly involved in capitalizing the new housing institution, the NHFC, USAID will be able to influence its development in a positive way through its TA. The assistance will help ensure that this critical housing sector institution will, from the beginning, be a private/public partnership with sound market-based practices and a capability to provide a positive and sustainable enabling environment for private sector support to low-income housing. If the Project is directly involved in the capitalization of the NHFC, the influence would be even greater.

### 4.3 Project Description

The BSE-HG Project follows the basic HG Program structure which includes three basic elements. A US dollar loan from an American financial institution is backed by the full faith and credit HG guaranty to the American lender. A foreign borrower is responsible for repaying the loan to the American lender and for making an equivalent or leveraged amount of local currency available to the implementing institution to be used for eligible program expenditures. A project monitoring and evaluation program tracks program expenditures. Most Housing Guaranty Programs also include a technical assistance component funded by a USAID mission grant to support community outreach and capacity building, institutional development, studies, program monitoring and evaluation.

The ultimate objective of the BSE-HG Project is to increase shelter finance opportunities for disadvantaged, urban South Africans whose household income does not exceed R1,500 per month. Participating private sector retail lending entities (RLE) will make either mortgage or personal loans to assist the target population to purchase, upgrade, or expand their homes or to improve the quality of their immediate residential environment. The R1,500 maximum was selected, in part, because it is the maximum income level permitted to qualify for the Government's R12,500 Capital Subsidy Scheme (CSS) and, in part, because it is the level below which about 50% of all urban households fall. Graphic 1 shows a typical shelter occupied by low-income households.

Special concern during Project implementation will be afforded to women-headed households, which comprise approximately 34% of all black households nationally. It is expected that they will receive loans proportionate to their representation in the communities where the loans are made, subject to their ability to qualify under the loan terms. Thus the percentage of women-headed household beneficiaries may vary above or below the national percentage, depending on the percentage of the targeted communities that they constitute.

A variety of low-cost housing project types will be eligible for financing, including at least four basic types. *New (greenfield) projects* will be developed in a progressive manner, in the form of sites and services projects with or without a basic shelter. In *progressive housing projects*, shelters will be constructed or improved on existing sites. *Squatter settlements* will be upgraded. *In-fill projects*, for which the off-site infrastructure exists and costs to provide shelter are generally lower than greenfield projects, will be developed. Information indicates that many pipeline projects containing thousands of units are potentially eligible for financial assistance under the terms of the BSE-HG Project.

Strong consideration will be given to projects that are located in the RDP Presidential Lead Project areas. Priority will also be given to projects in communities that have been assisted by USAID's Community and Urban Support Services Project (CUSSP), which has been operating since 1992. With offices located in four urban areas (Johannesburg, Durban, Capetown and East London), CUSSP has developed unique knowledge about and experience with community-based development efforts. The BSE-HG could be an important financing vehicle to turn some of the CUSSP-assisted plans into reality. State-owned housing that is now being sold to their occupants will also qualify for home improvement loans. The criteria for selecting projects will be developed by the implementing agent(s) in consultation with USAID; in general, they will encompass such concerns as location, gender, environmental soundness, institutional capacity, and beneficiary income. In all cases, the projects will be located in urban metropolitan areas, where approximately 65 percent of South Africa's population live.

Access by a potential home buyer to the Capital Subsidy Scheme will be a factor in the affordability of the loan, and hence the eligibility of the applicant, as well as in the consolidation of the shelter solution. While it will not be necessary for the home buyer to have access to a subsidy, it will be helpful to ensure the rapid initial construction of a

Low-income Shelter (Shack) Graphic

# 2 Room House 22 square metres R1,500

**Plot Size** 200 sq m

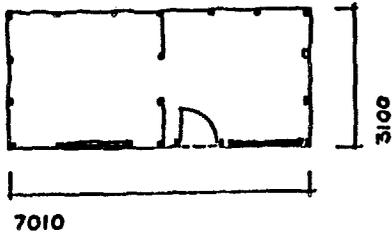
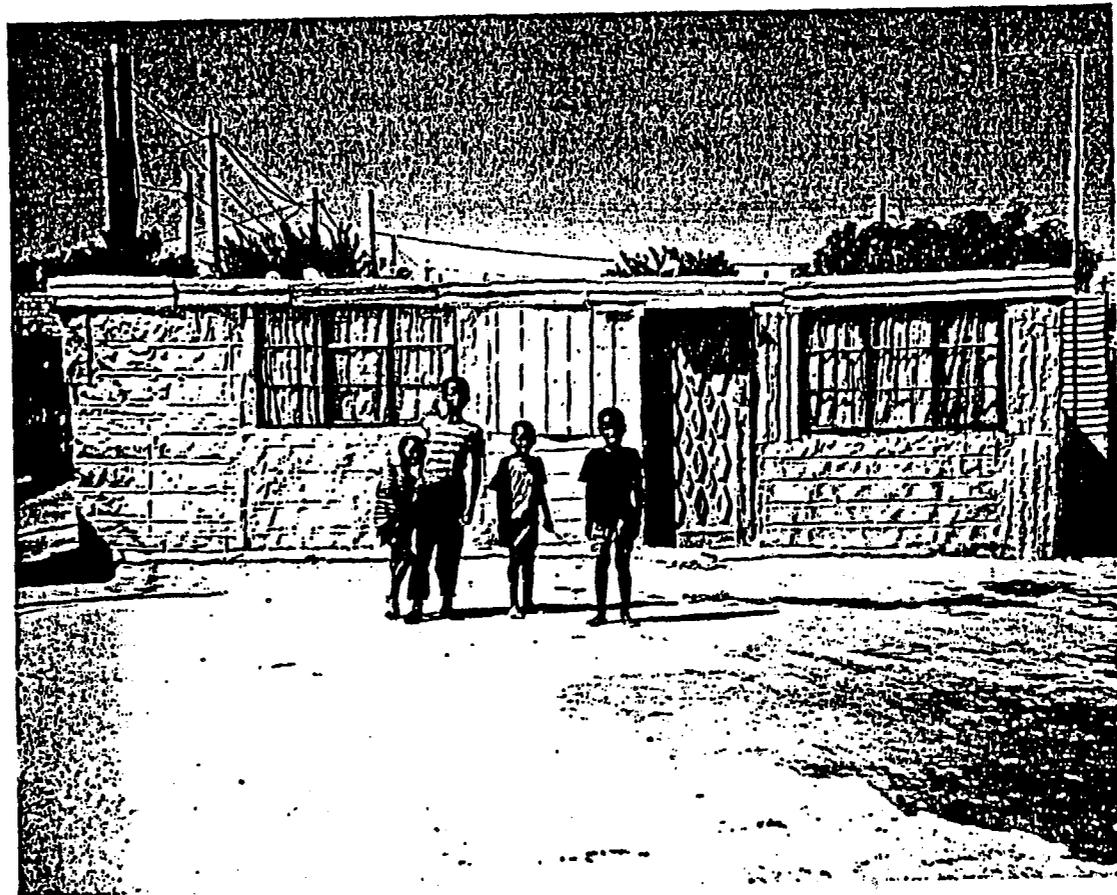
**Servicing levels**  
Gravel road  
Sewers and water supply  
Electricity  
Security Lighting

**House Construction**  
Second hand materials  
No ceiling  
No fittings  
Toilet at back of plot

**Costs**

Land	R800
Services	R5,200
House	R1,500
Total	R7,500

Rates and taxes R50 per month



standard, albeit starter, unit. Borrowers who already have a serviced lot with or without a basic shelter may also gain access to a loan through the BSE-HG Project. It is likely that a combination of the subsidy and a loan will be a frequent occurrence whereby the home buyer will use the funds from both sources to buy a serviced lot and a basic unit in a project development. While mortgage loans will be the most common form of housing finance, the lending institutions will also be able to make loans collateralized by assets other than the property or even to make non-collateralized loans. It is anticipated that the average housing loan will be R10,000.

As currently structured, the CSS is a one-time, up-front subsidy which is made either directly to a beneficiary to acquire an individual home or to the developer of a new housing project on behalf of the beneficiary who will acquire a home. Although there are four subsidy levels based on family income, for purposes of the BSE-HG Project, only the two lowest income levels apply. Families earning less than R800 monthly qualify for a R15,000 subsidy, while families earning between R800 and R1,500 monthly qualify for a R12,500 subsidy. Capital subsidies can only be obtained if the applicant has contracted to acquire a site and/or home. Since a capital subsidy of R15,000 and below is generally not sufficient to acquire a site with even a basic dwelling unit, the subsidy will usually be accompanied by a home loan. A potential subsidy recipient who does not have an established credit record may participate in a specific bank saving program and thereby qualify for a home loan.

Implementation of BSE-HG Project is dependent to a large degree on the development of eligible housing projects, and on the availability of bridge or construction financing. It is probable that developer/builders will continue to be the principle promoters of eligible housing projects, although it is expected that communities themselves will take an active role in initiating the project development process. No restrictions as such will be placed on the type of developer/builder eligible under the BSE-HG Project. Developers may come from the private, public, or non-profit sectors. Initially, a developer must have or gain access to an acceptable building site. After preparing a site plan and a project proposal, the developer must obtain a commitment from a lending institution for both bridging (if the builder requires it) and end-user finance. A prerequisite to obtaining this financial commitment is a market analysis or pre-sale commitments demonstrating project feasibility. Once the developer has these commitments, then, in conjunction with the home buyer, he will submit an application to the appropriate authority for the beneficiary subsidy.

Key to performance will be a developer's access to bridging financing, which would permit it to construct affordable units for sale to eligible beneficiaries and which can be included as an eligible project expense under the BSE-HG Project's terms. Therefore, a good business relationship between a developer and a financial institution that provides both bridge and end-user financing is useful. Some consideration is being given by GNU to permitting smaller developers to draw down a portion of the subsidy as bridging finance; this would eliminate the major hurdle caused by their inability to obtain this kind of financing on the private market.

Despite the importance of developer-initiated projects, the majority of low-income housing

in South Africa has been built by individuals. The project will provide access to finance for individual borrowers to purchase, build, improve, and upgrade their residential environments, especially when linked to the GNU individual capital subsidy program in association with participating retail financial institutions.

The retail lenders under this BSE-HG Project are expected to be prudent insofar as environmental matters are concerned. Home loans cannot be made in areas where infrastructure does not exist, unless there are plans or efforts underway to provide it. Nor can loans be made for homes on individual sites or in projects that are located in environmentally fragile areas. Under the TA program, the appropriate government entities will be assisted in infrastructure planning and in developing the capacity to identify those environmentally sensitive areas where housing cannot be located. TA will also be provided to the RLEs to ensure that they are environmentally aware and familiar with assessments of the GNU institutions in the area.

#### **4.4 Project Implementation Plan**

The BSE-HG is approved for total life of project (LOP) funding of up to \$130 million over four years. The actual amount of loan guaranty authority obligated will be subject to a yearly assessment of the project implementation and will depend on the amount of appropriated subsidy that is available. Three Options, which are explained below, will be available for effecting the U.S. dollar borrowing under the HG guaranty. They will be employed as is appropriate over the four-year life of the Project.

Option One, under which a private company will receive the HG loan proceeds to use to purchase equity shares in NHFC, is the preferred mechanism. It will directly insure that GNU will be able to access new sources of private sector capital (for example, from insurance companies and pension funds) for the NHFC. Option One will also insure that the NHFC is predominantly capitalized by private sector resources, which will mitigate the political pressures and encourage NHFC to adopt market-based policies and programs. Option Two, a direct loan to the GNU, is an alternative that will support Government plans to capitalize the NHFC and would facilitate USAID's engagement with the GNU in a continuing dialogue on shelter policies and programs. Option Three, a direct loan to private sector banks, would support direct bank lending for low-cost shelter as well as encourage their investment in NHFC or other emerging financial institutions. The BSE-HG Project guaranty will provide the spread needed to cover the increased costs and risk in this new very-low-income market and will provide the incentive for the banks to service a lower-income segment of the market.

##### **4.4.1 Option 1: Private Sector Asset-Swap and NHFC Capitalization**

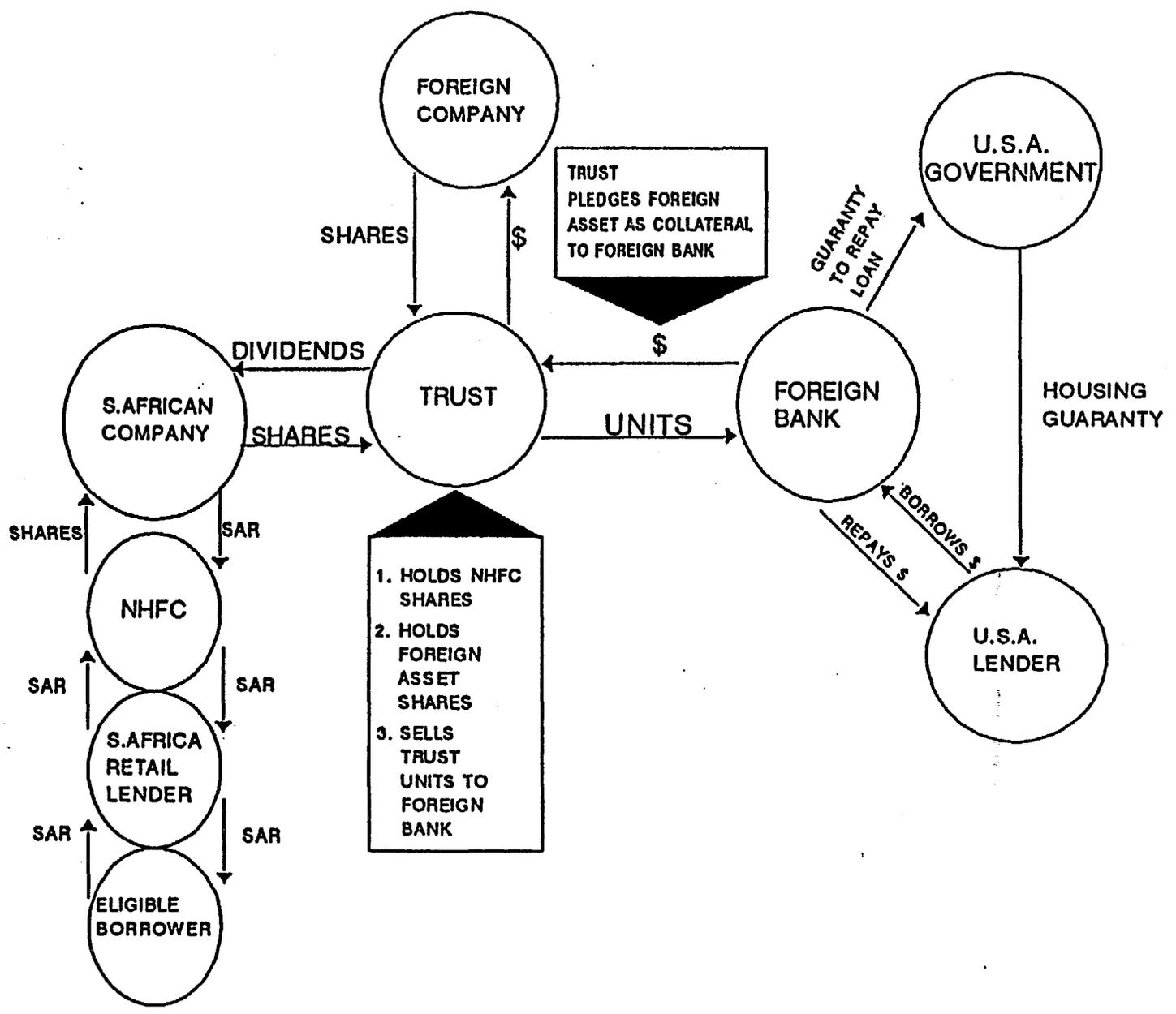
Under Option One, the HG-guaranteed loan funds will be made available through an asset swap mechanism (ASM). The actual HG borrowing will be by a bank foreign to South Africa, which will engage in an asset-swap with a South African private sector company that wants to acquire foreign assets. The proceeds will be used to capitalize the National Housing Finance Corporation. This purely private-sector borrowing will not include a sovereign guaranty provided by the GNU. The mechanism (Graphic 2) is as follows:

- A foreign (non-South African) bank borrows the HG-guaranteed US dollars;
- A South African company purchases shares in the NHFC in an amount equal to the Rand equivalent of the US dollar HG loan;
- The GNU purchases NHFC equity with its own budget resources in an amount at least equal to the Rand equivalent of the US dollar HG loan;
- The NHFC uses the Rand received from the sale of its shares as equity capital to provide housing loans to the target group through retail lenders;
- The SA Company deposits its NHFC shares in a trust account, which in turn issues trust units (mutual shares) in an amount equal to the NHFC shares;
- The trust units are sold to the foreign bank in US dollars;
- The trust uses the US dollars to purchase off-shore assets on behalf of the South African company and pledges the foreign assets to the off-shore bank to collateralize the bank's investment in the Trust Units;
- The South African company pledges its reserve capital to meet the foreign bank's US dollar repayment obligations for the HG loan.

Option One works because all parties benefit. The foreign bank develops business contacts in the new South Africa market, retains a portion of the spread on the HG borrowing, and is guaranteed repayment of the loan by the South African Company. The South African Company is able to diversify its investment portfolio into offshore assets. The NHFC gets access to a previously untapped pool of private sector capital. The somewhat complex structure of Option 1 is largely dictated by current GNU regulations that prohibit private companies from borrowing foreign exchange. Should these controls be relaxed, as is being discussed by the GNU, Option 1 could be implemented by a direct borrowing by a private company and not require the asset swap or the intermediary trust.

Under Option One, the U.S. Government (USG) will sign a Program Agreement (ProAg) with the non-South African bank (the Borrower). The ProAg will define the basic elements of the BSE-HG Project and set out the Conditions Precedent (CP) for the first disbursement. Based on it, the USG will provide a full faith and credit guaranty to a U.S. lender and the off-shore bank will gain access to the U.S. financial markets for a market rate loan. With the HG proceeds, the off-shore bank will purchase the unit trusts from the trustee, while receiving from the institutional investor collateral consisting of the high quality and liquid foreign assets. The NHFC will receive the Rand equivalent in the form of an equity contribution from the trustee, which had previously purchased the NHFC shares.

A Project Implementation Plan (PIP) will be negotiated and signed between USAID and the DOH, on behalf of the NHFC, which will be the implementing agency. In addition, the Borrower (the off-shore Bank) and the South African institutional investor, in separate letters to USAID, will agree to the ASM and their respective roles as stipulated in the PIP. The PIP will also set out the terms and conditions under which the NHFC may use the HG loan proceeds that will be made available to them. A CP to the first disbursement of loan funds under this Option will be the establishment of the NHFC under the Companies Act and the establishment and operation of the Mortgage Insurance Scheme and the Builders Warranty Scheme



Graphic 2  
Option One: Asset-Swap

#### **4.4.2 Option 2: GNU Sovereign Borrowing and NHFC Capitalization**

Option Two (Graphic 3) would involve a direct, sovereign borrowing of HG-guaranteed US dollars by the South African Reserve Bank (SARB) on behalf of the GNU. Under this borrowing mechanism, a Program Agreement will be signed between USAID and the Borrower, which will be a representative of the GNU. The USG will provide the U.S. lender a full faith and credit guaranty for the HG loan made to the Borrower. The signing of the ProAg will provide the SARB with access to the U.S. financial markets for a market rate loan.

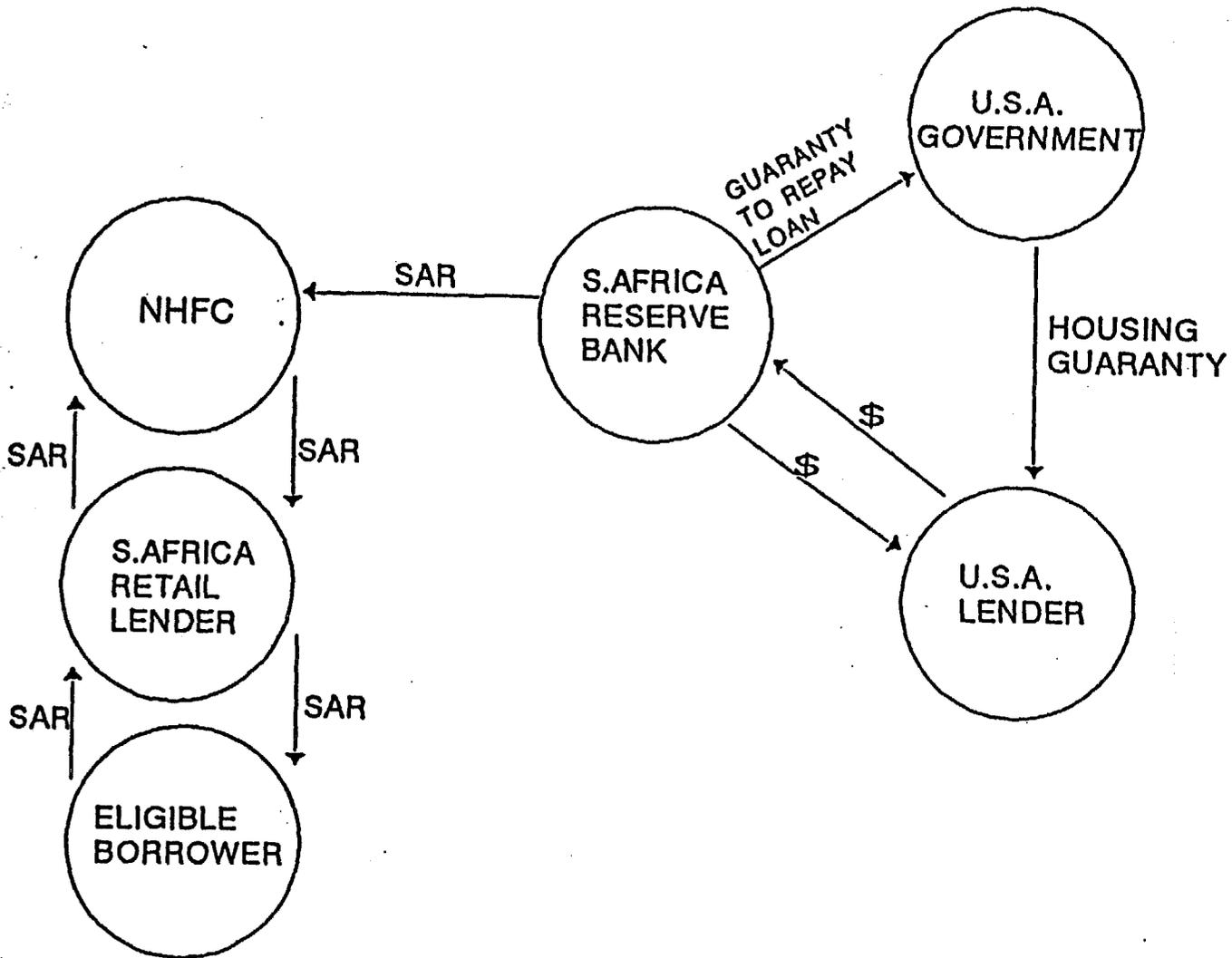
USAID and the DOH, acting on behalf of the NHFC, will sign a Project Implementation Plan prior to the first borrowing, which will stipulate the terms and conditions under which the NHFC may use the HG loan proceeds. A CP to the first disbursement of loan funds under this Option will be the establishment of the NHFC under the Companies Act and the establishment and operation of the Mortgage Insurance Scheme and the Builders Warranty Scheme. Following the first borrowing, the SARB will make an equity contribution to the NHFC equal in Rand to twice the amount of US dollars borrowed. In turn, the NHFC will use these funds for lending to low-income families.

#### **4.4.3 Option 3: Private Sector Bank Borrowing and Implementation**

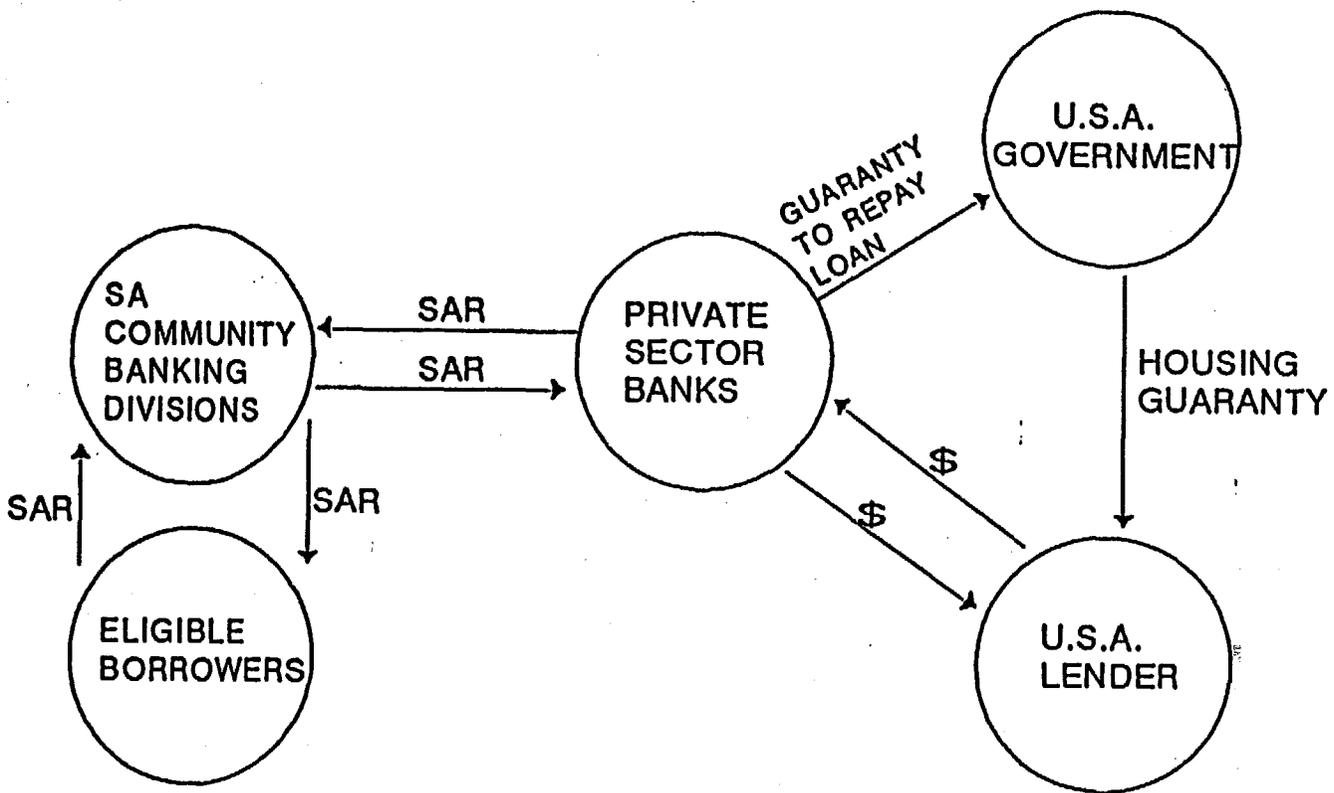
In Option Three (Graphic 4) a South African bank will borrow the HG-guaranteed US dollars and will make the Rand equivalent funds, leveraged by an equal amount of its own funds, available for housing loans to low-income borrowers who are eligible under the Project. Most likely, but not necessarily, the bank will transfer the funds to its community lending division which will actually implement the program. The banks will also be encouraged, subject to negotiation with and agreement by the GNU, to make funds available for equity participation in the NHFC, if appropriate, or for other forms of cooperation which would further the Project objectives. This private bank mechanism, as with Option 1, will not involve a sovereign guaranty. A Program Agreement(s) will be negotiated and signed between USAID and the private bank(s) that borrow under the Project. The signing of the Program Agreement will also permit the private bank to access the U.S. financial markets for a market rate loan.

Insofar as the private bank will be both the borrower and the implementing agency, a Project Implementation Plan will also be required. The USG will provide the U.S. lender a full faith and credit guaranty for the HG loan made to the Borrower. The PIP will include: (1) estimated quantitative outputs, including eligible expenditures to be covered or liquidated by the disbursement; (2) a timetable for liquidating any advance; (3) criteria for selecting and qualifying BSE-HG Project beneficiaries; (4) cash flow estimates, a work-plan, and resource needs for the first year of the Project; and (5) a schedule for achievement of the policy objectives described in the Policy Action Plan. The Project Implementation Plan and its financial forecasts will cover a period of five (5) years, with detailed plans for two (2) years. It will also specify procedures to be used by the Borrower to assure its compliance with the environmental laws and regulations of South Africa.

Graphic 3  
Option Two: Sovereign Borrowing



Graphic 4  
Option Three: South African Bank Program



## **4.5 The Technical Assistance Grant**

Technical assistance will be provided to the Project through the USAID/South Africa funded SUDS Project which will assist in institutional development, education programs for low-income households, and outreach to women-headed households. It will also support implementing USAID's sectoral baseline studies, monitoring, evaluation and policy research. Those data, augmented by USAID/South Africa's on-going program monitoring, evaluation and economic studies, will provide the basis for policy analysis and dialogue with the GNU. The DOH will be the counterpart agency for the TA funds.

To a large extent, the TA provided in conjunction with BSE-HG will continue and extend support that has been provided through SUDS over the past three years. In that sense, much of the ground-work for BSE-HG has been laid and implementing the supporting TA has been facilitated. Some aspects of the assistance, however, will be essential to the Project success in terms of improving the attractiveness of the low-income housing market, which is currently perceived by larger lenders as being very high risk. It is essential, therefore, that the TA mechanism be in place as soon as possible, and every effort will be made to assure this.

The technical assistance will focus on training RLE staff, developing loan criteria, and undertaking outreach programs and strategies. Individual households will be targeted and assisted with information about home loans, application procedures, and consumer protection. The TA program will also assist CBOs and provincial and local governments to tackle some of the gender-related policy, legal and institutional issues related to women and property ownership and to address environmental issues in low-income communities.

A very high priority for the TA program will be to address gender issues as they relate to access to housing finance. The Project will work with the NHFC and the RLEs to improve their outreach efforts for female-headed households. Efforts will be made, primarily through research and data-based dialogue with lenders, to get them to revise their lending standards and criteria to enhance women's access to finance. Assistance to NGOs and CBOs will be directed toward helping women apply for loans and educating them to their rights with respect to housing and finance. The Project will not rely on quotas, which would tend to distort the market mechanism. Progress in this effort, however, will be closely tracked through focused data collection and monitoring efforts to measure the proportion of beneficiaries that are female-headed households.

## **4.6 Roles and Responsibilities**

### **4.6.1 US Agency for International Development**

USAID will provide the Housing Guaranty to the American lender and will negotiate the Program Agreement(s) and Project Implementation Plan(s). It will provide a technical assistance grant to support the achievement of the Project goals and will engage in policy dialogue with the implementing institutions and the DOH. It will monitor Project implementation and evaluate the results.

#### **4.6.2 South African Government of National Unity**

In Options One and Two the DOH will sign the Project Implementation Plan on behalf of the GNU. It will be responsible for ensuring that the NHFC complies with the terms of the PIP. The DOH will also be the counterpart agency for the USAID grant funding.

In Option Two the borrower will be the South African Reserve Bank (SARB), a sovereign borrower. It will enter into a loan agreement with a U.S. Lender, borrow the US dollars from the Lender, and make a capital contribution in an equivalent amount of Rand to the NHFC. It will provide a full faith and credit guaranty to the US Government to repay the HG loan. It will repay the dollars to the U.S. Lender per the terms of the Loan Agreement. As the dollar borrower, it will assume the foreign exchange risk. Further, it will provide a GNU loan guarantee to the USG.

Under Option 3, to the extent that the banks become equity investors in the NHFC, the GNU will be responsible for ensuring that the NHFC complies with the terms of the PIP. The DOH will also be the counterpart agency for the USAID grant funding.

#### **4.6.3 National Housing Finance Corporation**

In Options One and Two the NHFC will be the implementing agency and as such will be responsible for carrying out the terms and conditions of the Project Implementation Plan to be signed between the GNU and USAID. It will receive the Rand from the institutional investor or from SARB and will provide funds to retail lending agencies for housing finance purposes. As the wholesale lender, NHFC will assume the commercial risk of repayment by the retail lending agencies.

The NHFC has not yet been created. However, the GNU has informed USAID that it will be established no later than the end of September 1995 and will be operational by next year. It is expected that the NHFC will be a public corporation in terms of the Companies Act. Its principal purpose is to promote and facilitate the mobilization of housing credit and the provision of these funds to retail lenders. During its formative years, the State will be the majority shareholder; however, private sector shareholders will be sought as investors, and eventually, the private sector may hold a majority interest. Its Board of Directors will be comprised of DOH appointees and of private sector representatives, based on each groups' ownership proportion.

As a secondary lender, NHFC will accredit financial institutions applying for funds under its wholesale operations. Among its business functions will be: administering the various risk interventions, such as the MIS; capitalizing the non-traditional retail lenders; mobilizing funds for pioneer lending schemes by retail lenders; developing mortgage securitization (if feasible); issuing its own paper or partially underwriting paper issued by retail lenders; and serving as a conduit for international grant or loan funds. The NHFC should significantly improve the capacity of the GNU to promote and finance low-income housing.

The NHFC will also act as a secondary or wholesale finance institution, making its funds

available to primary or retail lending institutions to be used for housing loans to the target group. The lending entities will be qualified financial institutions that agree to provide financing for the defined target group of families. In all probability, the non-traditional lenders, which specialize in serving low-income families, will be the primary retail lenders. Such institutions might include alternative types of community-based lenders which might open up new home lending channels to poor people. Other lenders, such as development banks, commercial banks, provincial and local bodies, etc., which have a lending capacity, will also be strongly encouraged to participate in the BSE-HG Project.

The NHFC will be able to make funds available to the RLEs in three ways. It can make bulk loans directly to RLEs, which in turn, will make individual mortgage loans to members of the target group. It may also provide a guaranty to loans obtained by RLEs from other sources, with these same proceeds being used to make individual mortgage or housing loans. Finally, it could purchase eligible housing loans from the RLEs, with the RLEs using the proceeds from the sales of their mortgages (or mortgage participation) to make new loans to the target. HG resources can be used to provide financing under all three of these funding channels.

#### **4.6.4 Private-Sector Financial Institutions**

In all three borrowing options US private-sector financial unsteadiness will make HG Program guaranteed loans to foreign borrowers. The latter may include a foreign bank (Option One), the South African Reserve Bank (Option Two), or a South African Bank (Option Three).

In Options One and Two, the NHFC will on-lend Rand to a wide range of retail lending entities including: mutual banks, such as Community Bank and Cash Bank; the smaller commercial banks, such as Future Bank; subsidiary banking divisions of the large commercial banks, such as E Bank and Peoples Bank; parastatals like the Kwa-Zulu Finance Corporation and Kangwane Economic Development Corporation; non-governmental organizations (NGO) such as Group Credit Corporation; Credit Unions; Stokvels (traditional community-based savings societies); and local and provincial governments that have developed an appropriate lending operation. It will also include the South African Housing Trust, which appears to have the largest capacity to reach low-income families at the present time. Potentially, it will include the large commercial banks; however, initially these banks may be hesitant to enter this untried market. The participation of any retail lender is contingent on an assessment of the institutions' credit-worthiness and subsequent approval as a borrower under the NHFC's guidelines. The role of the RLEs will be to provide bridging finance and make housing finance loans and mortgages to qualified borrowers, either individually or collectively. They will assume the commercial risk and will be responsible for collecting monthly loan payments from borrowers.

In Option Three the South African borrowing bank will also function as a retail lender under the BSE-HG Project. It will make housing loans through its community banking division or operation. These are separate banking divisions that have been set up by at least two of the large commercial banks for the purpose providing low-income families

with consumer banking services, including those related to housing finance. The banks will also be encouraged, subject to agreement by the GNU, to become equity participants in the NHFC, if appropriate.

#### **4.6.5 Housing Providers**

Housing providers are defined as those organizations and individuals such as developers, builders, architects, engineers, lawyers, community developers, etc, who are responsible for producing a housing project. The overall responsibility for developing housing projects that fit within the NHFC criteria will be the responsibility of developers and/or builders, which may be private, public, non-profit or hybrid entities. The housing developer will put together all the legal, organizational, and managerial ingredients necessary to design, build and sell a particular project. These include land acquisition, financing, design and planning, construction, and sales. 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 for identifying the appropriate community-based organization (CBO) and assigning it a relevant and comprehensive role on the development team. The developer must also finance or arrange for bridge financing to build the project and arrange for the subsidy input for the potential home buyers.

#### **4.6.6 Community-Based Organizations**

Community groups or CBOs are voluntary grass roots organizations that represent one or more aspects of a community or group. In South Africa, the most common type of CBO is the "civic," a grass-roots political organization which exists to one degree or another in almost all townships, neighborhoods and villages. Over the years, a nationwide structure has developed with SANCO, the South African National Civic Organization, sitting at the apex and operating much like a trade association. The roles of civics and other such organizations have evolved over the past few years. Their role as protest groups has declined, while that as participants in the rebuilding of the physical and social infrastructure is growing.

CBOs will play a major role in the implementation of the BSE-HG Project. Based on recent experiences in low-income projects and in accordance with the RDP emphasis on a fully participatory process, the participation of CBOs with the other major players in a particular project is critical to its success. The scope of this participation is defined as a Social Compact that outlines the role and responsibility of each party, including the CBO. In general, the role of the CBO will encompass appropriate levels of direct involvement in all stages of the planning and development process as well as borrower education, consumer protection, community representation, and any and all roles that would ensure that the family is receiving good value for its money.

#### **4.6.7 Provincial Housing Boards**

Provincial Housing Boards are responsible for the allocation of subsidies under the GNU capital subsidy scheme in each of the nine provinces. Since most of the low-income

housing loans granted under the BSE-HG Project will be made in conjunction with a subsidy, the ability of the housing boards to operate efficiently and effectively in a transparent manner, will facilitate the development of low-income housing programs.

#### **4.6.8 Project Beneficiaries**

Beneficiaries will be low-income, urban South Africans. They may include squatter settlement families, families who have a serviced site but no shelter, families who currently rent, and families who are essentially homeless. A family who already owns a standard housing unit will not be eligible to participate in the BSE-HG supported project. Exceptions will be made for families acquiring a sub-standard single family unit, previously owned by the State, who wish to borrow under the BSE-HG Project to improve the structure to generally accepted housing standards.

Low-income means that the total family income from all sources does not exceed Rand 1,500 per month. Families must also be able to qualify for a housing or mortgage loan from a financial institution that has been certified as a retail lender by the NHFC. In most cases, they must qualify for a housing subsidy. Prospective beneficiaries who cannot qualify for a housing loan because of a lack of a credit history can participate in a saving program as a prerequisite for a loan. Beneficiaries must also be South African citizens. All reasonable efforts must be made to ensure that female beneficiaries have equal access to the lending program. Moreover, most beneficiaries are likely to be members of CBOs. Thus, beneficiary participation in project implementation processes is virtually assured.

## **5.0 DEFINITION OF SUCCESS**

### **5.1 Project Outputs**

The primary outputs of the Project assistance include institutional development and capacity building, funds mobilization, the production of shelter solutions, and policy reform. The Project will help increase the overall capacity of housing finance institutions to serve the needs of low-income households and to mobilize large amounts of capital from a variety of sources for low-income lending purposes. Particular focus will be on the capacity of the NHFC to function as a wholesale lender and on the capacity of non-traditional and large retail lenders to serve low-income families. In addition, the BSE-HG Project funds are expected to serve as a catalyst in the mobilization of more capital for this market, including the infusion of additional funds from the large financial institutions in South Africa. Every \$1 million of BSE-HG Project loan funds, which will produce twice the equivalent investment in Rand, will finance improved shelter and services for about 720 disadvantaged families. Finally, it is expected that significant housing and urban policy reforms will occur. The specific expected life of project outputs are:

- Improved institutional capacity at wholesale and retail shelter lender levels.
- Increased private sector financial resources available for housing sector.
- Increased supply of housing solutions for low-income households.
- Policy reforms developed through USAID continuing policy dialogue with GNU

and other stakeholders in areas of shelter and construction finance and environmentally sustainable community development.

### **5.1.1 Improved Institutional Capacity**

Through the BSE-HG Project, the South African institutions responsible for financing the delivery of low-income housing will have increased their capacity to meet the overwhelming need. This increase will occur at two levels: the national or "wholesale" level and at the implementing or "retail" level. At the wholesale level, it will consist of ensuring that the new NHFC will meet its objectives of: mobilization of sufficient finance; education of the community; capacity building of the NTRLs; operation of the MIS; and policy formulation based on a shelter research and analysis program. In this case, the output will be a fully functional institution capable of fulfilling the objectives listed herein.

At the retail level, the effort will involve building the capacity of the small and nascent NTRLs that are willing to provide housing finance to low-income families, yet in general, lack the capacity to do so at the level required to meet the need. The output here will consist of the development of a strong and vibrant group of institutions operating throughout the country with the capacity to provide low-income housing finance.

It is also anticipated that the development of the NHFC as the leading wholesale housing lender in South Africa and the financial success the NTRLs have in serving the low-income market segment will convince the large formal lenders to allocate more of their substantial resources to this same market. The participation of private banks, and their community banking divisions, as a HG borrower and as a mortgage lender to very-low-income families, should also demonstrate visibly that the large banks are able to serve low-income families and do so profitably. Further, this will dispel the notion that low-income borrowers are not credit-worthy.

### **5.1.2 Increased Financial Resources for Housing**

The HG Project will only provide a small amount of the huge financial requirements to meet the housing need. It is expected, however, that the HG funds will leverage additional local funds, particularly from institutions that might not provide such funds if the US Government were not involved. In Options One and Two the involvement of USAID in providing capital to the new NHFC will provide part of the equity capital necessary for a new institution. Further, technical assistance from USAID in the area of resource mobilization both from institutions as well as individuals in the form of saving, will increase the flow of finance resources to the sector.

### **5.1.3 Increased Supply of Low-Income Housing**

The total amount of funds available under the BSE-HG Project will be up to \$260 million (R910 million), including up to \$130 million in HG loans and up to \$130 million in leveraged local funds. The average cost of the shelter solutions anticipated under the Project will be R10,000. Each \$1 million borrowed under the HG, assuming it produces the Rand equivalent of \$2 million available for Project activities, will provide housing

finance for about 720 families, with the Project able to serve up to 93,600 families in total. With an average family size of five among the target population, up to 468,000 people will directly benefit from the BSE-HG Project. Additional thousands of families will benefit indirectly through improvements in the urban environment that result from the BSE-HG Project's development.

#### **5.1.4 Policy Reforms and New Low-Income Shelter Programs**

With the democratic Government firmly in place and its policies now beginning to take shape, USAID is establishing bilateral assistance projects with GNU. The overriding aim is to assist the GNU to develop the long-term capacity to assure environmentally sustainable urbanization and to facilitate the delivery of affordable shelter and urban services to low-income households, and in doing so to make maximum use of private sector resources. The BSE-HG Project will provide a mechanism through which the experience of the USG, both in the United States and abroad, can be made available to South Africans. If USAID is to establish a productive assistance relationship with the GNU, it will have to be based on a mutually acceptable program than can meet the GNU's short-term needs without doing injury to the longer term policy goals in the sector.

There are a number of potential areas where USAID can contribute to the development of GNU policy and programs in the shelter sector, including: the role of parastatals and the private sector in retail and wholesale housing finance; the conflict between the pressure to produce short-term results for large numbers of households through large construction projects implemented by established firms, and the objective of empowering small-scale, especially historically-disadvantaged developers and builders; the conflict between the adoption and enforcement of policies to enhance the urban environment and the opportunity costs for these resources; the type and appropriate size of subsidies and the need to temper high expectations with fiscal realities; and the conflict between supply-side programs that provide construction cost write-downs to developers and builders, and a demand-side subsidy system targeted to the household level that would encourage individual savings.

Perhaps the issue on which the BSE-HG will give USAID the most policy leverage is that of the role of private sector institutions in the financing of low-cost shelter. The creation of the NHFC will be one of the most significant efforts of the GNU in the field. During its formative period, USAID has been providing technical assistance through the SUDS Project to help GNU establish appropriate structures and functions for NHFC. The BSE-HG Project and its associated allocations of SUDS funds will enable USAID/South Africa to continue the policy dialogue. USAID will work with the Department of Housing and the NHFC to maintain the commercial viability of the NHFC and to push for a commitment to the eventual privatization of the NHFC. Issues that will be involved in this dialogue will include loan evaluation procedures and criteria, avoidance of excessive market segmentation, establishment of market-based lending terms, staffing, and management of the NHFC.

It must be emphasized, however, that the BSE-HG Project is not a policy-reform project in which USAID disbursements will be released following the completion of a pre-

determined list of policy objectives. Rather, the objective of the BSE-HG Project will be to give USAID and the GNU the opportunity to work together and to base policy dialogue on the documented lessons learned through the BSE-HG Project.

## **5.2 Output Indicators**

It is the intended result of this Project that the GNU will have in place a full array of operational programs in housing finance and production that will essentially provide a minimally acceptable level of adequate housing. At the least, the housing deficit will progressively decline, indicating that fewer and fewer South Africans will be living in inadequate shelter conditions. Concomitantly, the USAID Strategic Objective of increasing asset ownership, in this case, through attaining the ownership of a home, will have been achieved.

Specific outputs will be negotiated in each of the BSE-HG Project Implementation Plans. However, by the completion of this four-year BSE-HG Project, it is expected that the following results will have been achieved, as represented by the quantitative and qualitative measurements:

### **5.2.1 Institutional**

The NHFC will become legally established no later than September 1995; fully operational by mid-1996, and able to carry out its functions as generally defined in the DOH *White Paper*. If the BSE-HG is directly involved in the capitalization of the NHFC, it will have generated funding from sources other than the BSE-HG Project equivalent to the level of the BSE-HG funds made available to it.

### **5.2.2 Financial**

The retail lending agencies, both formal and informal, will have increased their lending to disadvantaged South Africans by the Rand equivalent to at least double the level of the HG guaranteed FX loans; i.e., of up to the Rand equivalent of at least \$ 260 million.

### **5.2.3 Physical**

The number of disadvantaged South Africans living in sub-standard or non-existent housing will have been reduced by about 93,600 households.

### **5.2.4 Policy and Program**

The current South African National Housing Policy will have been implemented and accepted fully by the provincial and municipal governments.

## **5.3 Monitoring and Evaluation Plan**

A comprehensive BSE-HG Project monitoring and evaluation plan for the BSE-HG Project will be incorporated into the scope of work of USAID/South Africa's Economic

Development Information System (EDIS) institutional contract, which will be funded in FY 96. USAID/South Africa grant funds will also provide technical assistance to the DOH to establish a monitoring and evaluation unit to track the implementation of and lessons learned from the BSE-HG Project. Data from both monitoring and evaluation components will form the basis for USAID's continuing policy dialogue with GNU/DOH and with the private banking sector related. (See Annex M)

## **6.0 FEASIBILITY ANALYSIS**

### **6.1 Risks and Assumptions**

- a. Option 1: The South African Government will approve the asset-swap mechanism, and acceptable foreign financial institution and South African company participants will be identified.
- b. Option 2: The South African Government will agree to borrow foreign exchange and on-lend Rand to the NHFC or directly to eligible borrowers.
- c. Option 3: The South African Government will allow one or more qualified private sector institutions to borrow foreign exchange and on-lend Rand to the NHFC or directly to eligible borrowers.
- d. The South African Government will agree to the policy objective output as described in the Project Paper.
- e. The retail financial institutions agree to participate in the BSE-HG Project, accepting fully the commercial risks, at a level sufficient to utilize the HG Funds over the four year LOP.

### **6.2 Issues Related to Project Success**

The BSE-HG Project is being implemented during a time when the new national Government has been in office for only one and a half years, with a new agenda, priorities, initiatives, and officials, all of which may necessitate BSE-HG Project modification. Added to this are the upcoming local government elections in November 1995. It is almost certain, therefore, that there will continue to be changes in banking, investment, and environmental legislation. Included in this milieu is the continuing possibility of prescribed lending and a type of community reinvestment act which will have a major impact on private sector housing finance institutions. With cognizance of these and other factors, USAID intends to undertake a BSE-HG Project review sometime in the spring of 1996, to assess the impact of the changes on the BSE-HG Project and to make recommendations for changes, as appropriate.

### **6.2.1 Institutional**

- a. The NHFC may not be operational within a reasonable time to implement the HG-funded program as stipulated in the Program Agreement. If a Program Agreement has been made under either Options One or Two, the Program Agreement will have to either be amended, or it will have to be written to include alternatives to the NHFC as the implementing institution.
- b. The NTRLs, which will be implementing agents under Options 1 and 2, may not have or develop the capacity to make the required number of shelter loans during the LOP.

### **6.2.2 Economic**

#### **a. Nature of the National Housing Finance Corporation**

The NHFC's Board of Directors may be structured such that the Government may control it even with less than 51 percent of the NHFC stock and cause the NHFC to behave like a parastatal financial institution. Thus, care and attention will be required to ensure that the NHFC remains financially viable. This will be a primary objective of the policy dialogue conducted under the Project.

#### **b. Transparency and Nature of the GNU Housing Subsidy**

In conjunction with the NHFC, the South African Government will also be providing a direct subsidy program of up to R15,000 per household to enable lower-income households to qualify for housing bonds. Two key characteristics of this program will be required in order to avoid future fiscal difficulties. First, the housing subsidy should be a direct capital subsidy, i.e., a lump sum payment on the purchase price of a house or site, rather than an interest rate subsidy. This will make the subsidy a one-time affair for each household and will not generate future claims on the Government's revenue base.

Secondly, the subsidy should be transparent. This will involve several items. First, it should be a specific line item of the national budget for the DOH, and fiscal discipline should be used to ensure that the amounts approved in that line item are not exceeded. Second, specific criteria, which must be strictly enforced, for receipt of the subsidy will be needed. Third, a system of detailed and auditable records will be required to ensure that the eligibility criteria are followed and that individuals do not receive multiple subsidies. These issues will be pursued with the DOH through USAID/South Africa policy dialogue and SUDS-funded technical assistance will be used to assist the Government in meeting these criteria.

#### **c. Crowding-Out**

The structure of the financial transaction in the BSE-HG Project is such that no new resources will be brought to bear in South Africa. Instead, existing investment resources will be reallocated to the housing sector. As pointed out above, this implies that the economic benefits resulting from the increased investment in housing must be offset by

the reduction of economic benefits in the sector(s) of disinvestment. Thus, the primary justification for this activity cannot be on economic grounds. Instead, it is based on the fact that it helps the South African Government meet one of the key social needs of the country's poor.

### **6.2.3 Beneficiary**

#### **a. Role of Stakeholders**

For Project benefits to reach the low-income target population, with its attendant real and perceived risks, requires commitment and willingness from lenders, developers and builders. Whether these stakeholders will adjust their business practices to serve low-income home borrowers depends on some factors that are beyond the control of the Project.

#### **b. Role of Women in Housing**

A large segment of the target low-income beneficiary group are female-headed households. Although the policy environment in South Africa is gender-sensitive, actual practices, including financial and legal, are not keeping up with the rhetoric of ensuring women's economic empowerment. How best to institutionalize gender equality in access to shelter finance, without resorting to quotas, remains a challenge that the Project can only address in part.

## **7.0 FINANCIAL PLAN**

### **7.1 Project Budget (USAID and Counterpart Resources)**

The total Project financial package includes: the authorized HG funds; the local counterpart financing, which is expected to match the HG funds on an equal basis; and the down payments, equal to 5% of unit cost, from the Project beneficiaries. As now structured, the breakdown is as follows:

**Table 1: BSE-HG Project Budget**

Housing Guaranty Funds	R 455,000,000
Counterpart Funds	455,000,000
Beneficiary Down Payments	48,000,000
<b>TOTAL</b>	<b>R 958,000,000</b>

In addition to the Project funds, up to \$6 million in technical assistance grants will be available through the SUDS Project over the four-year life of the Project. USAID technical assistance will be provided to the participating institutions, principally the NHFC and the RLEs. TA to the NHFC will consist mainly of advisory services to the new institution on organizational, management, and information issues required to set up the new company. The illustrative financial plan (Table 2, Section 7.4 below) indicates that about \$900,000 of the \$6 million in TA will be allocated to the NHFC.

Technical Assistance to the RLEs will consist largely of staff training for the smaller RLEs to cope with the increased volume of work as well as management assistance to enhance the overall capacity of those RLEs with insufficient capability to carry out the lending programs. The bulk, or \$3.8 million, of the TA will be directed to those needy institutions. Consumer education will utilize \$450,000 of the TA and will be used to prepare information and documentation that the RLAs and other supporting institutions will use to carry out consumer information programs, as well as to prepare and undertake consumer education training for bank and NGO officials.

Some \$250,000 will be allocated for gender training, education, documentation preparation and related aspects of this subject. The preparation of baseline studies for monitoring and indicators purposes will utilize another \$400,000. Finally, \$200,000 will be reserved for project evaluation purposes.

## **7.2 Obligations (Expected, Instruments, Schedule)**

The HG funds will be authorized in FY 95 with the approval of the Project Paper not later than August 28, 1995. The Program Agreement between USAID and the HG Borrower must be negotiated and signed no later than August 31, 1995. It is expected that the Project Implementation Plan(s) will be negotiated and signed no later than December 31, 1995. When the borrower meets the conditions precedent, it will be given written authorization to borrow the HG funds from eligible US lenders. It is anticipated that the first borrowing will take place in FY 96. Subsequent obligations and disbursements will take place over the four-year project period as credit subsidy funds are available. The supporting TA grant will be obligated in FY 96 and implemented over the LOP.

### **7.3 Illustrative Financial Plan**

Table 2, "Illustrative Financial Plan," presents a financial breakdown for the Project costs over the 4 year LOP. Financial information is provided for the two major program categories, the lending program and the technical assistance program. It assumes that the bulk of the TA expenditures will occur during the first two years of the Project.

## **8.0 PROJECT MANAGEMENT**

### **8.1 USAID Roles and Responsibilities**

The Project will be managed by the Housing and Urban Development Division (HUDD) of the Office of Economic Development. The HUDD is currently staffed by three USDHs, one US/PSC and an FSN Urban Planner, which is deemed a sufficient professional staff level to carry out this new Project in addition to its on-going project responsibilities. Because of pressures to reduce FTE levels, however, the Mission will eliminate one USDH in the Division in FY 96. As a result, the option of funding a PSC to manage the BSE-HG Project is under consideration.

### **8.2 SUDS (674-0312) Funded Technical Assistance**

The SUDS Project was amended in July 1995, to increase the authorized LOP by \$20 million, for a total of \$70 million. Of this increased amount, \$10 million will be utilized to provide technical assistance to the Government of National Unity in support of the three housing guaranty projects, including the BSE-HG Project. The BSE-HG Project will utilize \$6 million of these funds. The primary planned mechanism will be a Limited Scope Grant Agreement with GNU, with direct contracting through available IQCs employed as appropriate.

### **8.3 Project Audit Plan**

In accordance with USAID guidelines, there will be a final audit of the Project, arranged by USAID and paid with funds in the SUDS Project. The audit is to be conducted by a competent audit firm, either South African or U.S., or a combination of two of more firms, and must meet all relevant U.S. Government audit requirements.

### **8.4 Financial Reporting by the Implementing Organizations**

The implementing institutions will submit quarterly reports to USAID. These reports will be submitted 30 days after the end of the reporting quarter and will provide a detailed description of the loan activity during the period. At minimum, the description will cover the BSE-HG Project expenditures by providing a list of the beneficiaries by lending institution, with the address of the beneficiary, the family income, the loan amount, type of solution and the beneficiary's gender. Lenders that are not able to provide all the above information due to the lack of appropriate management information systems will be helped to develop such systems through the technical assistance component of the Project.

**Table 2: Illustrative Financial Plan  
(Thousands of US\$)**

Activity	FY 96	FY 97	FY 98	FY 99	TOTAL
<b>I. Home Loans Total:</b>	185,000	75,000			260,000
1. HG Funds	130,000				130,000
2. Counterpart Funds *	55,000	75,000			130,000
<b>II. TA Total</b>	3,000	2,000	700	300	6,000
1. Institutional Assistance:	-	-	-	-	-
a) NHFC	500	300	100		900
b) RLEs	1,800	1,300	500	200	3,800
2. Education	300	150	-	-	450
3. Gender	200	50			250
4. Baseline Studies	200	100	100		400
5. Evaluations		100		100	200

\* Note:

The GNU and local private sector contributions will be in Rand in an amount roughly equivalent to the dollar HG loan at the time that each disbursement is made, as specified in the Program Agreement.

***ANNEXES A - M***

## **PROJECT PAPER**

### **ANNEXES**

#### **Basic Shelter and Environment Housing Guaranty Program 674-HG-002**

- A. NAD Approval Cable**
- B. Logical Framework**
- C. GNU Letter of Request**
- D. Project Summary: SUDS (674-0312)**
- E. Project Statutory Checklist**
- F. Initial Environmental Examination**
- G. Disaster Mitigation Analysis**
- H. Technical Analysis**
- I. Institutional Analysis**
- J. Social Analysis**
- K. Economic Analysis**
- L. Environmental Analysis**
- M. Monitoring and Evaluation Plan**

***ANNEX A***

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SHALL ALSO BE SUBJECT TO CLEARANCE OF THE SUBSIDY CALCULATION AND LOAN TERMS BY G/ENV/UP AND FA/B, AND EXPIRATION OF A CN WITHOUT OBJECTION.

IV. ALTHOUGH NO MAJOR ISSUES WERE RAISED AT THE REVIEW, THE PC MADE SEVERAL OBSERVATIONS AND SUGGESTIONS WHICH ARE NOTED BELOW:

A. WOMEN IN DEVELOPMENT (WID)

THE MISSION IS COMMENDED FOR ITS RECOGNITION OF THE IMPORTANCE OF GENDER-RELATED ISSUES IN THE BSE-HG DESIGN AND FOR ITS COMMITMENT TO ADDRESS THE CREDIT NEEDS OF FEMALE-HEADED HOUSEHOLDS. THE PC ENCOURAGES THE MISSION TO CONTINUE TO WORK WITH G/WID TO ACHIEVE THE OBJECTIVE EXPRESSED IN THE NAD SO THAT THE BSE-HG WILL QUALIFY AS A WID PROJECT.

B. PARTICIPATORY DESIGN PROCESS

THE MISSION IS COMMENDED FOR THE FAR REACHING PARTICIPATORY PROCESS THAT WAS A KEY DETERMINANT OF THE HIGH QUALITY OF THE BSE-HG NAD. AS THE MISSION MOVES TO COMPLETE THE BSE-HG PROJECT PAPER, THE PC ENCOURAGES THE MISSION TO CONTINUE ITS INNOVATIVE TOTAL TEAM DESIGN METHODOLOGY WHICH INTEGRATES IDEAS FROM: A BROAD CROSS-SECTION OF COMMUNITY REPRESENTATIVES, INCLUDING DIRECT INPUTS FROM THE TARGET BENEFICIARIES; THE SOUTH AFRICAN GOVERNMENT OF NATIONAL UNITY (GNU); AID/W (G/ENV/UP; G/WID; GC/AFR); USAID/SOUTH AFRICA DIVISIONS (HOUSING, SOCIAL SCIENCE, ECONOMIST, PROG); AND REDSO/ESA (URBAN PROGRAMS AND ENVIRONMENTAL). THE PROJECT PAPER SHOULD FULLY DOCUMENT THE BSE-HG PARTICIPATORY DESIGN PROCESS.

C. PEOPLE LEVEL IMPACT

THE PROJECT PAPER SOCIAL SOUNDNESS ANALYSIS SHOULD SPECIFICALLY ADDRESS THE ANTICIPATED PEOPLE LEVEL IMPACT OF THE BSE-HG, ESPECIALLY THE ENVIRONMENTAL IMPACTS AND THE IMPACTS ON FEMALE HEADED HOUSEHOLDS.

D. CONCENTRATION OF MISSION RESOURCES

THE PC FULLY ENDORSES USAID/SOUTH AFRICA'S GOAL TO SEEK MAXIMUM IMPACT BY CONCENTRATING RESOURCES AND ENCOURAGES THE MISSION TO IDENTIFY BSE-HG FUNDED PROJECT ACTIVITIES IN GEOGRAPHIC AREAS THAT CAN ENHANCE THE SYNERGY FROM OTHER MISSION PROGRAMS.

E. INSTITUTIONAL RELATIONSHIPS

THE MISSION SHOULD CAREFULLY CONSIDER THE RELATIVE ADVANTAGES AND TRADE-OFFS BETWEEN A PRIVATE AND PUBLIC

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SECTOR BORROWER UNDER BSE-HG. THE OBJECTIVE OF BSE-HG IS TO ASSIST THE GNU TO ESTABLISH AN INSTITUTION TO MOBILIZE CAPITAL FOR SHELTER FROM THE PRIVATE SECTOR. THEREFORE IT APPEARS THAT A PRIVATE SECTOR BORROWER OF THE HG FUNDS, WHICH ON-LENDS LOCAL CURRENCY TO THE GNU INSTITUTION, IS

MORE CLOSELY ALIGNED TO THE PROGRAM CONCEPT THAT A DIRECT HG LOAN TO THE GNU. HOWEVER, THE PC DOES RECOGNIZE THAT THE BSE-HG MAY HAVE A GREATER OPPORTUNITY FOR SUCCESSFUL POLICY DIALOGUE IF THE PROGRAM BORROWER AND IMPLEMENTOR AGENCIES ARE BOTH IN THE PUBLIC SECTOR. DESPITE THIS, AND GIVEN THE DIFFERENT LEVELS OF RISK AND CREDIT WORTHINESS ASSOCIATED WITH PRIVATE AND PUBLIC SECTOR BORROWERS, IT IS QUITE PROBABLE THAT THE FY95 CREDIT REFORM SUBSIDY FUNDS AVAILABLE FOR THE BSE-HG WOULD SUPPORT A HIGHER LEVEL OF HG AUTHORITY IF A PRIVATE SECTOR BORROWER WHERE IDENTIFIED THE PCIS PREFERENCE IS THAT A PRIVATE SECTOR BORROWER BE IDENTIFIED.

F. TECHNICAL ASSISTANCE AND TRAINING

MISSION DFA-FUNDED TA SUPPORT IS THE CRITICAL ELEMENT FOR THE SUCCESS OF BSE-HG. THE MISSION SHOULD PAY PARTICULAR ATTENTION TO DESCRIBING THE TA LEVELS REQUIRED AND OBJECTIVES AS THE BSE-HG PROJECT PAPER IS BEING PREPARED.

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ACTION: AID-1  
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TAGS:

SUBJECT: BASIC SHELTER AND ENVIRONMENT HOUSING GUARANTY PROGRAM (674-HG-002) AMENDMENT TO NEW ACTIVITY DESCRIPTION REVIEW CABLE

REF: SECSTATE 63439, 15 MAR 95

1. AN AFRICA BUREAU PROJECT REVIEW COMMITTEE (PC) MET ON FEBRUARY 27, 1995 TO REVIEW THE NEW ACTIVITY DESCRIPTION (MAD) FOR THE SOUTH AFRICA BASIC SHELTER AND ENVIRONMENT HOUSING GUARANTY PROGRAM (BSE-HG).

2. FOLLOWING THE BSE-HG NAD REVIEW, THE AFRICA BUREAU DAA/AFR DELEGATED AUTHORITY TO THE DIRECTOR, USAID/SOUTH AFRICA, BY REFTEL, TO APPROVE THE BSE-HG PROJECT PAPER; TO AUTHORIZE THE ISSUANCE OF HOUSING GUARANTIES (HG) IN A TOTAL AUTHORIZED AMOUNT NOT TO EXCEED DOLS 75 MILLION; AND TO OBLIGATE THE RELATED SUBSIDY COSTS THROUGH THE EXECUTION OF A HOUSING PROGRAM AGREEMENT.

3. FOLLOWING A REVIEW OF THE CREDIT RISK LEVELS OF THE PROBABLE BORROWING INSTITUTIONS(S) UNDER BSE-HG, GIENVIU AND USAID/SOUTH AFRICA HAVE ESTIMATED THE HG AUTHORITY FOR -BSE-HG THAT COULD BE GENERATED BY THE FY95 APPROPRIATED

SUBSIDY, WILL RANGE UP TO DOLS 130 MILLION, AND SUBMITTED A CN TO THAT EFFECT ON JULY 17, 1995.

4. BY APPROVING THIS CABLE, THE DAA/AFR AMENDS REFTEL TO DELETE ALL INSTANCES OF THE WORDS QUOTE DOLS 75 MILLION UNQUOTE AND TO REPLACE THEM IN THEIR ENTIRETY WITH THE WORDS QUOTE UP TO DOLS 130 MILLION UNQUOTE.

5. ALL OTHER SECTIONS OF REFTEL REMAIN UNCHANGED.

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DATE: 08/10/95

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***ANNEX B***

LOGFRAME

South Africa Basic Shelter & Environment Housing Guaranty Program

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS								
<p><b>Goal:</b></p> <p>To help increase opportunities for access to and ownership of assets by historically disadvantaged South Africans while supporting economic development</p>	<p>a. Number and value of environmentally sustainable low-income homes built and improved with finance and leveraged resources linked to the HG</p>	<p>a. Mission-funded EDIS contract</p> <p>b. NHFC Data and Evaluation Unit</p> <p>c. Wholesale and Retail Lender Input</p>	<p>Provision of low-income housing remains a critical priority of the GNU</p>								
<p><b>Purpose:</b></p> <p>To increase access to capital for expanded ownership of shelter thru strengthened financing mechanisms focusing on the role of the private sector</p>	<p><b>EOPS:</b></p> <p>a. Viable financial model(s) developed and tested</p> <p>b. Number and value of loans to home buyers in the target low-income population and emerging builders</p> <p>c. Improved policy environment</p>	<p>a. External consultants' assessment of model's characteristics and impact</p> <p>b. Gender and income desegregated records of wholesale and retail lenders and NHFC</p> <p>c. Policy reforms implemented</p>	<p>Adequate capacity among retail lenders and builders</p> <p>Bond boycotts eliminated</p> <p>Mortgage interest rates stable</p> <p>GNU Builders' Warranty Scheme in place</p>								
<p><b>Outputs:</b></p> <p>a. Improved institutional capacity at wholesale and retail shelter lender levels.</p> <p>b. Increased private sector financial resources available for housing sector.</p> <p>c. Increased supply of housing solutions for low-income households.</p> <p>d. Policy reforms developed through USAID continuing policy dialogue with GNU and other stakeholders in areas of shelter and construction finance and environmentally sustainable community development</p>	<p>a. Number of private sector lenders making loans to very low-income households and emerging builders</p> <p>b. Number of private sector lenders making construction and business loans</p> <p>c. Policy analyses completed and policy agenda developed</p>	<p>a. Gender and income desegregated records of wholesale and retail lenders and NHFC</p> <p>b. GNU Policy Papers and analyses</p>	<p>The GNU will accept HG loan or, alternately, agree to a private sector wholesale borrower of HG loan</p> <p>National Housing Finance Corporation established (or equivalent entity designated by the GNU) and funds on-lent to retail lenders</p> <p>CPs to disbursement met</p>								
<p><b>Inputs:</b></p> <table border="0"> <tr> <td>a. Housing Guaranty FX loans (LOP) - provided by U.S. private sector lender</td> <td>₺ 130,000,000</td> </tr> <tr> <td>b. Credit Reform Subsidy (estimated LOP) - provided by USAID/W</td> <td>₺ 21,000,000</td> </tr> <tr> <td>c. Local Currency (Rand) leveraged by Housing Guaranty FX loan (estimated ₺ equivalent)</td> <td>₺ 130,000,000</td> </tr> <tr> <td>d. DFA funded TA (under USAID/SA SUDS Project No 674-0312)</td> <td>₺ 8,000,000</td> </tr> </table>				a. Housing Guaranty FX loans (LOP) - provided by U.S. private sector lender	₺ 130,000,000	b. Credit Reform Subsidy (estimated LOP) - provided by USAID/W	₺ 21,000,000	c. Local Currency (Rand) leveraged by Housing Guaranty FX loan (estimated ₺ equivalent)	₺ 130,000,000	d. DFA funded TA (under USAID/SA SUDS Project No 674-0312)	₺ 8,000,000
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d. DFA funded TA (under USAID/SA SUDS Project No 674-0312)	₺ 8,000,000										

Basic Shelter and Environment Housing Guaranty Program 674-HG-002

LOGICAL FRAMEWORK

ANNEX B

BEST AVAILABLE COPY

***ANNEX C***

ANNEX C

GNU LETTER OF REQUEST

Basic Shelter and Environment Housing Guaranty Program 674-HG-002

DEPARTEMENT VAN FINANSIES  
DEPARTMENT OF FINANCE



Finansiële Beplanning • Financial Planning

PRIVAATSAK • PRIVATE BAG X115 • PRETORIA • 0001 • TELEX

990015

Mr L Dean  
Director, USAID  
P O Box 55380  
ARCADIA  
0007

<b>ACTION</b>	
Control No	99001514
Date	08/14/95
Ref to	HUD
Intn:	DR
	RP
	Ch...
Due date	08/21/95
Action taken	
Date	
Initials	

- FAKS NR. 219 580  
FAX NO.
- TEL. 315 56972
- UITR. EXT.
- NAVRAE ENQUIRES Ms M Ramos
- VERW. REF.
- DATUM DATE

Dear Mr Dean

We note with pleasure that the US Agency for International Development (USAID), in consultation with the Department of Housing, is developing a Basic Shelter and Environment Housing Guarantee Programme which will provide new shelter finance opportunities to urban households earning less than R1 500 per month.

In response to the above-mentioned intended offer by the Government of the United States of America, I have been directed to inform you that the Government of the Republic of South Africa wishes to participate as the borrowing institution in the Basic Shelter and Environment Housing Guarantee Programme in an amount not exceeding US\$130 million subject to the satisfactory completion of negotiations related to the programme agreement.

The Department of Housing in collaboration with the Department of Finance will in due course discuss the modalities and timing of the facility with your office.

Sincerely

MARIA RAMOS  
DEPUTY DIRECTOR-GENERAL: FINANCIAL PLANNING

***ANNEX D***

## ANNEX D

### PROJECT SUMMARY: SUDS (674-0312)

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

The Shelter and Urban Development Support (SUDS) Project was initially authorized on May 13, 1992 with a LOP funding of \$30 million and a PACD of September 30, 1995. The project purpose is to promote the economic empowerment of disadvantaged South Africans through support for the improvement, increased production and greater ownership of affordable shelter within viable urban environments.

The SUDS project was amended on March 25, 1994 to increase the authorized LOP by \$20 million, for a new total of \$50 million, and to extend the PACD to May 12, 1999. The rationale for the amendment included:

1. the need to expand the scope and duration of the project's major activity, the Community and Urban Services Support Project (CUSSP), to permit it to fulfill its potential and attain its objectives;
2. the necessity of furnishing monitoring and evaluation services to SUDS and other HUDD programs to ensure that lessons learned would be distilled and disseminated to concerned parties; and
3. the requirement to provide matching grant funds for HUDD Housing Guaranty projects including the September 1994, \$75 million Private Sector Housing Guaranty Project and the \$75 million Basic Shelter and Environment Housing Guaranty Project that was then in its initial design stage.

The original SUDS project was developed during the period when the Mission, operating under the Comprehensive Anti-Apartheid Act (CAAA) of 1986, was working to hasten the dismantling of the apartheid system by promoting the political, social and economic empowerment of the disadvantaged majority. SUDS project activities were designed to forward these aims, above all in the area of economic empowerment. They included assisting community-based organizations to design and implement shelter projects, strengthening associations of black contractors and construction firms, providing shelter-financing for low-income households, and, in general, advancing policies in support of the Mission's articulated goal.

With the establishment of the Government of National Unity, and the Mission's adoption of a more "developmental" agenda, current mission objectives stress more tangible political and socio-economic gains. All present and future SUDS activities provide direct support for Mission Strategic Objective Number 3 "increased asset ownership and economic

integration for the historically disadvantaged" as well as to its associated Program Outcomes which include: leveraging of resources; improving the policy and regulatory environment; improving the effectiveness and sustainability of government organizations, NGOs and CBOs; and creating viable housing finance models.

Since the commencement of the SUDS project in May 1992 and the end of FY'94, USAID has obligated \$35.4 million. The balance (\$14.6 million) of the existing \$50 million LOP, has been fully programmed for FY'95 and FY'96 at levels of \$7.5 million and \$7.1 million respectively. Items to be funded with the remaining money include: existing mortgages, project management expenses, the upcoming CUSSP amendment, and the initiation of a limited number of new activities including the institutional contract for the SUDS monitoring and evaluation activity.

## **I. DISCUSSION**

### **Summary Project Description**

#### **1. Goal and Purpose**

The goals and underlying assumptions of SUDS have not been altered by the previous or proposed amendment. In effect, both the project goal, "to promote the economic empowerment of disadvantaged South Africans" and purpose "support for the improvement, increased production and greater ownership of affordable shelter within viable urban environments" remain as relevant today as they were when the project was initially designed.

In similar vein, activities intended to bring about the attainment of project objectives have not undergone any significant transformation, although in most instances, they have evolved to a more mature, "product versus process" oriented phase in keeping with the gradual achievement of desired end of project status (EOPS). SUDS project activities continue to focus upon: (a) strengthening the organizational, financial and networking capacity of black community-based organizations; (b) assisting low-income communities with the design and provision of appropriate housing and infrastructure; (c) striving to increase available amounts of bridging and short-term infrastructure and low-cost housing finance; and (d) encouraging the establishment of institutions and the delineation of a policy framework to facilitate the emergence of equitable, integrated urban life.

#### **2. End of Project Status (EOPS)**

End of project status indicators clearly state the results to be achieved through project activities. They include:

- a. Community organizations capable of assuming leadership roles in the promotion of local shelter and infrastructure development;
- b. Community-based construction enterprises commanding an increased share of local construction;
- c. Private sector financial institutions firmly committed to lending to disadvantaged low-income South Africans for the acquisition of affordable housing; and
- d. Emergence of urban shelter institutions and policies which promote equitable post-apartheid urban life.

### **3. Description of Project Components**

SUDS project activities can be divided into three mutually supportive components:

- a. Capacity building for community organizations and for the wider community within which the organizations are based;
- b. Provision of finance for shelter construction or housing mortgages (either directly or by leveraging domestic capital resources at a 2:1 or better ratio);
- c. Policy and institutional development for the creation of an enabling environment for sustainable, participatory, private sector led housing and urban development programs.

Wherever possible, SUDS undertakes the development of models (i.e. financing mechanisms, project development procedures, policies) that can generate "lessons learned" and demonstrate broad-based applicability. SUDS is also committed to disseminating these lessons among concerned stake holders and users through a wide array of mechanisms.

The largest SUDS activity is the \$18.78 million Community and Urban Services Support (CUSSP) sub-project which is intended to build capacity among low-income communities. CUSSP is implemented through a Gray Amendment set-aside contract awarded to Lance Bailey and Associates with sub-contracts to PADCO, Creative Associates and Ninham Shand. The CUSSP program is national in scope with regional offices located in Johannesburg, Cape Town, Durban and East London. It employs a core staff of twenty-eight individuals (four expatriate and twenty-four South African) with expertise in urban planning and development, architecture and engineering, training, and community organization. Additional expertise is provided to CUSSP by local consultants employed by local firms and NGOs.

CUSSP currently has activities of differing degrees of intensity in 63 communities. Its primary undertaking involves working with a wide range of community-based organizations (CBOs) to develop and implement community-based housing delivery activities attuned to specific local needs and conditions. Other CUSSP activities flow directly from its work with CBOs and include the identification and promotion of policies, financial mechanisms, and institutions that directly support CBO housing delivery.

The remainder of SUDS activities are implemented through Handbook 13 grants to Non-Governmental Organizations (NGOs). A profile of SUDS grantees reveals that, since 1992, SUDS has provided a total of 39 grants to the organizations involved in the following types of activities:

- community development;
- financial services for shelter provision;
- professional organizations; and
- urban sector research.

SUDS grantees also function as the major pool of service providers in the areas of finance, project preparation, construction management etc. to the CUSSP sub-project.

Despite the fact that SUDS activities have, for the most part, remained unchanged, there has been a qualitative evolution in many activities that reflects the maturity in the program, and in some instances, the approach of end of project status. Observed changes include the following:

- Increased emphasis on the implementation or production phase of projects by CBOs to complement the earlier process phase which focused upon CBO capacity building actions;
- Identification of new types of grantees to succeed community-based organizations (i.e. community-based trusts) that can function independently of donor assistance and sustain development activities indefinitely;
- Greater emphasis on the independence and self-supporting status of associations of shelter-sector professionals in view of their increased capacity to formulate and promote their own agendas; and
- Bilateral grants with Government of National Unity (GNU) national and provincial-level ministries.

The last category of activities, bilateral grants with GNU entities, is a direct outcome of the election of a democratic national government and the establishment of the multi-party Government of National Unity (GNU) in April 1994. SUDS's response to changes wrought by the election has been the development of bi-lateral agreements with lead ministries in the shelter and urban development sector. These agreements provide

technical assistance to help these entities to make the transition from an apartheid-based to a democratic system. The transformation taking place is at both the organizational and policy level and requires a conversion from systems that are authoritarian, centralized, public-sector based, and discriminatory, to systems that are participatory, decentralized, private-sector based, and egalitarian.

To date, a \$500,000 bilateral agreement has been signed with the Ministry of Housing to provide technical assistance for the formulation of a National Housing Policy and the design of the national shelter lending organization, the National Housing Finance Corporation. This bilateral agreement will be amended to increase the amount of funding to \$1.5 million in FY'95 and to extend the period of agreement through September 1996. Future amendments are anticipated as the Ministry of Housing increases the scope of its activities to embrace infrastructure provision activities and the associated policy and program agendas.

Additional bilateral agreements with national and provincial ministries of housing and public works are also anticipated in FY'96 in conjunction with two upcoming HUDD projects the Basic Shelter and Environment and the Municipal Environmental Development Housing Guaranty Projects.

## **Amendment Number 2**

SUDS was amended in July 1995 to increase the authorized funding level from \$50 million to \$70 million. The additional \$20 million will be programmed in FY'96-98 in the following activity categories:

### **1. Extension of SUDS/CUSSP activities (\$2.0 million)**

The SUDS project will be extended to permit the project's transition from a CBO capacity building phase to a more mature shelter production (under the aegis of CBOs) phase. The SUDS project extension will involve a modification of the CUSSP contract, using sole source amendment procedures, for the following purposes: (a) to permit the addition of up to \$6 million dollars (the actual amount being a function of the monthly expenditure rate and the development of alternative programs by the GNU as explained below) and (b) to extend the end of contract date through October, 1997. Four million dollars from existing project funds have already been programmed for the CUSSP contract modification. The remaining \$2 million would be provided by the proposed project amendment. The additional money will be used by CUSSP to bring key project activities to fruition (e.g., complete research activities, finalize and promulgate policy statements) and to ensure that logical follow-on activities are in place when the project ends (e.g., community development trusts for CBO shelter financing). Much of the funding provided to the CUSSP sub-project will culminate in the actual construction or upgrading of housing units through projects developed by CUSSP-supported CBOs. Lastly, as intimated above, the Government of National Unity is in the process of expanding its capacity to deal with

community groups that are involved in shelter and urban development activities. As these activities develop, some of the funds currently programmed for CUSSP community group development activities may be alternatively programmed to assist the GNU to establish this capacity.

## **2. Technical assistance in support of Housing Guaranty Projects (\$10 million)**

The second major expenditure category will be technical assistance to the Government of National Unity (GNU) in support of the three previously mentioned Housing Guaranty projects worth a combined \$200 million: the Private Sector project (approved in FY'94), the Basic Shelter and the Environment project (to be authorized in FY'95), and the Municipal Environmental Development project (authorization planned for FY'96). All three projects build on the policies and practices developed under the SUDS project and will significantly advance the Mission's strategic objectives. Technical assistance will focus upon the analysis and support of desirable shelter policies, training critical categories of implementing agents and supporting USAID's gender and environmental agendas.

## **3. Bi-lateral agreements with the GNU (\$5 million)**

The amendment will make provision for additional bilateral program agreements to support HUDD's primary partners in the GNU: specifically, national and provincial-level Ministries of Housing, Local Government, Water, Public Works, and Reconstruction and Development. The particular bi-lateral partner will depend upon the policy change being sought and upon the nature of the activity being supported (i.e., the establishment of centers to support shelter and urban development activities by community-based organizations). As previously explained, bi-lateral agreements represent SUDS's carefully reasoned response to the fundamental political changes that have and are taking place in South Africa.

## **4. Economic Development Information Systems Project (EDIS) (\$2 million)**

Monitoring and evaluation functions of SUDS will be performed by a monitoring, policy, research and evaluation sub-project, currently entitled the Economic Development Information Systems (EDIS) Project, that is being funded through this amendment. Following a long and intensive preparatory period, the EDIS sub-project will finally go out for contracting in June of FY'95 with the activity programmed to start at the beginning of FY'96. EDIS is a four-year project that will provide comprehensive monitoring, research, evaluation and information dissemination services for SUDS, in particular, and for the larger HUDD program in general. The rationale for working with the entire HUDD portfolio, and not exclusively at SUDS, is the fact that all current and upcoming HUDD projects have emanated from SUDS activities- both at the policy and project level.

EDIS will provide HUDD with data relative to HUDD project achievements. It will also furnish data relative to HUDD's program impact on mission-level strategic objectives. A key activity will involve assisting USAID and its counterparts to gather, analyze and effectively utilize information and lessons learned. As part of this last effort, EDIS will publish and disseminate key data and analyses to concerned stakeholders. It will also organize workshops and round table discussions around critical shelter and urban development issues. In sum, this activity is intended to catalogue HUDD's achievements at both the project and program levels and to provide inputs on HUDD's contribution to the mission's strategic goals.

**5. Expanded technical assistance to majority-owned firms, NGOs and CBOs working in shelter production (\$0.5 million)**

The SUDS amendment will be used to expand available technical assistance to majority-population-owned enterprises in the construction industry as well as to NGOs and CBOs involved in shelter provision. The types of activities that will be supported under this rubric include: (a) conducting baseline surveys for providing data for policies and long-range planning; (b) setting-up outlets for manufacturing building materials and housing components in order to provide affordable materials to majority-owned firms and communities; (c) establishing micro-loans programs for making improvements in the residential environment; (d) creating community center training programs, and (e) providing continued support to professional organizations such as SABCAP, the association of black construction firms. All of these activities will forward the project's transition to the final phase. More importantly, they target the most difficult to reach category of individuals among the low-income population-- the poorest of the poor including women headed households. Contracting for these activities will be through local contracts, through existing grants or through new competitive grants.

**6. Broad-based technical assistance and training opportunities to advance SUDS policy and institutional development objectives (\$0.5 million)**

The final group of activities to be financed under the amendment will be technical and training opportunities to advance SUDS policy objectives. The focus will be on the regional and municipal-level governments which are the ultimate implementing agencies for all of the GNU's reconstruction and development programs. Forms of assistance to be provided include policy studies; mentoring programs; long-term placements or exchanges of technical counterparts between U.S. cities and South African cities that have "twinning" or "sister" relationships, and staff development. Given that second and third-tier governments are key actors in the South African developmental drama, newly elected officials and civil servants in these tiers are in desperate need of training and assistance to fulfill their responsibilities.

The attached table illustrates the actual and proposed funding obligations for the SUDS project at a funding level of \$70 million for the FY'92 through FY'98 period.

**Illustrative SUDS Project Obligation by Fiscal Year**  
(S000s)

ITEM	FY'92-94	FY'95	FY'96	FY'97	FY'98	TOTAL
Community Based Development	15,768	4,015	4,000	1,000	1,000	25,783
Policy	4,365	1,270	500	-0-	-0-	6,135
Finance	12,120	-0-	500	-0-	-0-	12,620
Construction	1,944	500	500	500	-0-	3,444
Monitoring Evaluation	-0-	-0-	2,000	250-	-0-	2,250
HG Project TA	-0-	25	5,000	4,000	1,000	10,025
GNU Bilaterals	575	1,375	2,000	1,800	1,500	7,250
SUDS Management	628	315	500	450	600	2,493
<b>TOTALS</b>	<b>35,400</b>	<b>7,500</b>	<b>15,000</b>	<b>8,000</b>	<b>4,100</b>	<b>70,000</b>

## II. PROJECT ISSUES

### Management Issues

HUDD is currently fully staffed and should experience no difficulties in carrying out implementation tasks occasioned by this project amendment. Over the last six months, three professionals have joined the division's Chief and Deputy-Chief for a total of five full-time professionals. New staff include: one USDH Housing and Urban Development Officer, one U.S. PSC municipal finance specialist, and one FSN urban development planner. All three individuals are highly qualified, experienced and committed to the HUDD agenda. In addition, HUDD is in the process of increasing its support staff, currently consisting of a full-time secretary, by recruiting a Program Assistant and an Administrative Assistant. HUDD staff will be also continue to be supported by other Mission personnel, all of whom are familiar with the HUDD portfolio, such as the Project Development Office, the Regional Contracting Office, the Controller and the Legal Office.

Finally, as SUDS goes into its third year, a number of grants are in the process of being phased down or closed out. Of the 38 original grants, approximately fifteen will terminate

within the course of the next year and require no further administrative actions-- other than those associated with close-out procedures. The majority of these are grants to institutions which have achieved their purpose, or to institutions which have become self-sustaining and/or have located alternative sources of funding. HUDD does plan to add four new community development grants in FY'95; however, with the winding down of 15 grants, grant management should retain manageable proportions.

### **Financial Issues**

Over the last three years, USAID/South Africa, the mission with the largest grant program in USAID, has streamlined its grant development and implementation process including those related to financial controls. The mission currently implements a system of financial reviews, liquidation procedures and annual audits for its various categories of grants that guarantees financial integrity by ensuring that all grantees have sufficient financial capacity to manage awards. Additional grants and agreements that will be programmed under the SUDS amendment will automatically be subject to these rigorous controls.

All new grants will contain specific provisions that highlight the requirement for counterpart contributions to the grantees and will provide a table as an attachment to the grant to assist the recipient with organizing the information. In like manner, all grant amendments will, where practicable, address the issue of counterpart contributions.

### **Monitoring and Evaluation**

The SUDS project paper states that all management elements participating in the program will establish systems for data gathering and that USAID itself will establish a monitoring function (i.e., the EDIS project). In addition, SUDS grants and contracts require periodic or end-of-activity evaluations.

The CUSSP sub-project component Mid-Term Review was completed in March 1995. The review found that CUSSP had been conceived during a period of great socio-economic and political uncertainty in South Africa, and had been assigned a task whose enormity had been underestimated. Yet, despite the complex, and at times inimical, environment, CUSSP had fulfilled most of its mandate and had succeeded in developing a range of innovative community-based housing delivery processes. Moreover, the CUSSP project has evolved into one which now works at a higher policy and programming level with an expanding set of partners including: umbrella civic organizations, development agencies, and transitional local government structures. It concluded that CUSSP has succeeded in fashioning workable procedures for bringing about community-based housing delivery and should be allowed to erect the structures that would ensure sustainability of its achievements.

Finally, as noted above, the proposed EDIS project will assume responsibility for the monitoring and evaluating functions of SUDS.

### **611(a) Considerations**

Adequate technical and financial planning for this proposed amendment is being accomplished in two ways. First, an illustrative listing of activities proposed for funding is presented herein. Second, prior to actual approval of project funding, each activity will be reviewed against a set of selection criteria utilized in the ASR process. These criteria ensure compliance with USAID guidance in areas of competition, selection of contracts versus assistance instruments, and counterpart contributions. For amendments to existing grants and contracts, or new awards to existing recipients, the ASR ensures compliance with reporting, evaluation, audit and financial review requirements. Further, as part of the ASR process, activity costs are reviewed by the technical office and the Office of the Controller.

### **Special Actions Required**

#### **1. Gray Amendment Certification**

The initial project paper stipulated that: "the major technical assistance contract under this project shall be restricted to 'Grey Amendment' entities in accordance with USAID procurement policies." The CUSSP sub-component, the single largest project activity, was contracted to and is currently being implemented through a contract with a Gray Amendment firm. A copy of the Gray Amendment Certification for the project is attached.

#### **2. Congressional Notification**

A Congressional Notification (CN) for the proposed project funding is required prior to the obligation of funds under this project amendment. A CN was submitted to Congress and, as advised in STATE 01174 expired without objection on December 29, 1994.

### **Project Analyses**

All original Project Paper Analyses as well as the project rationale, except as modified herein, remain valid.

***ANNEX E***

## ANNEX E

### A.I.D. PROJECT STATUTORY CHECKLIST

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

##### 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 1995 Foreign Assistance Appropriations Act ("FY 1995 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 survival and AIDS programs which can, under section 522 of the FY 1995 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries, and programs identified in section 547 of that Act and other provisions of law that have similar notwithstanding authority.) If the recipient is a "major illicit drug producing country" (defined as a country in which during a year at least 1,000 hectares of illicit opium poppy is cultivated or harvested, or at least 1,000 hectares of illicit coca is cultivated or harvested, or at least 5,000 hectares of illicit cannabis is cultivated or harvested) or a "major drug-transit country" (defined as a country that is a significant direct source 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 March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 30 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, to that (b) the vital national interests of the United States require the provision of such assistance?

N/A

<p>(2) with regard to a major illicit drug producing or drug-transit country for which the President has <u>not</u> certified on March 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.</p> <p><b>2. Indebtedness to U.S. citizens:</b> (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?</p> <p><b>3. Seizure of U.S. Property:</b> (Foreign Relations Authorization Act, Fiscal Years 1994 and 1995, Sec. 527): If assistance is to a government, has it (including any government agencies or instrumentalities) taken any action on or after January 1, 1956 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 (during the period specified in subsection (c) of this section) either returning the property, providing adequate and effective compensation for the property, offering a domestic procedure providing prompt, adequate, and effective compensation for the property, or submitting the dispute to international arbitration? If the actions of the government would otherwise prohibit assistance, has the President waived this prohibition and so notified Congress that it was in the national interest to do so?</p>	<p>N/A</p> <p>NO</p> <p>NO</p>
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<p><b>4. Communist and other countries:</b> (FAA Secs. 620(a), 620(f), 620D; FY 1995 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 directly to Cuba, Iraq, Libya, North Korea, Iran, Serbia, Sudan or Syria? Will assistance be provided indirectly to Cuba, Iraq, Libya, Iran, Syria, North Korea, or the People's Republic of China? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?</p>	<p>NO</p>
<p><b>5. Mob Action:</b> (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?</p>	<p>NO</p>
<p><b>6. OPIC Investment Guaranty:</b> (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?</p>	<p>NO</p>
<p><b>7. Seizure of U.S. Fishing Vessels:</b> (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?</p>	<p>NO</p>
<p><b>8. Loan Default:</b> (FAA Sec. 620(q); FY 1995 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 1995 the FY 1995 Appropriations Act appropriates funds?</p>	<p>a) NO    b) NO</p>

<p><b>9. Military Equipment (FAA Sec. 620(s)):</b> 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.)</p>	<p>N/A</p>
<p><b>10. Diplomatic Relations with U.S. (FAA Sec. 620(t)):</b> 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?</p>	<p>NO</p>
<p><b>11. U.N. Obligations (FAA Sec.620(u)):</b> 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.)</p>	<p>Taken into consideration by the Administration in approving the Agency OYB.</p>
<p><b>12. International Terrorism</b></p> <p><b>a. Sanctuary and support (FY 1995 Appropriations Act Sec. 529; FAA Sec.620A):</b> 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?</p> <p><b>b. Airport Security (ISDCA of 1985 Sec. 552(b)):</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?</p>	<p>a) NO b) NO</p> <p>NO</p>

<p><b>c. Compliance with UN Sanctions (FY 1995 Appropriations Act Sec. 538):</b> Is assistance being provided to a country not in compliance with UN sanctions against Iraq, Serbia, or Montenegro and, if so, has the President made the necessary determinations to allow assistance to be provided?</p>	<p>NO</p>
<p><b>13. Countries that Export Lethal Military Equipment (FY 1995 Appropriations Act Sec. 563):</b> 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?</p>	<p>NO</p>
<p><b>14. Discrimination (FAA Sec. 666(b)):</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?</p>	<p>NO</p>
<p><b>15. Nuclear Technology (Arms Export Control Act Secs. 101, 102):</b> 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, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E(d) permits a special waiver of Sec. 101 for Pakistan.)</p>	<p>NO, South African Nuclear program dismantled.</p>
<p><b>16. Algiers Meeting (ISDCA of 1981, Sec. 720):</b> 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</p>	<p>NO</p>

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<p>account? (Reference may be made to the "Taking into Consideration" memo.)</p> <p>17. <b>Military Coup</b> (FY 1995 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?</p> <p>18. <b>Exploitation of Children</b> (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?</p> <p>19. <b>Parking Fines</b> (FY 1995 Appropriations Act Sec. 564): 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 August 23, 1994?</p>	<p>NO</p> <p>NO</p> <p>YES (see attached)</p>
<p><b>B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")</b></p>	
<p><b>Human Rights Violations</b> (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?</p>	<p>NO</p>
<p><b>C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")</b></p>	
<p><b>Human Rights Violations</b> (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?</p>	<p>NO</p>

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**5C(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.

<p><b>CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?</b></p> <p><b>A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS</b></p> <p><b>1. Host Country Development Efforts (FAA Sec. 601(a)):</b> 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.</p> <p><b>2. U.S. Private Trade and Investment (FAA Sec. 601(b)):</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).</p> <p><b>3. Congressional Notification</b></p> <p><b>a. General requirement (FY 1995 Appropriations Act Sec. 515; FAA Sec. 634A):</b> 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)?</p>	<p>(a) YES (b) YES (c) YES (d) YES (e) No (f) No</p> <p>Project provides guarantees for U.S. banks lending to South African private and/or public sector.</p> <p>Congress has been notified of this activity.</p>
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<p><b>b. Special notification requirement (FY 1995 Appropriations Act Sec. 520):</b> Are all activities proposed for obligation subject to prior congressional notification?</p>	<p>YES</p>
<p><b>c. Notice of account transfer (FY 1995 Appropriations Act Sec. 509):</b> 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?</p>	<p>N/A</p>
<p><b>d. Cash transfers and nonproject sector assistance (FY 1995 Appropriations Act Sec. 536(b)(3)):</b> 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?</p>	<p>N/A</p>
<p><b>4. Engineering and Financial Plans (FAA Sec. 611(a)):</b> 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?</p>	<p>N/A</p>
<p><b>5. Legislative Action (FAA Sec. 611 (a)(2)):</b> 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?</p>	<p>No South African legislation is required to accomplish the purpose of this project.</p>
<p><b>6. Water Resources (FAA Sec. 611(b)):</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, <i>et seq.</i>)?</p>	<p>N/A</p>
<p><b>7. Cash Transfer/Nonproject Sector Assistance Requirements (FY 1995 Appropriations Act Sec. 536).</b> If assistance is in the form of a cash transfer or nonproject sector assistance:</p>	<p>N/A</p>

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<p><b>a. Separate account:</b> 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)?</p>	<p>N/A</p>
<p><b>b. Local currencies:</b> If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:</p> <p>(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?</p> <p>(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?</p> <p>(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?</p> <p>(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?</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
<p><b>8. Capital Assistance (FAA Sec. 611 (e)):</b> 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?</p>	<p>N/A</p>

<p><b>9. Multiple Country Objectives (FAA Sec. 601(a)):</b> 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.</p> <p><b>10. U.S. Private Trade (FAA Sec. 601 (b)):</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).</p> <p><b>11. Local Currencies</b></p> <p><b>a. Recipient Contributions (FAA Secs. 612(b), 636(h)):</b> 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.</p> <p><b>b. U.S.-Owned Currency (FAA Sec. 612(d)):</b> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?</p> <p><b>12. Trade Restrictions</b></p> <p><b>a. Surplus Commodities (FY 1995 Appropriations Act Sec. 513(a)):</b> 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?</p> <p><b>b. Textiles (Lautenberg Amendment) (FY 1995 Appropriations Act Sec. 513 (c)):</b> 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</p>	<p>(a) YES. (b) YES. (c) YES. (d) YES. (e) NO. (f) NO.</p> <p>Project provides guarantees for U.S. banks lending to South african private and/or public sector.</p> <p>Local institutions are required to match U.S. contribution.</p> <p>N/A</p> <p>N/A</p>
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<p>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?</p> <p><b>13. Tropical Forests</b> (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?</p> <p><b>14. PVO Assistance</b></p> <p><b>a. Auditing and registration</b> (FY 1995 Appropriations Act Sec. 560): 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.?</p> <p><b>b. Funding sources</b> (FY 1995 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?</p> <p><b>15. Project Agreement Documentation</b> (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).</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>YES, this will be accomplished in a timely manner.</p>
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<p><b>16. Metric System</b> (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?</p>	<p>N/A</p>
<p><b>17. Abortions</b> (FAA Sec. 104(f); FY 1995 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):</p> <p>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? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options including abortion.)</p> <p>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?</p> <p>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?</p> <p>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</p>	<p>NO</p> <p>NO</p> <p>NO</p>

<p>range of family planning methods and services? (As a legal matter, DA only.)</p>	<p>N/A</p>
<p>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.)</p>	<p>N/A</p>
<p>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?</p>	<p>NO</p>
<p>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?</p>	<p>NO</p>
<p><b>18. Cooperatives (FAA Sec. 111):</b> Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?</p>	<p>YES, the Project calls for integration of coops into project activities.</p>
<p><b>19. U.S.Owned Foreign Currencies</b></p>	
<p>a. <b>Use of currencies (FAA Secs. 612(b), 636(h); FY 1995 Appropriations Act Secs. 503, 505):</b> 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.</p>	<p>N/A</p>
<p>b. <b>Release of currencies (FAA Sec. 612(d)):</b> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?</p>	<p>N/A</p>
<p><b>20. Procurement</b></p>	
<p>a. <b>Small business (FAA Sec. 602 (a)):</b> Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?</p>	<p>N/A, Project does not involve procurement of goods or services.</p>

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<p><b>b. U.S. procurement</b> (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?</p>	<p>N/A</p>
<p><b>c. Marine insurance</b> (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?</p>	<p>N/A</p>
<p><b>d. Insurance</b> (FY 1995 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. insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate?</p>	<p>N/A</p>
<p><b>e. NonU.S. agricultural procurement</b> (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.)`</p>	<p>N/A</p>
<p><b>f. Construction or engineering services</b> (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.)</p>	<p>NO</p>
<p><b>g. Cargo preference shipping</b> (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</p>	<p></p>

<p>such vessels are available at fair and reasonable rates?</p>	<p>N/A.</p>
<p><b>h. Technical assistance FAA Sec. 621(a):</b> 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?</p>	<p>YES</p> <p>NO</p>
<p><b>i. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974):</b> 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?</p>	<p>N/A</p>
<p><b>j. Consulting services (FY 1995 Appropriations Act Sec. 559):</b> 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)?</p>	<p>N/A</p>
<p><b>k. 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):</b> 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?</p>	<p>N/A</p>

<p><b>1. Competitive Selection Procedures (FAA Sec. 601(e)):</b> Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>YES</p>
<p><b>m. Notice Requirement (FY 1995 Appropriations Act Sec. 568):</b> Will project agreements or contracts contain notice consistent with FAA section 604(a) and with the sense of Congress that to the greatest extent practicable equipment and products purchased with appropriated funds should be American made?</p>	<p>N/A</p>
<p><b>21. Construction</b></p>	
<p><b>a. Capital project (FAA Sec. 601(d)):</b> If capital (e.g., construction) project, will U.S. engineering and professional services be used?</p>	<p>N/A</p>
<p><b>b. Construction contract (FAA Sec. 611(c)):</b> If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?</p>	<p>YES</p>
<p><b>c. Large projects, Congressional approval (FAA Sec. 620(k)):</b> 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?</p>	<p>YES</p>
<p><b>22. U.S. Audit Rights (FAA Sec. 301 (d)):</b> If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?</p>	<p>N/A</p>
<p><b>23. Communist Assistance (FAA Sec. 620(h)).</b> 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?</p>	<p>YES</p>

<p><b>24. Narcotics</b></p> <p><b>a. Cash reimbursements (FAA Sec. 483):</b> Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?</p> <p><b>b. Assistance to narcotics traffickers (FAA Sec. 487):</b> Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or 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?</p> <p><b>25. Expropriation and Land Reform (FAA Sec. 620(g)):</b> 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?</p> <p><b>26. Police and Prisons (FAA Sec. 660):</b> 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?</p> <p><b>27. CIA Activities (FAA Sec. 662):</b> Will assistance preclude use of financing for CIA activities?</p> <p><b>28. Motor Vehicles (FAA Sec. 636(i)):</b> 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?</p>	<p>YES</p> <p>YES</p> <p>YES</p> <p>YES</p> <p>YES</p> <p>YES</p>
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<p><b>29. Export of Nuclear Resources (FY 1995 Appropriations Act Sec. 506):</b> Will assistance preclude use of financing to finance except for purposes of nuclear safety the export of nuclear equipment, fuel, or technology?</p>	YES
<p><b>30. Publicity or Propaganda (FY 1995 Appropriations Act Sec. 554):</b> 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?</p>	NO
<p><b>31. Exchange for Prohibited Act (FY 1995 Appropriations Act Sec. 533):</b> 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?</p>	NO
<p><b>32. Commitment of Funds (FAA Sec. 635 (h)):</b> 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?</p>	NO
<p><b>33. Impact on U.S. Jobs (FY 1995 Appropriations Act, Sec. 545):</b></p> <p>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?</p> <p>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</p>	NO

<p>assistance is not likely to cause a loss of jobs within the the U.S.?</p>	<p>NO</p>
<p>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, or will assistance be for the informal sector, micro or small scale enterprise, or smallholder agriculture?</p>	<p>NO</p>
<p><b>B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY</b></p>	
<p><b>1. Agricultural Exports (Bumpers Amendment) (FY 1995 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment):</b> 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 would 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?</p>	<p>N/A</p>
<p><b>2. Tied Aid Credits (FY 1995 Appropriations Act, Title II, under heading "Economic Support Fund"):</b> Will DA funds be used for tied aid credits?</p>	<p>NO</p>
<p><b>3. Appropriate Technology (FAA Sec. 107):</b> 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)?</p>	<p>N/A</p>

<p><b>4. Indigenous Needs and Resources (FAA Sec. 281(b)):</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.</p> <p><b>5. Economic Development (FAA Sec. 101 (a)):</b> 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?</p> <p><b>6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)):</b> 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.</p> <p><b>7. Recipient Country Contribution (FAA Secs. 110, 124(d)):</b> 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)?</p> <p><b>8. Benefit to Poor Majority (FAA Sec. 128(b)):</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</p>	<p>Community based organizations are explicitly involved in the project.</p> <p>YES, by targeting development of black businesses.</p> <p>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.</p> <p>Local lending institutions will add a minimum match resources provided by USAID.</p>
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<p>monitored to ensure that the ultimate beneficiaries are the poor majority?</p>	<p>YES.</p>
<p>9. <b>Contract Awards</b> (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>YES.</p>
<p>10. <b>Disadvantaged Enterprises</b> (FY 1995 Appropriations Act Sec. 555): 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)?</p>	<p>N/A</p>
<p>11. <b>Biological Diversity</b> (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? (Note new special authority for biodiversity activities contained in section 547(b) of the FY 1995 Appropriations Act.)</p>	<p>N/A</p>
<p>12. <b>Tropical Forests</b> (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):</p>	

<p>a. <b>A.I.D. Regulation 16:</b> Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?</p> <p>b. <b>Conservation:</b> 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 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?</p>	<p>YES.</p>
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<p><b>c. Forest degradation:</b> 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; (4) 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?</p>	<p>(1) NO.  (2) NO.  (3) NO.  (4) NO.  (5) NO. (6) NO.</p>
<p><b>d. Sustainable forestry:</b> 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?</p>	<p>N/A.</p>
<p><b>e. Environmental impact statements:</b> 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?</p>	<p>YES.</p>
<p><b>13. Energy (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):</b> If assistance relates to energy, will such assistance focus on: (a) enduse 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?</p>	<p>N/A</p>

<p><b>14. DebtforNature Exchange (FAA Sec. 463):</b> If the 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.</p>	<p>N/A</p>
<p><b>15. Deobligation/Reobligation (FY 1995 Appropriations Act Sec. 510):</b> 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?</p>	<p>N/A</p>
<p><b>16. Loans</b></p>	
<p><b>a. Repayment capacity (FAA Sec. 122(b)):</b> Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.</p>	<p>Only loans to viable borrowers at commercial market rates.</p>
<p><b>b. Longrange plans (FAA Sec. 122 (b)):</b> Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?</p>	<p>YES.</p>
<p><b>c. Interest rate (FAA Sec. 122 (b)):</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?</p>	<p>YES, all loans at commercial market rates.</p>
<p><b>d. Exports to United States (FAA Sec. 620(d)):</b> 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</p>	

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<p>into such an agreement been waived by the President by the President because of a national security interest?</p> <p><b>17. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)):</b> 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?</p> <p><b>18. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):</b></p> <p><b>a. Rural poor and small farmers:</b> 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.</p> <p><b>b. Nutrition:</b> 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</p>	<p>N/A.</p> <p>Project purpose is to provide loans to low income black families, many of who are headed by women. Project utilizes community based organizations in planning and implementation, and targets development of black-owned businesses.</p> <p>N/A.</p>
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<p>the problem of malnutrition of poor and vulnerable people.</p>	<p>N/A</p>
<p><b>c. Food security:</b> 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 available storage facilities, reducing post harvest food losses, and improving food distribution.</p>	<p>N/A</p>
<p><b>19. Population and Health (FAA Secs. 104(b) and (c)):</b> 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.</p>	<p>N/A</p>
<p><b>20. Education and Human Resources Development (FAA Sec. 105):</b> 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.</p>	<p>N/A.</p>
<p><b>21. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):</b> If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:</p> <p>a. concerned with data collection and analysis, the training of skilled personnel, research on and</p>	<p></p>

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<p>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;</p> <p>b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;</p> <p>c. research into, and evaluation of, economic development processes and techniques;</p> <p>d. reconstruction after natural or manmade disaster and programs of disaster preparedness;</p> <p>e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;</p> <p>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.</p> <p>22. <b>Capital Projects</b> (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?</p>	<p>N/A.</p> <p>N/A. Only local PVOs involved.</p> <p>N/A.</p> <p>N/A.</p> <p>N/A.</p> <p>Project provides loans for low income families and targets small black owned enterprises.</p> <p>N/A.</p>
<p><b>C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY</b></p>	
<p>1. <b>Economic and Political Stability</b> (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?</p>	<p>N/A.</p>

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<p><b>2. Military Purposes (FAA Sec. 531 (e)):</b> Will this assistance be used for military or paramilitary purposes?</p>	<p>N/A.</p>
<p><b>3. Commodity Grants/Separate Accounts (FAA Sec. 609):</b> 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 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).)</p>	<p>N/A</p>
<p><b>4. Generation and Use of Local Currencies (FAA Sec. 531(d)):</b> 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 1995, this provision is superseded by the separate account requirements of FY 1995 Appropriations Act Sec. 536(a), see Sec. 536(a)(5).)</p>	<p>N/A</p>
<p><b>5. Capital Projects (Jobs Through Exports Act of 1992, Sec. 306):</b> If assistance is being provided for a capital project, will the project be develop mentally sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial 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 94 Appropriations Act, the FY 93 provision applies to, among other things, 2 year ESF funds which could be obligated in FY 94.)</p>	<p>N/A</p>
<p>DRAFTER:GC/LP:BLester:10/17/94:cheklist.95</p>	

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**A.I.D. HOUSING GUARANTY PROJECT STATUTORY CHECKLIST**

**REPUBLIC OF SOUTH AFRICA**

**Basic Shelter and Environment Housing Guaranty Program 674HG002**

<p><b>A. General Criteria Under HG Statutory Authority.</b></p> <p><b><u>Section 221(a)</u></b></p> <p><b>Will the proposed project meet the following criteria.</b></p> <p>(1) <b>is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing lowcost shelter is financially viable;</b></p> <p>(2) <b>is intended to assist in marshalling resources for lowcost shelter;</b></p> <p>(3) <b>supports a pilot project for lowcost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and,</b></p> <p>(4) <b>is intended to have a longrun goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective lowcost shelter programs and policies.</b></p> <p><b><u>Section 222(a)</u></b></p> <p><b>Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$2,558,000,000? [not applicable for FY '93 appropriation].</b></p>	<p>YES.</p> <p>YES.</p> <p>YES.</p> <p>YES.</p> <p>NO.</p>
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<p><b><u>Section 222(b)</u></b></p> <p>Will the proposed guaranty result in activities which emphasize:</p> <p>(1) projects providing improved home sites to poor families on which to build shelter, and related services; or</p> <p>(2) projects comprised of expandable core shelter units on serviced sites; or</p> <p>(3) slum upgrading projects designed to conserve and improve existing shelter; or</p> <p>(4) shelter projects for lowincome people designed for demonstration or institution building; or</p> <p>(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?</p>	<p>YES.</p> <p>YES.</p> <p>YES.</p> <p>YES.</p> <p>YES.</p>
<p><b><u>Section 222(c)</u></b></p> <p>If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?</p>	<p>N/A.</p>
<p><b><u>Section 223(f)</u></b></p> <p>Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?</p>	<p>YES.</p>
<p><b><u>Section 223(j)</u></b></p> <p>[For FY '93 appropriation, not applicable to programs for Eastern Europe]</p>	

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<p>(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?</p>	<p>YES.</p>
<p>(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of shelter or of financial or other institutional arrangements?</p>	<p>YES.</p>
<p>(3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for shelter suitable for families with income below the median urban income for housing in urban areas, in the host country?</p>	<p>YES.</p>
<p>(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?</p>	<p>NO.</p>
<p>(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?</p>	<p>NO.</p>
<p><b>B. Criteria Under General Foreign Assistance Act Authority.</b></p>	
<p>(1) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?</p>	<p>YES.</p>
<p>(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country eligibility checklist?</p>	<p>NO.</p>

**ANNEX E: Statutory Checklist Basic Shelter & Environment Housing Guaranty Program: 674HG002**

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***ANNEX F***

**ANNEX F**

**INITIAL ENVIRONMENTAL EXAMINATION**

**Basic Shelter and Environment Housing Guaranty Program 674-HG-002**

**INITIAL ENVIRONMENTAL EXAMINATION OR CATEGORICAL EXCLUSION**

**PROGRAM/PROJECT DATA:**

**Program Number:** 674-HG-002

**Project Number:**

**Country/Region:** Republic of South Africa

**Program/Project Title:** Basic Shelter and Environment Housing Guaranty

**Funding Begin:** FY 95

**Funding End:** FY 99

**LOP Amount:** Up to \$130 million

**Sub-Activity Amount:** \$ \_\_\_\_\_

**IEE Prepared By:** Charlotte S. Bingham  
Regional Environmental Advisor, USAID, REDSO/ESA

**ENVIRONMENTAL ACTION RECOMMENDED:**

**Categorical Exclusion:**   x  

**Negative Determination:** \_\_\_\_\_

**Positive Determination:** \_\_\_\_\_

**Deferral:** \_\_\_\_\_

**ADDITIONAL ELEMENTS:** EMEMP: \_\_\_\_\_ CONDITIONS:   x   PVO: \_\_\_\_\_

**SUMMARY OF FINDINGS:**

Under Section 216.2(c)(2)(x) of USAID Environmental Procedures (22 CFR, Part 216), a categorical exclusion is applicable to projects designed as:

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.

The proposed Basic Shelter and Environment Housing Guaranty Program (BSE-HG) will provide loan funds (up to \$130 million in housing guarantees are anticipated) to finance low-income shelter solutions over a five-year period in order to help redress the deficit of 1.3 million housing units in urban areas.

The goal of the program is to increase asset ownership and economic integration of low-income urban households by improving access to environmentally sustainable and affordable shelter. The purpose of the program is to demonstrate that market-oriented lending institutions, in association with GNU housing programs, can profitably finance environmentally sound basic shelter solutions for very low-income urban households. Program objectives are: 1) increased capacity of the housing finance system to provide credit resources, with particular emphasis on basic shelter solutions; 2) promotion of more equitable access to basic shelter credit and income-generating opportunities for women; and 3) promotion of GNU policies and programs leading to affordable and sustainable environmentally sound solutions for low-income households. USAID funds will be used to provide housing loans to the target population, who are urban families with incomes of less than R1,500 monthly.

The borrower of the BSE-HG funds will either be the Ministry of Finance or a private-sector financial institution. The implementing agency is expected to be the Ministry of Housing, whose role will be policy making as well as ensuring that funds will be utilized as intended by the National Housing Finance Corporation (NHFC). The NHFC will act on behalf of the Ministry of Housing to implement and monitor the BSE-HG. As a wholesale lender, the NHFC will mobilize capital and on-lend to retail lending institutions for bridging, construction and end-user financing for low-income housing. The retail lenders will include a variety of retail lending institutions such as commercial banks, mutual banks, credit unions, former home-land financial institutions, NGOs, local governments, associations of traditional savings societies, "stockfels," and other non-traditional retail lenders.

Activities to be financed include mortgage loans for homes in new developments and in existing settlements; construction, mortgage and personal loans for shelter improvements (adding superstructure to a developed site); and upgrading informal settlements. Project activities will be located in urban metropolitan areas, where approximately 50 percent of South Africa's population live. Specific geographic area(s) of focus will be developed during the design phase, but a goal of the BSE-HG Project is to support the Missions's objective to focus resources. Basic Shelter and Environment Housing Guaranty Program (674-HG-002)

Accordingly, it is planned that the BSE-HG project sites will be primarily targeted in relationship to GNU Presidential Projects, especially those that are currently being assisted through USAID/South Africa's Community and Urban Services Support Project.

Although USAID will require general guidelines on participating lending institutions with respect to eligible loans, USAID will have neither knowledge nor control over the details of the specific activities to be financed nor will USAID retain any right to review or approve individual loans. USAID will not approve any plans or specifications or be involved in construction contracting or supervision.

Notwithstanding the eligibility of the BSE-HG program for a categorical exclusion and in order to further the environmental benefits of HG projects worldwide, the "Uniform Approach to Applicability of Agency Environmental Regulations to Housing Guaranty Program" (October 29, 1993 memorandum, G/ENV/UP) states that categorically excluded HG projects should, as a matter of policy, "seek to encourage host governments, or other borrowing institutions, to incorporate environmental considerations into their decision-making process." To achieve this objective, an institutional assessment of the environmental capacity (regulations, capacity, experience, and training) of the borrowing institutions is to be conducted during the project design stage. Possible activities for mission consideration in this regard include ways to promote environmentally sound shelter policy, design and technology; training in environmental assessment procedures; and environmental education to foster environmental awareness at the community and household level. The findings of the institutional assessment are to be included in the Results Package (Project Paper) and used to determine what conditions and/or environmental technical assistance should be included in the final project design. As a minimum, according to the "Uniform Approach" cited above, an environmental assessment of all projects will be required as a condition precedent to USAID's acceptance of the cost of a project as an eligible expenditure. The Project design will also include the specification of an acceptable monitoring and evaluation procedure to ensure compliance.

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**APPROVAL OF ENVIRONMENTAL ACTION RECOMMENDED:**

**APPROVAL OF ENVIRONMENTAL ACTION RECOMMENDED:**

CLEARANCE:  
Mission Director: Leslie A. Dean Date: 2/20/95  
Leslie A. Dean

CONCURRENCE:  
Bureau Environmental Officer: John J. Gaudet Date: 2/24/95  
John J. Gaudet  
Approved:   
Disapproved:

CLEARANCE:  
General Counsel: Mark D. Cota Date: 2/22/95

**ADDITIONAL CLEARANCES:**

Mission Environmental Officer: Maria Beebe Date: Feb 20, 1995  
Maria Beebe

Project Manager: Douglas Heisler Date: Feb. 20, '95  
Douglas Heisler

Regional Environmental Officer: Erin E. Baker Date: Jan. 27, 1995

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Annex A

MEMORANDUM

February 2, 1995

**FROM:** Eric R. Loken, Regional Environmental Officer,  
REDSO/ESA/ANR

**TO:** Jeremy Hagger, Chief, HUDD/SA  
Douglas Heisler, Deputy Chief, HUDD/SA  
Carleene Dei, Regional Housing Officer, HUDD/SA  
Russel Hawkins, Housing Advisor, HUDD/SA

**SUBJECT:** Major Environmental Findings and Recommendations -  
January 1995 Review of HUDD/SA Program Activities

**REFS:** (A) PSHG PP Environmental Analysis (September 1994);  
(B) Kimm/BEOs memo of 10/29/93

**Introduction:** Over the period 22-28 January 1995, REDSO Regional Environmental Advisor (REA) C. Bingham and myself travelled to USAID/SA to assist the Mission in reviewing the potential environmental implications of ongoing and planned division activities and determine an appropriate strategy for properly addressing those implications and promoting environmentally sound and sustainable housing and urban development in the new post-apartheid South Africa. During this period, we conducted numerous discussions with concerned Mission and associated contractor staff, and knowledgeable host country officials and non-governmental representatives engaged in shelter and urban development activities throughout the Republic. The results of this TDY serve to augment and update similar work on this subject completed last April (1994) in the final design of USAID/SA's Private Sector Housing Guaranty Program (see ref. (A)).

It should be noted here that these findings and recommendations pertain exclusively to USAID/SA's planned shelter development assistance program, in accordance with the recent Mission decision to delay final design and authorization of its planned companion municipal infrastructure assistance program until FY96. Should this situation change, this review and its associated recommendations will also need to be revisited to properly take into account the significant additional environmental considerations associated with this latter area of planned HUDD/SA assistance.

**Major Findings:** The principle findings of this visit are as follows:

- that the proposed new Basic Shelter and the Environment (BS&E) Project, currently under design at the Mission for FY95 obligation merits a Categorical Exclusion, pursuant to Section 216.2(c)(2)(x) of U.S.A.I.D.'s Environmental Procedures, and in

accordance with the uniform approach to the application of USAID environmental regulations to housing guaranty programs approved by the Africa Bureau in October 1993 (see refmemo B) [REA Bingham has prepared a draft IEE for this project to this effect];

- that proposed new SAG Environmental Assessment Procedures applicable to shelter developments such as that proposed in this HG -- including proposed new "Streamlined Environmental Impact Assessment" procedures promulgated more recently to expedite implementation of the SAG's high priority Reconstruction and Development Program (RDP) -- are satisfactory, both in form and content, with respect to USAID's environmental review requirements. If these procedures are properly adhered to during project implementation, the proposed HG activity will be implemented in an environmentally sound manner, in full accordance with all salient USAID environmental policies and procedures [to be elaborated upon in full PP Environmental Analysis to be completed later; see also the ref. (A) PSHG PP Environmental Analysis for additional info. on this subject]; and

- that, as a result of the ongoing transition in South Africa to the new democratic government with its associated central, provincial and local level institutions and authorities, and the tremendous pressure to deliver as rapidly as possible on promises and expectations regarding significant improvements in living conditions for the long-disenfranchised majority population, potentially serious doubts persist regarding the ultimate willingness and capability of concerned project participants and approving institutions to properly adhere to even these abbreviated environmental assessment procedures during the course of project implementation.

Preliminary Recommendations: Based on the above findings, USAID-financed environmental technical advisory, training and promotion assistance will be required to ensure that the BS&E HG (as well as greater SAG sectoral development efforts) is (are) implemented in an environmentally sound and sustainable fashion. In this interest, the following environmental activities were recommended for closer examination/design for implementation under the HUDD program as an initial USAID approach towards promoting environmentally sound and sustainable shelter development in South Africa:

1. Information Collection and Dissemination on Appropriate and Environmentally Sustainable Shelter Options - Perhaps, one of the most critical issues facing South Africa's housing sector today is the question of how to deliver affordable, acceptable, low-cost housing to people while still maintaining some minimal standard of environmental integrity, e.g., planning densities, construction materials, water and sanitation, solid waste, energy, etc. In the absence of satisfactory solutions to this

issue, under the present politically "charged" atmosphere, the danger exists that environmental standards will be "relaxed" (or even totally abandoned) in an effort to provide as many houses as quickly as possible to the deserved target population. While this approach may serve to ease considerable short-term demand pressures, over the longer term, it can be expected to result in significant adverse environmental and socio-economic impacts and, ultimately, higher net costs to South African society in effecting the necessary remediation measures. Timely action is required now to address this critical need and ensure that the various shelter options pursued in South Africa are truly appropriate and sustainable for the formidable shelter development task at hand.

While much excellent R&D has already been done in the Republic, the U.S. and elsewhere on this subject (e.g., water- and energy-efficient design/operational technologies, financial incentive schemes, recycling technologies, on-site sewage and sanitation treatment/disposal technologies, efficient community planning/development options, etc.), much of this information is scattered and fragmented and, therefore, unavailable for effective application within the South African context. To assist the SAG in addressing this critical issue, it is recommended that USAID technical assistance be provided to gather, examine and disseminate this information (in a joint bilateral national-level workshop format) to concerned South African officials, lending agencies, developers and target community groups. More specifically, this activity would seek to complete the following major tasks:

a. complete a thorough information search and review of appropriate policy, planning and technological/operational options for the development of socially acceptable, low-cost and environmentally sound shelter throughout South Africa. This review would be conducted by selected U.S. and South African experts simultaneously within their respective countries. This initial task would also include the identification of recognized national/international experts in this area of environmentally sound, low-cost shelter development; and

b. conduct a national workshop in South Africa, comprised of the researchers and the national/international experts identified in step a. above along with key concerned South African shelter officials, lending agencies, developers, etc. to review the information collected in step a. above, and develop an agreed upon set of recommended policy/financial, community planning, basic housing architectural and operational technologies, options and standards for the delivery of socially acceptable, low-cost and environmentally sound shelter throughout the different regions of South Africa.

The results of this activity would be of immediate use in the

implementation of greater national shelter development plans throughout South Africa. These results would also serve to assist in establishing much of the agenda for planned USAID policy and promotion assistance in this same area of environmentally sound shelter development discussed below.

This activity should be launched as soon as possible to provide timely input into rapidly unfolding national shelter development plans. Early implementation will also serve to alert our South African housing collaborators that USAID is intent on assisting the SAG in pursuing this priority development program in a timely, yet environmentally responsible manner.

It is suggested that this activity might best be implemented through a direct Mission-funded PIO/T managed jointly with appropriate G/ENV/UP colleagues for completion of the U.S.-based activity components.

2. **Environmental Assessment Workshops for USAID-Financed Shelter Development Programs** - As mentioned above, the SAG currently has excellent proposed new procedures for ensuring that planned shelter (and other) development in South Africa proceeds in an environmentally sound manner. However, it is important to note that these environmental review procedures as yet remain proposed, and given the current state of bureaucratic turmoil throughout the Republic created by the ongoing transition to a new democratic South Africa (e.g., changing geographic jurisdictions; changing institutional authorities, responsibilities and relationships; changing statutory standards, regulations and procedures; changing regulators, approving officials, and other sectoral participants/players; etc.), it seems only realistic to question when these proposed procedures might actually be placed into effect. Moreover, this situation is exacerbated by the tremendous pressures being exerted upon all South African sectoral development interests to produce as many houses as quickly as possible towards fulfillment of long-standing promises and expectations regarding improved living conditions for the majority target population. Under such circumstances, it is not unreasonable to assume that some sectoral developments might occur without the benefit of due consideration of their potential environmental implications, resulting in potentially significant and costly adverse impacts to ongoing sectoral development efforts as well as to South Africa's environment and natural resource base.

To address these concerns, it will be required that all USAID-financed shelter development activities adhere to the proposed new South African environmental review procedures mentioned above (regardless of their particular legislative status within South Africa at the time a given activity is undergoing final design/approval). However, it is also evident that many (if not most) of these USAID program participants will be unfamiliar with

these new procedures and/or incapable of effectively applying them on their own. Accordingly, USAID-financed technical and training assistance will be required to effectively implement this recommendation.

It is suggested that the most effective way of providing this assistance will be through a series of provincial-level environmental assessment workshops in those regions where USAID has chosen to focus its sectoral assistance program activities. Prospective workshop participants would consist of concerned representatives of those national, provincial and local-level authorities, lending agencies, developers, and beneficiary communities immediately involved in the proposed shelter development activity in question. This participatory approach will result in a highly democratic and consultative review process in full agreement with current SAG general development policies and, more specifically, with the intent of the proposed new SAG environmental procedures. The workshops would be designed to achieve the following two major objectives:

a. instill within the participants a good appreciation of the need for sound environmental review of proposed development activities, together with a solid, practical understanding of current SAG policies and procedures promulgated for this purpose; and

b. completed environmental assessments of proposed shelter development activities, in full accordance with the proposed SAG (and existing USAID) environmental review requirements, for submittal to the appropriate approval authorities along with the other required components of the development activity proposal in question.

These workshops could either be conducted separately, i.e., addressing environmental issues only, or in conjunction with the recommended participatory design of the other required aspects of the specific development proposal in question (e.g., technical/engineering requirements, financial requirements, etc.).

For best results, these workshops should be implemented with joint U.S. and (maximum) South African training/technical expertise. The Mission may wish to consider a "buy-in" arrangement with the centrally-funded Environmental Pollution Prevention Project (EP3) as a means for securing the requisite technical/training assistance for implementation of this activity.

In addition, it was also noted during our visit that the Annual Conference of the International Association of Impact Assessment will be held this coming June in Durban. This conference is an important international event in the area of environmental

assessment practices and procedures; and, with this year's South African venue, one could expect an increased amount of Africa-relevant technical presentations and training opportunities. Accordingly, it is highly recommended that the Mission take full advantage of this year's most propitious venue for this conference and sponsor the participation of key provincial-level environmental officials (at least) from planned program target areas. Such USAID-financed participation in this activity this June would provide an excellent initial step for key provincial-level program counterparts in preparation for the more activity-specific regional workshop activities described above. [REA Bingham (who will also be attending the conference as a long-standing member of the IAIA) has already put the Mission--c/o Maria Beebe--in contact with the conference organizers and received a most favorable preliminary response to such expanded South African participation.]

3. **Promotion of Environmentally Sound Shelter Development** - The activity outlined in item 2. above should adequately serve to ensure that all USAID assistance for ongoing shelter development programs in South Africa is implemented in an environmentally sound and sustainable manner. However, in-country discussions with a variety of sector participants indicate a clear dichotomy of thought between the desire to pursue the RDP in an environmentally sound manner, and the fear of excessive regulatory obstacles hindering effective and timely program execution, e.g., the proposed Development Facilitation Act. In addition, for many heretofore disenfranchised South Africans, environmental considerations -- once an additional item in the arsenal of political tactics used to discredit the old apartheid regime -- have lost their true significance and popular base of support with the advent of the new democratic order. Therefore, there is a compelling need to educate all sectoral interests regarding the need for and potentially significant benefits to be derived from due consideration of the environmental implications of housing program implementation, if only to ensure that past mistakes are not repeated in the overwhelming desire to satisfy long-standing majority demands.

It is recommended that this objective be pursued through a dual-track approach, with one track focussing on the establishment of appropriate and environmentally sustainable shelter development policies, standards and practices at the central ministerial level (i.e., "top-down approach"), and a second track aimed at building a better awareness and appreciation among participating community interests of the importance of environmentally sustainable sectoral development (i.e., "bottom-up approach"). Preliminary suggestions for addressing both of these areas of environmental promotion follow:

a. Promotion of Environmentally Sound Shelter Development Policies, Standards and Practices: A rapid review of the

Ministry of Housing's "White Paper" on its proposed role in RDP implementation reflects the widespread perceived dichotomy noted above between environmentally sound and rapid sectoral development, with maximum attention being devoted to facilitating sectoral development efforts and only scant reference to the potentially significant environmental implications of program implementation. Therefore, there is a clear need for timely and effective assistance aimed at establishing appropriate national-level policies, standards and practices designed to promote environmentally sound and sustainable sectoral development. A preliminary, illustrative listing of possible policy objectives to be pursued under this activity would include:

- environmentally sound and sustainable shelter development policies (e.g., financial incentive/disincentive schemes; promotion of affordable, yet energy-/water-efficient houses; siting/land use considerations; planning densities; incorporation of parks and greenspaces; etc.);
- environmentally sound and sustainable shelter design and operational standards (e.g., service delivery levels, materials of construction, use of innovative/alternative energy/water/sanitation designs and technologies, ventilation/insulation features, landscaping and other aesthetic considerations, etc.);
- environmentally sound shelter development practices (e.g., adherence to appropriate environmental review procedures, construction/restoration practices, etc.);
- increased capacity of central Ministerial institutions and their lending affiliates and associated provincial-level agencies and boards to promote environmentally sound and sustainable shelter development solutions;
- increased awareness by all sectoral development interests of the need for affordable, yet environmentally sound basic shelter solutions;
- develop and disseminate information on innovative and appropriate planning, design and/or operational technologies, options and practices for environmentally sound basic shelter development; and
- effective national and provincial-level coordination of the environmental aspects of shelter development program implementation (e.g., with the Department of Environmental Affairs, Ministry of Water Development, Land Affairs, etc.).

It is suggested that the most effective way of pursuing these

objectives would be through the establishment of a modest environmental unit or cadre within the reorganized Ministry of Housing and its major affiliated lending institution(s), e.g., National Housing Finance Corporation. [It is further suggested that the establishment of such a national-level environmental cadre is sufficiently important to merit consideration for inclusion as a Condition Precedent to the HG loan agreement.] It is recommended that intermittent short-term USAID technical assistance be provided under this activity to work with this cadre in pursuit of the illustrative objectives identified above. For best results, this activity should probably be implemented to the maximum extent possible with South African technical expertise (possibly acting in association with appropriate U.S. expertise).

b. Promotion of Increased Community Awareness of the Need for Environmentally Sound and Sustainable Shelter Development: As mentioned above, many peoples' perceptions of the importance of environmentally sound development are changing with the end of apartheid and renewed expectations among the poor majority for timely improvements in their living conditions. Without a popular base of support, it will be most difficult for sectoral development interests to adhere to environmentally sound development principles and procedures during RDP implementation in the face of currently strong pressures to produce. Unless community participants gain a better appreciation of the potential benefits derivable through resource-efficient houses and communities, resources will be wasted and degraded unnecessarily to the long-term detriment of South African society. The potential for adverse impacts in this situation is significant due to the relatively large scale of planned sectoral development efforts, especially over the next few years. Therefore, there is a need for timely assistance aimed at increasing community awareness of the need for environmentally sound and sustainable shelter development.

There are several "environmental" non-governmental and private voluntary organizations (NGOs/PVOs) currently active in sectoral affairs in South Africa. It is suggested herein that USAID support be provided to assist these organizations to organize and launch a concerted nation-wide campaign to educate participating community interest groups and individual consumers regarding the need for and desirability of environmentally sound and sustainable shelter development. It is further suggested that the best mechanism for securing assistance in this area would be G/HRD's GreenCOM Project.

Conclusion: Despite the fact that the planned South Africa BS&E HG merits a Categorical Exclusion under the Agency's Environmental Procedures, potentially serious doubts remain regarding the willingness and capability of concerned sectoral development interests to execute the program in accordance with

**ANNEX F: IEE - Basic Shelter & Environment Housing Guaranty Program: 674-HG-002**

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the excellent environmental procedures developed by the SAG for this purpose. Accordingly, several recommendations are presented herein to address these perceived environmental shortcomings and ensure that program activities are implemented in an environmentally sound manner. These preliminary recommendations are offered at this early stage of program development for further discussion and development by the Mission during the course of final project design.

These findings and recommendations pertain solely to the planned BS&E HG activity in accordance with the recent Mission decision to postpone final design and obligation of the planned companion Municipal Infrastructure activity until FY96. As the development of this latter HG activity proceeds over the course of the next year, these recommended shelter-specific environmental activities can be expanded gradually to cover the greater breadth and potential environmental significance inherent in a truly comprehensive, large-scale municipal/urban development assistance program.

cc: M. Beebe, USAID/SA/PDPS  
C. Bingham, REDSO/ANR  
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**ANNEX G**

## ANNEX G

### DISASTER MITIGATION ANALYSIS

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

Hazard vulnerability analysis of potential "disasters," in the classical context of catastrophic natural disasters, is not of particular relevance to South Africa. Due to its fortunate geophysical location, South Africa is virtually untouched by those anticipated, although unpredictable, "Acts of God" such as hurricanes, typhoons, mass floods, tidal waves, earthquakes, or volcanic eruptions. However, despite their relatively limited exposure to natural disasters, South African public institutions, especially those at the national level, are well prepared and equipped to respond should the need arise.

Although threats from natural hazards are comparatively low, South Africa does have a history of the types of disasters which impact on human settlements most severely: geophysical (earthquakes, landslides, etc.) and hydrometeorological events (storms, floods, etc.) For example, serious floods have occurred in the Umbeluzi River in 1966, Natal in 1974, Johannesburg in 1977, Transvaal in 1978, Laingburg/Cape Province in 1981, and Natal/Kwazulu in 1987. In the last, record rains caused flooding and landslides in black urban townships and rural settlements, leaving 388 dead, 65,000 affected, and 65,000 homeless (the unofficial estimate of number homeless was over 500,000). In addition, three earthquakes since 1969 have resulted in death and injury in South Africa. Finally, Cyclones Domoina and Imboa in the regions of Natal, Kwazulu, and Transvaal in 1984, 64 people were killed and 500,000 affected. Overall in South Africa, between 1964 and 1989, 28 people were killed and 1,000 affected by geophysical events, and 744 were killed and 550,000 affected by hydrometeorological events.

Although they face a low probability of natural disasters, South African low-income communities face a very high hazard vulnerability and the probability of extensive loss of life and property from the more common risks associated with high urban densities, poorly constructed and highly flammable building materials, and inadequate services. These high density risk factors in low-income communities are often compounded by improper site selection, poor planning and uncontrolled development. However, none of these risk factors are natural disasters because they can reasonably be foreseen and avoided. Examples include loss of life and property following rain-induced land-slides when homes are built on slopes subject to destabilization; and losses to floods when homes are built in river courses.

Fortunately, with the development and/or enforcement of proper urban planning, building and environmental standards, the hazard vulnerabilities in the low-income communities where the assisted through the Basic Shelter and Environment Housing Guaranty Program can be mitigated. It is especially critical that proposed planning, infrastructure, building

and environmental standards be applied in those low-income communities in which existing informal housing is consolidated and the urban environment is upgraded.

In response to these issues, USAID should work in close partnership with the BSE-HG Program implementing agency and the participating retail lenders. The goal should be to ensure that a proper framework is developed and applied for urban physical and environmental planning, most certainly in selected impact communities where substantial BSE-HG resources may be targeted. However, the BSE-HG program objective should not be to impose a set of external requirements on the public sector decision-makers. Rather, it should be to assist them to systematically assess, refine, implement, expand and enforce the planning, environmental and development standards that currently exist and which are routinely observed in South Africa's more established communities.

Accordingly, it is recommended that the Mission technical assistance grant funds supporting the BSE-HG should be used to develop and incorporate an urban disaster management program and guidelines for those banks and communities supported under BSE-HG. The guidelines should be applied to borrowers under the BSE-HG program to insure that approval of shelter loans be contingent upon a review of the hazards associated with the site. The BSE-HG should also work with the implementing agency, retail lenders, and local governments and planning agencies to develop the institutional capability to identify and manage hazards.

The following section provides an example of the type of information that could be used by municipal and regional planning agencies and retail lenders to assess the overall level of vulnerability, both natural and man-made, and to improve the level of institutional capability for disaster management. Of course these examples are not exhaustive but provide an sample methodology that might be developed under BSE-HG to determine the overall vulnerability of the program region and guide activities in incorporating disaster management.

## **I. Hazard Assessment**

### **1. Natural Hazards**

Does the community have a history of catastrophic natural disasters, such as earthquakes (seismic zones), floods (flood plains), storms,(coastal areas), etc.? What sources of hazard data are available (i.e. damage reports, hazard maps)?

### **2. Land Use Conditions**

To what extent has settlement occurred in vulnerable urban areas? Vulnerable areas include, but are not limited to, hillsides, water's edges, or areas near technological or sanitation hazards.

### 3. Project Type

What kinds of vulnerabilities may be linked with the specific type of project? For example:

- a. **Shelter** - structural soundness vis-a-vis most probable hazard
- b. **Infrastructure** - structural soundness, integrity of the system [Note: natural disasters strike the weakest links in infrastructure delivery systems. Also, destruction of a critical component of an infrastructure system has a much wider impact than the destruction of individual buildings.]

Once the existing danger level has been determined, the next critical issue is to assess what systems already exist to respond to and mitigate disasters. Disaster management strategies can be divided into pre-disaster prevention, mitigation, and prepared-ness (PMP) and post-disaster response (relief, rehabilitation and recovery).

## II. Institutional Capacity & Performance Assessment

### 1. Prevention, Mitigation, & Preparedness

The objectives is to find ways to avert or lessen the impact of disasters in the design phase.

- a. **Capacity** - To what extent do local government institutions incorporate measures to prevent disasters? Which institutions are responsible for which activities?
- b. **Performance** - To what extent do institutions enforce rules and regulations and how proficient are they with PMP activities?

### 2. Response

- a. **Capacity** - Who is responsible for responding to emergencies (within the host country/municipality)? What are the roles and capabilities of staff, facilities, and supplies for fire fighting, emergency medical response, national guard equivalent, etc.
- b. **Performance** - How would you characterize the track record on disaster response?

### III. Program/Project Interventions

#### 1. Prevention, Mitigation, and Preparedness

Following are examples of PMP intervention strategies:

**Prevention** - activities to prevent natural phenomena from becoming a disaster to the community

- Hazard identification and mapping - data collection on the severity and location of probable hazards to guide development decisions
- Vulnerability and risk assessment - strategies to categorize and quantify hazard exposure and estimate probable loss from a disaster
- Land use planning - policies which guide safe physical development (i.e. land development regulations which deter settlement in vulnerable areas and direct to less vulnerable areas)
- Physical interventions - physical actions designed to avert disaster (i.e. construction of dams or dikes, elimination of hazardous materials, and reforestation.)

**Mitigation** - activities to reduce the negative impact of disasters

- Construction regulations and building standards - policies, laws and codes that increase the resistance of the physical environment to disasters
- Building retrofit technology - ways to modify and strengthen structures to resist physical impacts of disaster
- Hazard insurance - financial mechanism to allow for rapid rebuilding of structures damaged by disaster (through premium pricing, it can also help prevent disasters by discouraging development in vulnerable areas)
- Financial institutions - financial mechanism to discourage development in vulnerable areas (i.e. banks which condition loans on site vulnerability)

**Preparedness** - activities to limit the negative impact of disaster by preparing effective response strategies

- Preparedness Planning - Plans coordinated across sectors (i.e. shelter, medical care, food provision)

- Training and Public Awareness - efforts to educate and prepare all sectors of society (i.e. government, industry, and public) to facilitate rapid recovery from disaster [Appropriate for any aspect of disaster management]

**Response** - the following are some examples of possible ways to respond to varying levels of institutional preparedness for disaster management in the program planning process.

- Strengthen institutional capabilities and enforcement systems as part of technical assistance element (i.e. land use planning, land cadastral and ownership registration systems, taxation systems, land banking systems, building code writing and enforcement).
- All PMP - Add new elements on capacity building specific to identified weaknesses.
- Prevention - Create guidelines on safe site selection processes to be used during feasibility study of projects or enforcement of existing regulations.
- Mitigation - With shelter projects, encourage architectural mitigation where appropriate [Note: may be appropriate for larger areas prone to certain natural hazards -- such as those subject to floods, storms and earthquakes -- but less appropriate for areas vulnerable due to poor choice of land use, such as areas near volcanos or on hill slopes prone to landslides.]
- Preparedness - establish mechanisms for better information flow between local municipalities and populace through participation elements.

***ANNEX H***

## ANNEX H

### TECHNICAL ANALYSIS

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

The Government's housing policy as enunciated in the White Paper adopts a pragmatic approach to the delivery of low-cost housing, structured around continuation of the present Capital Subsidy Scheme as the means of providing, at the very least, serviced residential sites and starter units as the first stage in an on-going process of progressive house construction and improvement. It is intended that improved access to housing finance will enable the majority of low-income households to incremental expand and improve upon this initial shelter provision over a relatively short period of time. The incremental housing approach recognizes that the housing solution much be tailored to the income of the household acquiring the unit.

This concept of incremental or progressive housing has a number of characteristics. It generally refers to shelter falling within a price range below the formal housing market, commonly involves the use of second-hand or recycled building materials, is ad hoc and not carried out according to a design or set building regulations, and produces a highly varied product that changes to suit the needs of the occupants. Usually, four types of progressive housing can be identified:

Incremental housing consists of gradual or phased improvement of a dwelling that takes place as and when the occupants can afford it or in instances when they are assisted in some way, such as with the provision of free building materials or technical advice;

Site and service housing requires the identification and preparation of land before settlement takes place. The site is plotted and basic infrastructure services provided. Serviced may then be purchased on which families initially erect informal housing. Further consolidation and upgrading may follow, including the replacement of the informal housing with a formal dwelling;

Consolidation is a process that involves the incremental physical, social and economic development and upgrading of an informal housing environment. Consolidation should be a two-pronged approach in that the physical upgrading of residential areas should go hand-in-hand with the socio-economic and psychological upliftment of the families.

Upgrading ("in situ") is the delivery of secure tenure and the required infrastructure services to ensure health and safety in existing informal settlements, and the promotion of consolidation of such a settlement over time.

Self-Help is a process whereby individuals and groups have the task of planning, organizing, and implementing activities leading to the provision and maintenance of housing and the residential infrastructure.

Any or all of these incremental housing concepts will be utilized in the development of the HG-BSE housing program. Usually, they will occur jointly with a subsidy element, either past or present, which has been applied to make the solution affordable to the buyer. It is also possible that some purely formal housing loans will be made, where the buyer is able to provide additional up-front equity to accompany the loan and the subsidy, and where the buyer has access to a pension fund as a guaranty.

For the program to function, there must be a sufficient number of eligible projects in the pipeline to make use of the HG funds. From an institutional standpoint, the South Africa Housing Trust indicates that it has approximately 5,000 hectares of available land, which would be appropriate for about 50,000 individual building sites. Moreover, local and provincial governments own hundreds of sites, many in urban in-fill areas with good access to infrastructure, which would be available for low-income housing projects. More specifically, there are a number of urban projects, many already qualified as Presidential projects, that are being supported by the USAID Community and Urban Services Support Project (CUSSP), and are described in some detail in subsequent paragraphs. It should be pointed out that all these projects would be candidates for funding under the HG-BSE program.

- The Serviced Land Project (SLP) in Cape Town consists of more than 1,000 hectares of projects located in the squatter camps at Crossroad, KTC, Browns's Farm and Miller's Camp, as well as in the backyard shacks and hostels in Langa, Nyanga and Guguletu. The SLP is designed to provide ownership of serviced sites and access to building resources for more than 35,000 poor urban families presently living in 26 distinct communities. Implementation of the project is programmed over five years and is made up of at 38 individual projects. These include 13 existing settlement upgrading projects involving 8,000 sites/units, 8 in-fill projects within existing townships involving 2,000 sites/units, and 3 new greenfield projects involving 25,000 sites/units. Implementation began in mid-1993, and when finished is expected to cost some R600 million.
- The Marcone Beam Affordable Housing Project in Cape town is focused on 1,200 households that have been squatting for more than 10 years on an eight hectare parcel within a much larger site owned by TELKOM. This is a strategically located site that offers considerable commercial development potential as well as the opportunity to act as a catalyst in the spacial and social integration of the city. The project plan is to offer the community a range of options for secure tenure of service land and formal affordable housing in a 25 hectare site immediately adjacent to their present location. TELKOM has agreed to sell this new site for a reasonable price, and plots will be made available for the squatters at a nominal cost of about R500 per site. The total cost of constructing the project would be almost R70 million, of which R35 million is for the housing component of 1,000 units.

- Duncan Village Development Project in East London consists of more than 80,000 people, which is about 50 percent of the entire population of the city, although the site comprises only 2 percent of the municipal land area. Living conditions are some of the worst in South Africa, with densities as high as 700 dwellings per hectare in places. In early 1993, the Duncan Village Residents Association began preparation of a development plan for the community, which reflects the physical planning, infrastructure, shelter and community facility needs and priorities of the area. As a presidential Project, the RDP allocated R140 million in August 1994 to begin the upgrading and development works. The total cost of this proposed five year project will be about R624 million which will include land acquisition, roads, on and off site services and upgrading of existing services. At present, funding is still not available for some 3,500 units to be built in the first four years of the program.

- Cato Manor Development Project in Durban entails the delivery of land tenure, infrastructure, services and housing to an estimated 41,000 households over a six year period. Some 35 separate projects falling within six different delivery categories are envisaged, such as upgrading of 5,000 units in Cato Crest and Dunbar Road, building 9,000 incremental housing units on greenfield sites, conventional mortgage financing of 9,700 units in 11 different sites, 2,500 units of institutional rental housing, some 5,100 units to be built by non-profit organizations for their membership, and the rehabilitation of 1,200 squatter units. Many of these projects will be directed to families with income under R1,500 monthly.

- The Southern Pinetown Low-cost Shelter Project in Durban covers an area of approximately seven square kilometers. Although originally settled by squatters, it has been formally recognized as a community, and in 1990, the IDT-funded Capital Subsidy Scheme completed 7,200 units, with another 8,000 planned for the near future. However, this development has not been complemented by the necessary provision of housing, employment opportunities and community facilities. Consolidation subsidies of R5,000 per site owner are available for 2,850 units, while the remainder of the proposed 15,000 are still pending. Additional loans are necessary to flesh out the financial needs to complete the housing units.

- The Golden Highway Development (GOLDEV) housing Project in Gauteng is located on a 400 hectare mainly greenfield site to the south of Johannesburg. The current plan is to develop some 16,000 sites, to be undertaken by the various landowners and developers.

***ANNEX I***

## ANNEX I

### INSTITUTIONAL ANALYSIS

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

##### **The Department of Housing**

The National Ministry and Department of Housing (the Ministry) is the primary state institutional dealing with housing. Under the interim Constitution, the Ministry is responsible for carrying out the following basic functions:

- Setting broad national housing delivery goals and negotiates provincial delivery goals in support thereof;
- Determining broad national housing policy, in consultation with relevant other national departments and provincial governments where relevant, as relates to, inter alia, land development and use, land title and registration systems, minimum national standards, national subsidy programs, fund allocation to provinces, mobilization of funds, planning guidelines, etc;
- Adopting or promoting legislation to give effect to national housing policies;
- Establishing a national institutional and funding framework for housing;
- Monitoring national and provincial performance against housing delivery and budgetary goals;
- Overseeing the activities of national statutory advisory and facilitative institutions, and accounting to the national parliament;
- Negotiating the systematic increasing of the national apportionment of State budget to housing; and
- Accounting to national parliament for the performance of the sector against set targets and efficiency parameters.

At the present time, the Ministry of Housing is heavily involved in the design and development of new housing programs and the requisite institutional framework to carry out the RDP mandates in the housing sector. The most important activities include the creation of the National Housing Finance Corporation (see below), the Mortgage Indemnity Scheme, SERVCON, and the Builders Warranty Scheme.

## **The Wholesale Lender**

The National Housing Finance Corporation is being set up principally to generate finance at the wholesale level on a large scale and on a sustainable basis. While the GNU has not yet approved its full role and responsibilities, it is expected that the NHFC will facilitate the development and expansion, nationally, of the necessary financial, institutional and technical capacity required to ensure an adequate and sustained flow of affordable housing finance at the retail level on a commercially viable basis, in the housing market generally, and specifically down to the lowest possible income levels in the government subsidized sector of the market. The key objectives of the NHFC, as covered in its proposal to the GNU, are to:

- Facilitate the balanced geographic distribution of housing finance capacity and flows in accordance with the demand for such finance;
- Reduce the cost of capital of retail lenders and hence the cost of finance to end-users on a basis which is sustainable at the required scale over the long term;
- Stimulate the expansion of existing and/or creation of new retail lending capacity through appropriate support programs, incentives and funding programs;
- Provide an effective and efficient agency service to the government for the management of government initiated or funded programs directly related to the NHFC core business functions:
- Foster, promote and enhance a competitive environment at the retail lending level through its policies, programs and interventions:
- Promote a national legislative and policy framework conducive to the sustained mobilization of affordable housing finance in the country; and
- Promote rationalization of the involvement of the state at the wholesale funding level in the provision of housing finance to the extent that such activities are covered by the NHFC's mandate and will contribute to the achievement of the mission of the NHFC.

NHFC is expected to be authorized to tap a variety of financial sources, included funds from the Government of South Africa, international institutions, the local capital markets and depositors via the retail lenders. In turn, NHFC will provide funds to all retail lenders operating in the subsidy market, including banks, lenders not registered as banks, and institutions in the business of long-term ownership and management of government subsidized housing stock. NHFC will not engage in retail lending operations.

The National Housing Finance Corporation functions are expected to include the following:

- Mobilization of funds at the wholesale level;
- Underwrite borrowings (for a fee) by retail lenders;
- Stimulate the mobilization of savings for housing finance purposes;
- Support and upgrade the RLEs operating capacity;
- Purchase mortgage loans from accredited lenders;
- Facilitate consumer education and protection;
- Monitor, research and evaluate the provision and performance of housing finance;
- Establish, promote and maintain a national awareness program;
- Rationalize the financial assets and liabilities of Government in housing finance;
- Support funding of experimental lending programs.
- Administer on behalf of Government an interest rate subsidy program;
- Manage an equity fund to assist RLEs; and
- Manage and administer the Mortgage Indemnity Fund.

Although the NHFC has not yet been established, its general purpose as expressed in the above list of functions is clear. It is intended to be self sufficient in terms of operating costs and capitalization. It will be established as a conventional, if possibly listed, public company under the Companies Act. When finally established, it will be given a clear and unambiguous mandate and will be required to fully and publicly account for costs, income and risk exposures.

It is envisaged that a significant portion of NHFC's shares will be owned by the State during its formative years. However, significant private shareholding is being pursued. The first private shareholders will probably be the major savings institutions in SA, including insurance companies. A Board of Directors will be appointed by the Minister of Housing and by the private sector, each in proportion to its holding.

### **The Retail Lenders**

The retail lending agencies consist of a number of different types of institutions. In general, lending institutions in South Africa can be classified as either traditional mortgage lenders (banks) or as non-traditional retail lenders (NTRL). At present, the focus of involvement as well as the lending and institutional capacity of these two types of lenders differ markedly.

The Banks possess the resources, capacity and skills to undertake mortgage lending and at the present do so quite successfully. But they have severely restricted their involvement in the lower end of the market, owing to their perception that loans to this group are unprofitable, have high financial risk and are management intensive. However, the banks have indicated their wish to begin to serve a lower income market if the Government can satisfy their concerns with respect to addressing the bond boycott, resolving the issue of repossessed houses, and faulty construction. Essentially this would involve the establishment and operation of the various schemes and institutions that the Ministry is working on. More than likely, the Banks will increase their lending to families earning as

little as R1,500 monthly, but it is still unclear whether they will reach much below that level. Assuming the government is able to mitigate the risk to the banks and banks are able to set higher interest rates to compensate for higher costs, it is still not evident that low-income families can afford a conventional mortgage loan under the terms and conditions that some banks are currently proposing.

At least two of the large commercial banks have set up special operational units to deal with the new market. Nedcor, which has the largest experience with this market, has established Peoples Bank, while Standard Bank has created E Bank. In the latter case, E Bank is intended to be the lending group for the low-income market. E Bank will operate within the existing Standard Bank branches, however specially trained personnel will be posted to those branches which have an outreach capacity, due generally to location, to serve potential low-income borrowers. This bank currently has a backlog of applications that it can act on once the Ministry of Housing approves the national housing program this coming June. Due to this backlog and the on-going personnel training programs to deal with this market, E Bank believes that it can work up rather quickly to a level of 22,000 loans per year. However this includes loans to families whose incomes range between R800 and R3,500 monthly, and not just to families with incomes below R1,500. So it is not clear how many of these loans will reach the HG-BSE target group. E Bank estimates that it can loan about R800 million annually to this market.

The NTRLs are lending institutions whose focus has been to serve families not traditionally served by the Commercial Banks. They are parastatals like the South African Housing Trust (SAHT) and Kwa-Zulu Finance Corporation (KFC), Mutual Banks like Community Bank and Cash Bank, and micro lending institutions like Alternative Finance Limited and Great North Credit Corporation. Like Banks, most do not exclusively serve the housing market (SAHT is an exception), but instead make a variety of types of loans to their large constituency. The most successful NTRLs have demonstrated an ability to function consistently on a non-subsidized basis by making loans to families earning between R600 and 3,500 monthly. But for the most part, they have short track records, which impedes a proper assessment of their long-term potential to provide end-user finance at the level being proposed by the RDP and the Ministry of Housing.

The NTRLs are beginning to sub-divide into two groups. On the one hand are the larger NTRLs such as SAHT, KFC and the mutual banks that are making conventional mortgage loans to a large degree, although most make some short-term unsecured loans, and on the other hand are the even smaller micro-lending institutions that focus on short-term loans. Another distinction is that the larger NTRLs appear to have sufficient and capable management, while the smaller NTRLs lack, for the most part, the necessary skills to grow and become more active in the market. All these institutions have one thing in common, that is, they generally need additional funds to meet their commitments to the low-income market. In that respect, they differ from the Commercial Banks which to date, appear to have sufficient funds to meet their lending goal of 50,000 loans in the first year of the new South African Housing Program.

For the most part, the NTRLs are making two types of loans; mortgage loans usually secured by a borrower's pension fund at the company at which he/she is working, and unsecured short-term housing related loans which are provided on a piece meal basis to the borrower to build a home over time. In general, the latter carry very high interest rates, with each tranche having to be repaid before the borrower gets another loan to continue work on the shelter.

The two Mutual Banks, some of the smaller commercial banks such as Future Bank, and KFC are doing some lending at the below R1,500 income market. They can be either non-mortgage, unsecured loans or mortgage loans secured by a pension fund, although in general they tend to be the former. Cash Bank, which is a Mutual Bank, is currently making 1 to 2 year loans at 55 percent interest in amounts between R500 and R3,000, that are not secured by a pension fund. While the interest rate may seem excessive, the very high administrative costs associated with this type of lending necessitate such a interest rate structure. Cash Bank is also making three year secured loans at a fixed 19 percent interest rate, which is appealing to many low-income families because the monthly payment does not vary over the three years. Cash Bank is currently making about 1,000 loans monthly, mostly to families with incomes below R3,500, thus increasing its loan portfolio by R7 to 10 million monthly.

The SAHT is somewhere between the two types of lending institutions discussed above. In the first place, it only deals in the housing market, which makes it a unique operation. On the other hand, it has traditionally been more than a lending institution, in fact, it began operations as a private/public sector collaboration to develop housing and still maintains a development profile. It is now undergoing a review of its role in the housing sector, having recently undergone a change in management. In the future, it will probably focus its lending operations on serving low-income families. It sees as it's market families earning between R1,200 and R1,750 monthly, and it expects eventually to provide around 30,000 loans annually to this group. If it is able to meet that target, it would clearly be the largest and most important player in the HG-BSE program market.

There appears to be two major issues with respect to the institutional framework and capacity. One is whether the NHFC will be established and operational to the degree necessary to implement the HG Program in a timely manner. While the Department of Housing has stated clearly that the NHFC will be established in September, 1995, it does not appear that at this time (July, 1995) a managing director and staff, office space, equipment, documentation and procedures, etc, would be in place until next year, at the earliest, thus permitting NHFC to become operational.

The second issue is whether the NTRLs have or will have sufficient capacity to function as the retail lenders serving the market of families with incomes below R1,500. It is clear that the capacity does not presently exist, however, if the SAHT, Cash Bank and a few of the large NTRLs are able to meet their goals, and if the low-income operations of the Commercial Banks such as Peoples Bank and E Bank are able to reach a little below R1,500 level, then it is possible that the capacity will exist.

***ANNEX J***

## ANNEX J

### SOCIAL ANALYSIS

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

##### I. INTRODUCTION

This Social Soundness and Gender Analysis is organized into three parts, plus a brief summary and recommendations. First, the targeted income group is profiled, based on available national and provincial summary statistics. This section also includes information on the shelter-related needs and experience with banks and loans of the target population. The second section discusses who is likely to benefit and who is likely to be excluded from the project. The third section summarizes what needs to be done to ensure that the target income group participates and benefits from the project. It also includes a discussion of what needs to be done for the excluded population. The variables discussed include class (socio-economic status), race, gender, marital status, age, location, length of residence and tenurial status. On the topic of borrowing money, very little socio-cultural data is available so the analysis focuses on socio-economic issues. The information for this analysis has been gleaned from secondary data and expert interviews with a wide array of government and non-governmental organizations stakeholders. Moreover, attendance at the "Women in Housing" forum held on June 30, 1995 made it possible to listen to the concerns of potential customers of loans for low-income housing.

##### II. PROFILE OF THE BELOW-MEDIAN INCOME URBAN POPULATION

Before profiling the below-median income group, it is important to understand that most South African household-level data, particularly in cities, large townships and informal settlements, is somewhat unreliable due to difficulties related to apartheid-era data collection. For example, a number of townships boycotted the most recent national census in 1991 and the data had to be gathered via aerial photographs rather than household visits. Accordingly, data from the best available studies has been compared and incorporated into the discussion below. Most of the data, unless otherwise noted, comes from the source which is widely considered to be the most reliable: "South Africans Rich and Poor: Baseline Household Statistics, August 1994," Project for Statistics on Living Standards and Development, South Africa Labor and Development Research Unit, School of Economics, University of Cape Town.

##### II.A. Income for Urban and Metropolitan Households

The USAID Housing Guaranty Program is targeted at urban households earning less than the median income. For all urban households, approximately fifty percent fall below the R1500 per month level (White and Kirkpatrick 1994) However, it is unclear what the median monthly income of urban households actually is. For example, it has been held that the median monthly lies somewhere between R1800-R2000 for urban and metropolitan

households, whereas other estimates arrive at a lower figure of around R1500 (R3.6/\$1.00 USD). It is suggested that the latter figure is more practical for the BSE-HG program as this is a cut-off point for the housing subsidy. (Oelofse and van Gass 1993).

### 1. Income and Ethnicity for Urban and Metropolitan Households

South Africa's present urbanization level is presently estimated at 65 percent. Asians and whites are about 90 percent urbanized, coloureds are about 80 percent urban, and blacks are 55 percent urban. Black africans have historically been less urbanized, to quite some degree due to apartheid and controls on their urbanization, but are now catching up. Nonetheless, due to such differences it can be seen in Table 1 that the ethnic composition of the urban and metropolitan population varies from the overall population distribution.

**Table 1. Distribution of South African Households in Urban and Metropolitan Areas by Ethnic Group (%)**

Ethnic Group	Percent of total population	Percent of urban population	Percent of metropolitan population
African	76.4	58	47
Coloured	8.4	13	13
Asian	2.5	7	4
White	12.7	22	36

(source: SALDRU 1994)

As a result of apartheid, income distribution has been dictated by ethnicity in South Africa and its urban and metropolitan areas (Table 2). The proportion of urban and metropolitan households making less than the median income is composed as follows: just under half are African, 27 percent are coloured, 18 percent are Asian and six percent are white. The distribution of income is quite different for each ethnic group. The African and coloured households are the poorest households. According to Touzel (1994), the majority of urban African households (81 percent) have incomes which fall under the national median monthly income with most of the urban African households (61 percent) earning less than R1000 monthly. Just under half of the coloured urban households (45 percent) make less than R1500 monthly and one-quarter of all coloured urban households fall below R1000 per month.

**Table 2. Distribution of Urban Households by Income and Ethnicity (1993) (%)**

Ethnic Group	R0-499	R500-999	R1000-1499	R1500-2499	R2500-3499	R3500+
African	31.9	28.7	20.4	11.0	3.3	4.6
Asian	3.3	10.9	14.9	21.2	13.0	36.7
Coloured	8.8	17.4	18.6	22.6	12.2	20.4
White	1.2	4.3	4.9	10.0	11.6	68.1

(source: Touzel 1994)

## 2. Income and Household Type for Urban and Metropolitan Households

In general, as household income decreases, the percentage of female-headed households increases (Table 3). By ethnicity, African female-headed households in urban and metropolitan areas average 24 (urban) to 21 (metropolitan) less than African households headed by resident married couples (coded "male-headed households" in South African surveys). Coloured female-headed households in urban and metropolitan areas earn 11 (urban) to 27 (metropolitan) percent less than the average for households headed by couples. In terms of the more relevant measure, household income per capita, the differences between urban couple and female-headed households is more pronounced among Africans and less pronounced among coloureds.

**Table 3. Average Monthly Income for Urban & Metropolitan South African Households, by Household Type & Ethnic Group (Rand)**

Ethnic Group	Urban Couple/Male-Headed Households	Urban Female-Headed Households	Metropolitan Couple/Male-Headed Households	Metropolitan Female-Headed Households
African	1175	875	1450	1144
Coloured	1418	1263	2640	1929
Asian	3967	2065	4000	2502
White	5125	2295	6457	3576

(source: SALDRU 1994)

### 3. Income Sources for Urban/Metropolitan Households

For African and coloured households in urban areas, households reported three major income sources: regular wage employment (73-78 percent), other sources which include primarily pensions and grants (6-13 percent), and self-employment (2-7 percent) (SALDRU 1994). Nation-wide, approximately one-quarter of the regularly employed Africans and coloureds, both men and women, work for the public sector. While the majority (70-75 percent) of African men, coloured men and coloured women are employed by the private sector, this percentage drops to 45 percent for African women. The remaining 28 percent of African women are regularly employed in private homes. Apart from in the Eastern Cape Province, union membership for African women is much less (21.6 percent) than for African men (35.6 percent). The nation-wide percentages of union membership are much closer for coloured men (41.6 percent) and coloured women (39.3 percent).

Income earned through self-employment varies by race and gender but is generally not reported as, and/or considered to be regular employment. Nation-wide, both African and coloureds men and women working in non-agricultural self-employment very often derive their income from selling goods on the street. For women of both races, the next most common sources of self-employed income were from sewing and selling clothes and operating shebeen bars. For men of both races, the next most common sources of self-employed income were building/repairing houses (more common for African men) and artisanry (more common for coloured men). Some experts suggest that home-based businesses are more common for women than for men. In addition, renting out part of their homes is another source of income for many female-headed households. It is important to keep in mind that individuals working in the informal sector (self-employment, non-agricultural and agricultural) tend to derive their income from multiple sources and not just one source.

While there is no reliable data available, illegal activities also account for either a percentage or total of some households' income. Men appear to be more in the drug trade; women are more often shebeen (unlicensed bar) operators and shoplifters. Both men and women traffic in stolen goods. It may be possible to verify illegal income through the presence of household assets or through neighbors.

#### II.B. Expenditures for Urban and Metropolitan Households

Some researchers in South Africa consider itemized household expenditure data to be more reliable than typically under-estimated income figures. As with income data, the SALDRU (1994) data in Table 4 shows that African households, overall, are the poorest and for all races, female-headed households in urban areas are even poorer. Again, African female-headed households form the poorest sub-group. Also, while income for female-headed households is approximately 20-25 percent less than African and coloured households headed by resident married couples, their expenditures are just 17 percent

lower. With lower incomes but higher expenditures, it seems probable that female-headed households are likely to have less disposable income for saving and investments and may have higher household debt. For male-headed households in which the male and female adults work, more often the women's salary is spent on consumable goods and perishables while the man's earnings, which are often unknown to their partners, are spent on fixed assets (Women's National Coalition 1994).

**Table 4. Average Monthly Household Expenditure by Location, Race and Type of Household (Rand)**

Location	All African Households	Female- Headed African Households	All Coloured Households	Female-Headed Coloured Households
Urban	1205	997	1332	1359
Metro	1533	1277	2280	1815

(source: SALDRU 1994)

### II.C. Savings

Savings are generally quite limited in South Africa (2.2 percent of the average commodity household budget) (SALDRU 1994). The percentage for all African households (rural and urban) is two percent; for all coloured households, the percentage is 1.6 percent. Urban and metropolitan households save more of their commodity household budget at 2.7 and 2.9 percent, respectively. Besides low incomes and high overall cost of living, another possible explanation for the low savings rate for married households may be the institution of *lobolo* (bridewealth payments) which may begin before marriage and continue through the first ten to twenty years of marriage (Cross 1995). (See also Section II.F.).

### II.D. Household Size, Structure, and Groups

Households can be characterized in several ways: head of household, size and composition. The overall national percentage is about 34 percent for female-headed households (including *de facto* absent male head of household and *de jure* situations)<sup>1</sup> and 66 percent of the households are defined as male-headed households (SALDRU 1994). In

<sup>1</sup> *De jure* female-headed households are those in which the female has never been or is no longer married. She may or may not have a male partner resident. *De facto* female-headed households are those in which the woman is still married but the husband is no longer considered a resident of the household.

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urban and metropolitan areas, the percentages of female-headed households are about 29 and 26 percent, respectively.

For African and coloured households in urban and metropolitan areas, the percentage of female-headed households is generally higher than the national averages for urban and metropolitan areas (SALDRU 1994). For African households, the percentage of female-headed households is approximately 35 percent for both urban and metropolitan areas. For coloured households in these same areas, the percentage is 37 percent for urban areas and 21 percent for metropolitan areas. Some experts interviewed contend that the actual percentage of female-headed households may be closer to two-thirds of all households. The situation can be further complicated legally by the presence of a non-married male partner in many of these households. While some of these cohabiting households have quite stable partnerships (e.g. length of relationship, partners who are above thirty years of age, those who migrated together to urban areas, those who have had children together), others do not represent stable arrangements.

Urban and metropolitan households for Africans and coloureds average four to five people<sup>2</sup> (SALDRU 1994). For female-headed households, African and Coloured households in urban and metropolitan areas generally have four or fewer people. About fifteen percent of African female-headed households in urban areas and approximately 22 percent in metropolitan areas are one-person households. For both male- and female-headed households, the head of household is generally less than 65 years of age. Although figures were unavailable, a percentage of the African and Muslim population have polygynous marriages and keep multiple households (e.g. rural and urban or urban homes in different locations).

Households may also be members of different groups. Due to crowded housing conditions related to apartheid, multiple households who are related or unrelated, may live together as an extended family. Some groups such as civic organizations, known as "civics" (community-based informal local government) are spatially based. Their strength depends primarily on the age of the settlement and the degree of internal cohesion. From a fifth to a quarter of African and coloured women are involved in community groups or self-help initiatives (Women's National Coalition 1994). Women are often members of these groups but are not often leaders, except in the case of new informal settlements. Other groups, such as savings clubs, burial societies and building material clubs, are usually based on social networks which may or may not coincide with spatially defined communities.

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<sup>2</sup> Based on her experience in Kwazulu Natal, Catherine Cross of the University of Natal, suggests that households are actually larger than census figures would indicate. It is often considered bad luck, particularly with regard to small children, to speak of the number of the children in the household.

## II.E. Shelter-related Needs for Below-median Income Urban and Metropolitan Households

It is evident from Table 5 that African and coloured households have different housing patterns. Africans primarily live in houses/parts of houses (where houses and additions thereto are shared), shacks and, in metropolitan areas, outbuildings. Coloured households predominantly live in houses/parts of houses, and to a much lesser degree, also in shacks in urban areas, and maisonettes and flats in metropolitan areas.

In urban and metropolitan areas, shelter for the poor is generally quite small and has very limited utilities and services (SALDRU 1994). African and coloured dwellings in urban and metropolitan areas average one room or less per capita. The average family size for urban houses and shacks is three to six people. The most common type of water access for urban and metropolitan African households is a piped yard tap (42.8 percent -urban; 48.9 percent - metropolitan), followed by internal piped water (40 percent - metropolitan; 27.5 percent - urban) and free piped public tap water (26.1 percent - urban). For coloured households, internal piped water is much more common in both urban (60.7 percent) and metropolitan areas (94.6 percent), followed by a piped yard tap for 33.7 percent of urban Coloured households.

**Table 5. Type of Dwelling by Location and Race (%)**

Dwelling	African		Coloured	
	Urban	Metropolitan	Urban	Metropolitan
Houses/parts of houses	55.5	48.6	87.8	77.4
Shack	30.7	32.3	6.7	1.9
Outbuildings	2.1	10.2	0.7	3.8
Hostels	6.4	6.9	3.0	-
Maisonettes and flats	1.1	0.8	-	13.4

(source: SALDRU 1994)

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Most below-median income households in urban and metropolitan areas live in areas which have a low level of services. For example, rates for electricity service are estimate to be as follows: only two out of five low-income households; only one in six households living in shacks; only one in eight households living in informal planned settlements and no households in informal unplanned settlements (DBSA 1994). Sanitation is minimal - an estimated 48 percent of all households do not have access to flush toilets or ventilated improved pit latrines and 16 percent have no access to any form of sanitation system (SALDRU 1994). One indicator of poor sanitation is the rate of typhoid fever (number of cases per 100,000 people) (DBSA 1994). The three proposed provinces rank second (Eastern Transvaal), third (KwaZulu/Natal) and fourth (Eastern Cape) highest typhoid rates in the country. In addition, a majority of the urbanized areas for below-median income residents have unpaved roads.

Approximately 25 percent of all African households in urban and metropolitan areas own their houses. About 50 percent of Coloured households in urban and metropolitan areas own their houses. Rural house "ownership" is more common for African households at nearly 74 percent (total for all races is 72.4 percent).

Tenure is not always secure for many South African households. According to the recent (1995) Department of Housing White Paper, approximately 58 percent of all South African households have "secure" tenure (ownership, leasehold or formal rental contracts) over their accommodation. About nine percent of all households live under traditional, informal, inferior and/or officially unrecognized tenure arrangements although these households are mainly in rural areas. It is estimated that 18 percent of all households are forced to find housing in squatter settlements, backyard shacks and in over-crowded formal housing in urban areas. This last group has no formal tenure rights over their accommodation. It is difficult to find estimates of the population, particularly the lower-income population, which rents housing since most data on this group is somewhat unreliable. Also, rent boycotts were a widespread phenomena during the last few years of apartheid and are still ongoing to some degree.

In general, the percentage of household expenditures going toward housing (not including utilities) is fairly low at about 12 percent of the total household budget (SALDRU 1994). Urban and metropolitan residents spend between approximately 12 to 16 percent on housing. African households, both urban and rural, spend less at nearly ten percent.

The need for both new housing and home improvements to existing housing is great. The recent Ministry of Housing White Paper estimates that there are going to be 8.3 million households in South Africa in 1995 and that there will be an average of 200,000 new households formed annually for the next five years. Estimating housing needs is also

complicated by extended households and circulatory migration patterns in some areas. The amount of formal housing stock available is low and housing delivery for formal and informal housing has been limited in the last few years. As a result, many households have had to make their homes in shacks in informal settlements, outbuildings or backyard shacks and already-crowded and scarce formal housing.

## **II.F. Debt, Financial Institutions and the Below-median Income Population**

While it is not common for the target household group to have experience with loans from formal financial institutions (commercial banks), nearly half of all South African households are in debt to institutions, shops or individuals (SALDRU 1994). Percentages range from a low of nearly 42 percent for African households and a high of almost 70 percent for coloured households. The amount of debt payment per month is about R59 for African households and R104 for coloured households. For both African and coloured households, the source of the debt most commonly comes from either shopkeeper credit and hire purchase. For African households, relatives or friends are another important source of credit. For both racial groups, only about five to six percent of their debt comes from banks/building societies, non-governmental organizations, money lenders or rotating savings clubs (*stokvels*)/credit unions. In contrast, 30 percent of white household debt is from banks alone.

Savings accounts with formal financial institutions appears to be the exception rather than the norm among South Africa's below-median income households<sup>3</sup>, other informal institutions such as *stokvels* (which include burial societies and building material clubs) fill this gap. A 1989 study (Markinor study cited by Zukhele 1990) estimates that there were about 24,000 *stokvels* in major metropolitan areas which involve approximately a quarter of the black adult metropolitan population. About 41 percent are savings clubs and 29 percent are burial societies. Burial societies tend to be much larger at 80 people while other types of *stokvels* average 16 members.

These groups often serve both social and economic functions and often ensure future access to a personal line of credit (Cross in Thomas 1991). *Stokvels* are South African rotating savings clubs and in some areas, up to 20 percent of the African and Coloured households are involved (Markinor study cited by Zukhele 1990). About 60 percent of the metropolitan *stokvel* members were female and most earn over R1000 per month. In

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<sup>3</sup> Thomas (1991) points out that *stokvels* were not necessarily formed due to ignorance of Western financial institutions. He suggests that with their dual social and economic roles, the *stokvels* obviate the need for onerous trips to the banks which were often humiliating, as well.

1989, the average monthly amount saved by a member was R39 for burial societies and R106 for other types of *stokvels*. Membership is based on social networks and mutual trust and is not necessarily based on spatial criteria (e.g. members of the same community). Groups often cross tribal, class, age, occupation, employer and residential differences. Each member, in turn, is expected to borrow from the group fund and repay at a high interest rate (often more than 20 percent). Group "profits" are then divided at the end of the year or term period. Group funds are deposited in a formal financial institution but this relationship does not generally lead to a financial relationship between individual women and the banks (Sigodi 1995).

## II.G. Female-Headed Households Summary

Estimates of the percentage of female-headed households, particularly those who earn less than the median income and who live in urban and metropolitan areas, vary significantly. Much of the mainstream data sources, already identified as unreliable for the poor urban population, estimate that approximately 34 percent of all South African households are headed by females. SALDRU (1994) estimates that the distribution of female-headed households within each ethnic group varies: 35 and 37 percent for Africans and Coloured populations, respectively, and 10 and 11 percent for Asians and Whites (Table 6).

**Table 6. Female- and Male-Headed Urban Households by Ethnic Group (%)**

	African	Coloured	Asian	White
Female-Headed Households	35	37	10	11
Male-Headed Households	65	63	90	89

(source: SALDRU 1994)

Table 7 below indicates that about half of all female-headed households live in urban and metropolitan areas (SALDRU 1994). Two-thirds of the urban/metropolitan female-headed households are African. Approximately 13 percent of the urban/metropolitan female-headed households are coloured.

**Table 7. Ethnic Distribution of Female-Headed Households by Location (%)**

Location	African	Coloured	Asian	White
Urban/Metro Female-Headed Households	64	13	3	20
All Areas Female-Headed Households	82	7	1	10

(source: SALDRU 1994)

African and coloured female-headed households are generally poorer than the average for all African and coloured households (Table 8). The difference arises from the concentration of female labor force in low-paid, poorly organized (non-unionized) sectors of the economy. For example, they are excluded from the relatively well-paid mining sector and many branches of manufacturing and concentrated in the poorly paid clerical, sales and service sectors, which notably includes domestic services and the informal sector. Thus, for regular employment, about twice as many men as women are employed; for non-agricultural self-employment, the opposite is true.

**Table 8. Profile of Female-Headed Households, African and Coloured**

	African Female-Headed Households	All African Households	Coloured Female-Headed Households	All Coloured Households
Avg. Monthly Hh. Income, Urban	R895	R1175	R1263	R1418
Regular Employers (Top three sources, %)	<u>Females:</u> Private sector (45.3), Private households (28.1), Central govt. (11.6)	<u>Males:</u> Private sector (73.3), Central govt. (8.8), Public corp. (7.3)	<u>Females:</u> Private sector (45.3), Prov. Admin. (11.0), Central Govt. (7.4)	<u>Males:</u> Private sector (75.2), Central govt. (10.8), Prov. Admin. (7.4)
Non-Agric. Self Employment (Top three sources, %)	<u>Females:</u> Selling goods on street (34.6), Sewing & selling clothes (17.0), Shebeen operator (15.9)	<u>Males:</u> Selling goods on street (17.3), Building/repairing houses (16.0), Self-employed artisan (14.0)	<u>Females:</u> Sewing & selling clothes (24.5), Selling goods on street (21.4), Shebeen operator (15.0)	<u>Males:</u> Self-employed artisan (31.2), Selling goods on street (17.2), Building/repairing houses (8.8)
No Educ. (%) (DBSA 1994)	<u>Females:</u> 28.9	<u>Males:</u> 28.7	<u>Females:</u> 18.9	<u>Males:</u> 19.2
Avg. Monthly Expend., Urban	R997	R1205	R1359	R1332
Difference in Proportion in house/part of house	marginal for ethnic group	marginal for ethnic group	marginal for ethnic group	marginal for ethnic group

(sources: SALDRU 1994)

## II.H. PROVINCIAL SUMMARY

In general terms, the three possible project provinces have some significant differences (Table 9). KwaZulu/Natal has the highest population, population density and rate of functional urbanization. Eastern Cape has intermediate values and the more rural Eastern Transvaal has the lowest values. Durban, in Kwazulu/Natal, and East London in the Eastern Cape have large enough populations (about 4 million and 0.5 million, respectively) to qualify as metropolitan areas<sup>4</sup> (Urban Foundation 1991a); whereas Nelspruit's population is only about 20,000. Average monthly income for all residents and also African residents is highest in the Eastern Transvaal, intermediate in KwaZulu/Natal and lowest in the Eastern Cape; expenditures are highest in KwaZulu/Natal and lowest in the Eastern Transvaal (SALDRU 1994). For those in debt, the amount paid monthly in the Eastern Transvaal is 2.5 to three times the amount paid in the other two areas; however, there is also the highest percentage of monthly budget saved in the Eastern Transvaal. Housing is cheapest in the Eastern Cape. House ownership is lowest for Africans in the Eastern Transvaal and highest in KwaZulu/Natal.

The main sources of regular employment vary by provinces (SALDRU 1994). In the more rural Eastern Transvaal are more dependent on agriculture<sup>5</sup>, mining and domestic service. In the more urbanized KwaZulu/Natal, manufacturing and educational services play a more significant role but there is still agricultural employment; in the Eastern Cape, there is a greater mix of manufacturing, wholesale/retail regular employment, as well as agricultural employment. The main types of non-agricultural self-employment are similar - however, shopkeeping is more common in KwaZulu/Natal, building and repairing houses in the Eastern Cape and working as a self-employed artisan in the Eastern Transvaal. Unemployment is much lower in the Eastern Transvaal. Male migration is highest in the Eastern Cape at nearly one-third; lowest in the Eastern Transvaal (6 percent) and intermediate in KwaZulu/Natal (14.5 percent).

The Eastern Cape has the highest percentage of female-headed households, lowest by about half in the Eastern Transvaal and intermediate in KwaZulu/Natal. The same pattern holds true for African households. However, there are more Coloured female-headed households in KwaZulu/Natal than in the Eastern Cape. (SALDRU 1994)

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<sup>4</sup> This definition of metropolitan area is better than the earlier definition (note 1) which is based on the World Bank urban missions.

<sup>5</sup> The sector includes fisheries and forestry.

**Table 9. Provincial Profile (KwaZulu/Natal, Eastern Cape, Eastern Transvaal)**

	KwaZulu/Natal	Eastern Cape	Eastern Transvaal
Avg. Monthly Income (R)	1705	1098	2057
Avg. Monthly Income, Africans (R)	984	745	1122
Regular Employment (% in Top 3 Sectors) (A/F/F = Agric./Fisheries/Forestry)	Manuf. (28), A/F/F (14), Educ. ( 8)	Manuf. (14), Sales (14), A/F/F (13)	A/F/F (26), Mining (14), Domestic (12)
Non-Agricultural Self-Employment (Sources, %)	Sell goods, street (16), Sew/sell clothes (13), Shopkeeper (13)	Sellgoods, street (29), House Bldg./Rpr. (11), Sew/sell clothes (10)	Sell goods street (34), Sew/sell clothes (13), Artisan (12)
Unemployment Rate (%)	25.2	23.6	16.3
Literacy Rate (%) (D)	65.1	67.7	59.1
Avg. Monthly Expenditure (R)	1818	1078	1599
Monthly Debt Paid by Households in Debt (R)	61.1	44.7	149.6
% of Monthly Exp. on Housing	12.4	8.4	11.4
Monthly Savings, % of Household Expenditure	1.6	0.8	2.5
% Pop. in Houses/Shacks	53.8	40.3	71.0
% Owners, African in Houses	84	82.1	55.6
Functional Urbanization (%) (D)	77.9	55.4	43.2
Population (Millions) (D)	8.5	6.7	2.8
Pop. Density (No./Sq. Km) (D)	93.5	39.1	34.7
Female-Head Households (%)	28	36	16.5
Female-Head Households, African (%) (D)	31	39	18
Female-Head Households, Coloured (%) (D)	27	21	NA
Male Absenteeism (%) (D)	14.5	31.3	6.0

(source: DBSA 1994 indicated by (D), all others - SALDRU 1994)

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### III. BENEFICIARY ANALYSIS

#### III.A. Description of Stakeholder Groups

##### 1. Below-Median Income Urban/Metropolitan Residents.

The below-median income (earning less than R1500 per month) urban/metropolitan group has been profiled in section II. It is made up primarily of African and coloured households. This income group is more appropriately divided into sub-groups: "Poor, Mixed-Income but Wage-Committed Households," "Very Poor, Remittance-Dependent (or Mixed Income but Wage-Committed Households)," "Welfare-Dependent," and "Absolutely Marginalized Households (van Gass 1994).

- ◆ The urban "Poor, Mixed-Income but Wage-Committed Households" earning R1000-1500 monthly generally have two breadwinners - one working in the formal sector and the other has casual or informal employment. These households generally live in informal settlements or townships and they informally own or rent/purchase their properties from the state. For African and coloured urban households, approximately 20 percent of each fall in this category (Touzel 1994).
- ◆ The urban "Very Poor, Remittance-Dependent (or) Mixed Income but Wage-Committed" households (R600-1000 per month) have a primary breadwinner, relying on unemployment benefits or intermittent casual labor contracts or is absent but remits salary to a secondary breadwinner. The latter is generally involved in domestic labor or other informal sector activities, on a regular or casual basis. Income is not stable year-round. Especially in the case of Africans, the income earning members of these families often are circular migrants who informally rent in the peri-urban areas and retain their customary land rights in rural areas. Approximately 29 and 17 percent of the African and coloured urban households, respectively, fall in this category (Touzel 1994).
- ◆ The urban "Welfare-Dependent Households" (R200-600 per month) are primarily already-indebted pensioner-headed households which informally rent backyard dwellings. The urban "Absolutely Marginalized Households" (R0-00 per month) generally live in backyard shacks in urban areas or are homeless in the inner cities. About 32 percent of the African and 9 percent of the coloured urban households can be categorized into these two groups (Touzel 1994).

These households generally have one or two primary breadwinners and several dependents. If the couple is married, they are in customary or legal marriages. Depending on when they were married, their property is not held in community property ("out of community of property") or is held in common ("in community of property"). If a *lobolo* payment is involved, a couple may not be legally married for a number of years until the husband finishes paying the wife's family.

Approximately one- to two-thirds of these households may be female-headed households. Male-headed households with dependents but no spouse appear to be relatively rare.

Employment status, employment type and age are important borrower variables. Both African and Coloured men are more likely than women to be employed and they more often have regular employment with the private or public sector. African women are much more frequently employed in private homes and often live at their employers home or earn income through self-employment. Older heads of household (age 50+) are more likely to be pensioners. They often have more secure tenure and are living in established townships or have returned to rural areas.

### **III.B. Distribution of Benefits and Consequences (Direct and Indirect)**

Table 10 profiles those in the below-median income group who are most likely and those who are least likely to benefit from the loan program. It also suggests ameliorating measures which can be taken to help those who may not hear about, understand or qualify for loans. The assumptions and likely consequences are also included in the discussion below.

While the mortgage loan criteria for larger loans has been established by banks, it is less clear what the banks would require from borrowers for smaller mortgage loans for shelter improvements. For the purpose of this discussion, the mortgage lending criteria (both formal and informal) was used. With a smaller amount lent and a shorter repayment period for home improvement loans, it is important to bear in mind that the lenders may be willing to be more flexible and take on clients who would not meet all requirements for a mortgage loan.

Without ameliorating measures on the part of lending institutions, community-based organizations or government, those in the urban/metropolitan household group who are most likely to benefit from the home improvement loans are those earning more than R800/month through regular employment for a large employer in the public or private sector, have two working adults who are legally married, can document a clean credit history and successful savings history and current savings and whose expenditures are low. They possess the deed of registration for their home and/or serviced plot and they have lived for several years in a stable, lower-crime township or in-fill areas with services. At least one of the households adults can read. They can hear about new bank programs via their employer or a group of which they are a member. At least one of the adults has the time, money and childcare needed to make repeated trips to the bank. In the past, the household may have dealt with a financial institution and probably has experience with taking a loan or making a hire-purchase. Depending on the life of the loan, younger or middle-age households are more likely than older households, who are closer to retirement, to be considered good loan candidates.

Realistically, this description applies only to some of the members of the top third of the below-median income households, the "Poor, Mixed-Income but Wage-Committed Households" (20 percent of the urban African and Coloured households) and a limited percentage of those in the next category who make between R800 and R1000 per month. A number of experts have estimated that the minimum income needed to make regular payments on a mortgage loan is R800 per month. However, by decreasing loan size and the repayment period and taking ameliorating measures, it may be possible to drop down to R600 monthly<sup>6</sup>. Below this income level, most experts agree that household income is

too irregular to qualify without some type of co-signing ("signatory") arrangements with another individual (relative, friend, cohabitant, etc.) or a group (e.g. *stokvels*). These latter arrangements would require a household to have both horizontal and vertical social networks which would unlikely be available for many recent urban migrants or recently-moved residents.

Some female-headed households and women in some types of marriages may not benefit from the home improvement loan programs, unless ameliorating measures and monitoring are undertaken by lending institutions, community-based organizations and government. In general, female-headed households have less income, higher expenditures, less regular employment and more domestic employment, limited savings with informal groups such as *stokvels* rather than financial institutions and less education. They are commonly involved in groups of some type. In particular, younger female-headed households are more likely to live in the newer urban informal settlements which have higher crime and fewer/no services. The logistics of repeat visits to lenders located in urban areas may exceed the time, money and childcare resources of many female-headed households. They may have experience with loans or hire purchase and they tend to buy items which can help them generate home-based income (sewing machines, refrigerators, etc.). In addition, many married African women do not appear to have control over their own or household income, have little input into household financial decisions and are either legally or customarily excluded as co-signers for loans and property (Women's National Coalition 1994, PS-HG Project Paper Gender Analysis found in Annex N).

Tenure issues are critical for both types of female-headed households and women in marriages. For *de facto* female-headed households (absent or abandoning husband), the women are more likely to not have deed of registration in their names and would be rejected as loan applicants unless the banks change their procedures. Despite often having a long-term male cohabitant, both *de facto* and *de jure* female-headed households appear to act independently with relation to loans and property deeds. It is not clear if this

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<sup>6</sup> White and Kirkpatrick (1994) (see Tomlinson 1994a, p.9) estimate that the below R600 per month households (approximately 26.3 percent of South Africa's population) are not served at all by any formal organization or much by non-traditional retail lenders (only the above R500 per month group) because of the administrative and financial costs. Households in this income category are only served by loan sharks, family and friends.

situation is the preference of the female head of household or if it is because the law and the banks provide no arrangements for co-signing, despite the apparent prevalence of these cohabitation arrangements. Women married under customary law may or may not have "in community of property" arrangements, depending on when they were married and also what their knowledge is of their legal rights. Under marriage situations which are "out of community in property," the husbands can act independently in taking out loans, buying and selling property. Without wills, the property will not automatically go to the wife or wives and they can be disinherited. While the percentage is not established, there are polygynous households with co-residences either in rural and urban areas or different urban areas. Under the law, it is not clear whether or not these women can act independently with respect to loans, property, etc. Under the housing subsidy arrangements, only one subsidy will go to a polygynous household and it will go to the male head of household(s).

Ordinarily, literacy levels could make a critical difference, however, the recent study by Fuller, Pillay and Sirur (1995) suggests that there is not a great gender gap for literacy between men and women for African and Coloured groups. The greatest gap occurred between coloured men and women but it was not a significant difference. Out of a possible total score of 14, African literacy for both men and women averaged around 5 and this was about half of the score for Whites (9.6-9.8) and Asians (10.5). Coloureds averaged somewhat better at 6.9 and 7.5 for women and men, respectively. Among African language groups, the range of scores for females was 4.3 (South Sotho), Xhosa (4.5), Zulu (5.0) and Tswana (5.8). While male scores for Zulus and Tswana were quite close to the female scores, both Xhosa (5.1) and South Sotho (4.7) had a greater gap.

Provincial differences may also influence who gets home improvement loans. The larger urban area in KwaZulu/Natal has more financial institutions but this advantage may be counter-balanced by the fact that peri-urban residents live much further away from these institutions than in the other two provinces. Fewer households are unemployed in the Eastern Transvaal and the percentage of female-headed households is about half of the other two areas - which would suggest that more households may qualify for these loans. However, only half of the African households in the Eastern Transvaal own houses so unless they gain access to new sites, they will not have the tenurial status needed to qualify for loans.

It is not possible to draw conclusions regarding intra-ethnic (e.g. cultural groups, religious differences) influences on borrowing money. Very little data appears to be available on this topic for different sub-groups of African and Coloured households in South Africa.

### **III.C. Program Impact on Equity & Adverse Consequences**

Although by definition, this project will not benefit those who earn more than the median income, reside outside of urban and metropolitan areas and live in areas outside of the

still-to-be-decided target provinces, some ameliorating measures may need to be taken to restrict the benefits. The program will require an income cap as part of the loan agreement between the U.S. lender and the wholesale financial institution. Unless the loan criteria excludes those with rural homes or the use of the loan for rural shelter improvements, it seems likely that some of the shelter improvements may be made in rural areas, particularly for circular migrants. The shelter improvement loans may end up improving shelters in areas outside the target provinces if the borrower owns other homes in other provinces.

**Table 10. Profile of Urban/Metropolitan Households Most Likely to Benefit from the BSE-HG Project Lenders' Formal Criteria for Loans**

<b>Most Likely to Benefit</b>	<b>Least Likely to Benefit</b>	<b>Ameliorating Measures</b>
<b>Income:</b> more than R800 per month	<b>Income:</b> below R800 per month	<b>Lenders:</b> Co-signed loan option
<b>Working Adults:</b> 2+	<b>Working Adults:</b> 1	<b>Lenders:</b> Alternative loan criteria, savings for collateral
<b>Marital Status:</b> legally married	<b>Marital Status:</b> female head, cohabitants, customary marriage	<b>Lenders:</b> Co-signed loans
<b>Employment:</b> Regular, 3+ years, (Public, Private)	<b>Employment:</b> Casual, Domestic, Self-Employment	<b>Lenders:</b> Change income verification methods
<b>Credit History:</b> Clean	<b>Credit History:</b> Absent, Problems	<b>Lenders:</b> Savings-linked credit, Reduce loan size
<b>Savings:</b> Current/Past (formal, informal)	<b>Savings:</b> None/ltd. ability	<b>Lenders:</b> Micro-savings programs <b>CBO:</b> Household budget, training
<b>Expenditures:</b> Low	<b>Expenditures:</b> High	<b>CBO:</b> Household budget, training
<b>Tenure, Length of Residence, Citizenship:</b> Deed of registration (title), Long-term resident	<b>Tenure, Length of Residence, Citizenship:</b> No deed of registration (title), Short-term resident, S.A. non-citizen	<b>CBO, Local Government:</b> Training, info. dissem., & legal aid on land registration

Those households in urban and metropolitan areas who, on average, earn less than R800 per month, are not likely to benefit from this project. It will not help those who are either absolutely marginalized or subsisting exclusively off pensions and intermittent casual employment. By definition, these households tend to be either homeless or informally renting backyard sheds for very low/no rents. Unless their tenurial status changes, renters will be excluded from the home improvement program. Unless the home improvement loans are used

to improve backyard shacks so that more rent can be charged, the program should not make the situation worse for the marginalized and pensioners. There is also a possibility that informal settlers may be dislocated as legal title owners claim, build or improve their shelters.

There are several gender-specific reasons which may influence access to loans (see Table 11). First, since female-headed households increase as income decreases, then the population which earns too little to access loans (R600-800 per month) will include a greater portion of female-headed households. Second, since a higher percentage of African women are involved, often informally, in domestic service in private homes, they may not be able to provide the type of income verification that banks have normally required. Third, the higher percentage, per income category, of customarily married women and female heads of households with insecure tenure is likely to decrease access by these women to shelter-improvement loans.

**Table 11. Informal Requirements for Loans from Lending Institutions**

<b>Most Likely to Benefit</b>	<b>Least Likely to Benefit</b>	<b>Ameliorating Measures</b>
<u>Literacy</u>	<u>Illiterate</u>	<u>CBO/Government: Literacy training, Lenders: Modify outreach</u>
<u>Employer: Large, private/public, (lender linkages)</u>	<u>Employer: small, private home, (no linkages)</u>	<u>Lenders: Expand outreach to other employers and groups</u>
<u>Group membership</u>	<u>No group membership</u>	<u>Lenders: Modify outreach</u>
<u>Type of Community: Stable, low crime, serviced, urban township, in-fill</u>	<u>Type of Community: Newer, high crime, unserviced, peri-urban, informal settlements</u>	<u>CBOs/Government: Community development, Extend services</u>
<u>Time/\$: Adequate for repeated trips to urban lenders</u>	<u>Time/\$: Inadequate time/\$ for repeated visits to urban lenders</u>	<u>Lenders: Streamline lending, localized loan processing payment centers</u>
<u>Relationship with financial institution</u>	<u>No relationship with financial institution</u>	<u>Lending institution: Increased outreach</u>
<u>Experience with loans or hire purchase</u>	<u>No prior experience with loans or hire purchase</u>	<u>Lending institution: Increased outreach</u> <u>CBOs: Household training on loan procedures</u>

#### **IV. SUMMARY AND RECOMMENDATIONS**

The Basic Shelter and Environment Housing Guaranty Project is for a loan of approximately R300 million. Assuming that all of the Rand generated by the dollar loan can be used to make shelter-improvement loans, at a maximum loan size of R10,000, the number of loans will be 30,000. Alternatively, calculating the cost of an unfinished and unpainted 3 x 4 meter at R8400 and assuming a 10 percent downpayment on the loan, then the BSE-HG Program could initially produce about 35,000 loans. Given the huge potential market for these loans, the program will facilitate relatively few loans and must serve a demonstration function.

##### **IV.A. Equitable Benefit Distribution**

As described above, the lending programs must include provisions to ensure that: 1) the monthly income of the loan beneficiaries does not exceed R1500; and 2) female-headed households and married women, who meet formal lending criteria, have equitable access to outreach and loans. Therefore, it is recommended that the Housing Guaranty Program Implementation Plan(s) include requirements that the wholesale financial institution and the retail lenders submit action plans to achieve loan program target related to income and gender issues in accordance with South African law and regulations.

##### **IV.B. Participation**

USAID's Strategy for Sustainable Development requires participation throughout the project cycle: design, implementation, monitoring and evaluation. During the design of the BSE-HG, a wide array of government and non-governmental organizations stakeholders participated by providing advice. In January and June of 1995, expert interviews were conducted with gender and shelter specialists. Attendance at the "Women in Housing" forum held on June 30, 1995 made it possible to listen to the concerns of potential customers of loans for low-income housing. The Implementation Plan(s) and action plans should include information on how participation of stakeholders and customers is engendered.

##### **IV.C. Technical Assistance from the Shelter and Urban Development Services (SUDS) Project**

The success of the BSE-HG in reaching the target population is premised, to a large extent, on the delivery of technical assistance through SUDS. SUDS technical assistance should contribute to the improvement of income and gender-related performance of both commercial banks and non-traditional retail lenders. SUDS technical assistance should include implementing ameliorating measures as indicated in Table 10 and Table 11 above.

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***ANNEX K***

## ANNEX K

### ECONOMIC ANALYSIS

#### Basic Shelter and Environment Housing Guaranty Program 674-HG-002

##### I. Introduction

This annex examines the economic issues surrounding the Basic Shelter and Environment Housing Guarantee (BSE-HG) Program for South Africa. Section II lays out the basic economic structure of the program, while section III examines the implications for South Africa's debt situation. Section IV examines the possible effects of the program on employment and household income growth. Examples of other benefits which could result from the BSE-HG program are briefly discussed in section V. Finally, section VI discusses the economic issues which are associated with the program.

##### II. Basic Economic Structure of the Program

The BSE-HG will provide a U.S. Government guarantee to a U.S. financial institution to make a commercial loan of US\$ 75.0—130.0 million to a specified financial institution(s). The possible borrowing institutions include: (i) a foreign bank operating in South Africa; (ii) the South African Reserve Bank; and (iii) a South African bank or other financial institution. Given the basic credit-worthiness of the expected borrower, the U.S. guarantee is expected to reduce the interest rate on the loan by anywhere from 100 basis points (one percentage point) to 250 basis points (2.5 percentage points) below what the South African institution would normally be able to receive.

As discussed in the body of the project paper, there are three options for the structure of this program. The first option involves an external asset swap between a South African company and an offshore financial institution. The South African company will then purchase at least an equivalent value of shares in the National Housing Finance Corporation (NHFC) thereby providing private sector capitalization in South African Rand (SAR) to the NHFC. In this case, the expected value of the HG loan would be US\$ 130.0 million. Under the second option, the South African Reserve Bank would borrow the HG funds from the U.S. lender and directly pass the Rand equivalent to the NHFC. In this case, the expected value of the HG loan would be approximately US\$ 75.0 million due to the credit rating of the South African Government. The third option would have a South African bank(s) serve as the direct borrower and retail lender to the target population. In this case, the expected value of the HG loan would be US\$ 130.0 million. In each option, the funds will be matched by an equal amount of Rands so that the total value of the funds generated for use will be twice the value of the HG. In options one and two, the NHFC will raise a matching level of funds, while the banks will provide the matching funds in option three.

will raise a matching level of funds, while the banks will provide the matching funds in option three.

With the exception of option two, the dollars are not expected to enter South Africa. Instead, they are expected to be kept offshore and used for trade financing or other foreign exchange based investments. Through this means the borrower will be able to avoid the foreign exchange risk associated with the possible devaluation of the South African Rand (SAR). Under option two (sovereign borrowing), the dollars would enter South Africa, but the amount borrowed would count as part of the US\$1.0 billion that the South African Government plans to borrow on international capital markets during their FY 1995, i.e., the HG funds will not represent additional borrowing.

The plans for the NHFC are that private sector entities will hold at least fifty percent of its stock while the government will hold the balance. Thus, the NHFC will be a jointly owned private/public sector institution. Operational control and direction of the NHFC will be vested in a Board of Directors with membership reflecting the ownership of shares in the organization. The Chairman of the Board, who will only vote to break ties, will be appointed by the South African Government.

The specific uses of the NHFC funds are still to be determined. The possibilities include the issuing of direct loans to qualifying individuals, distribution of funds to other financial institutions for loans to qualifying individuals, as "seed capital" for new, non-traditional lenders who would make loans to qualifying individuals, or to establish a secondary market to purchase residential loans originated by retail lenders. The ultimate loan of the NHFC funds to individuals will be in conjunction with the South African Government's housing subsidy program for low income families and individuals whose monthly income is less than or equal to R1,500.

The key point to note for this analysis is that the BSE-HG financial transactions will not bring additional resources into South Africa. Instead, they shift funds from other investments into the housing sector through the NHFC or, in the case of the third option, through South African banks.

### **III. Implications for South Africa's Debt**

Under options one and three, there is no resource transfer to South Africa and hence no increase in the country's indebtedness. Under option two, the South African Government's external debt would increase by US\$75.0 million. It should be reiterated, however, that such a loan would form a part of a previously planned borrowing by the government and thus would not expand the level of external indebtedness beyond currently planned levels.

Relative to the country's total external debt at the end of 1993 of US\$ 16,690 billion, the US\$ 75.0 million loan under option two would represent a 0.45 percent increase in the external debt stock. (See Table 1 for a summary of South Africa's external debt.)<sup>1</sup>

To examine the effects of servicing the proposed loan, an illustrative service schedule for the loan was constructed using an eight percent (8%) interest rate for a period of ten years with one year grace on principal payments. The resulting service schedule is presented below in Table 2.

The maximum payment comes in year two when a service payment (including principal) of US\$ 14.33 million would be required. That amount represents a 0.559 percent increase relative to the external interest and dividend payments in 1993 and represents 0.054 percent of 1993 export earnings.

Based on these estimates, it is clear that the BSE-HG loan would not impose an excessive financial burden on South Africa's balance of payments under option two. Given the structure of the proposed transactions under options one and three, however, there will be no balance of payments effect for South Africa due to the loan since the loan proceeds will never enter South Africa. The only possible exception to this is if the borrower mismanages its foreign exchange holdings offshore so that there are not sufficient funds generated to meet the interest and principal payments of the loan. In this case, a foreign exchange outflow could be required to cover any such shortfall. In these cases the borrower will be a private sector entity and no South African Government guarantee will be sought, thus the BSE-HG loan will not affect the level of public debt and will have no direct fiscal impact.

Based on the experience with the FY 1994 Private Sector Housing Guarantee Program (674-HG-001) and assuming the borrowing entity is reasonably credit-worthy, the maximum reduction in the interest rate on the loan is expected to be 250 basis points or 2.5 percentage points. This reduction on a ten year loan for US\$ 75.0 million with a one year grace period on principal repayment would result in an undiscounted value of the guarantee to the borrower of US\$ 11.25 million. On a fifteen year loan with a five year grace period on principal repayment, the undiscounted value of the guarantee would be US\$ 19.7 million. For a US\$ 130.0 million loan, these figures would be US\$ 19.5 million and US\$ 34.125 million, respectively. These figures represent the savings that the borrower will receive compared to a fully commercial loan for the same amount without the U.S. Government guarantee.

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<sup>1</sup>See Richard Harber, "South Africa's Public Debt," 15 February 1995, for a discussion of the public sector debt situation.

TABLE E.1. SOUTH AFRICA: EXTERNAL DEBT AND DEBT INDICATORS, 1990-1993				
Item	1990	1991	1992	1993
<i>Level (US\$ Millions)</i>				
Public Sector	6,760	6,766	6,491	5,977
Monetary Sector	3,529	2,525	2,423	3,178
Non-monetary Private Sector	4,332	4,028	3,604	3,076
Medium & Long-Term Loans	4,762	4,810	4,783	4,459
<b>Total</b>	<b>19,383</b>	<b>18,129</b>	<b>17,301</b>	<b>16,690</b>
Interest Payments	2,486	2,091	1,765	1,831
Dividend Payments	1,123	1,045	969	733
<i>(Percentages)</i>				
Total Debt Relative to GDP	18.2	16.1	14.4	14.2
Total Debt Relative to Exports	69.4	65.3	61.1	58.5
Interest Relative to Exports	8.8	7.5	6.7	6.6
Interest & Dividends Relative to Exports	13.4	11.6	10.7	9.7

Source: South African Reserve Bank, Quarterly Bulletin, March 1995.

TABLE E.2. SOUTH AFRICA: ILLUSTRATIVE DEBT SERVICE PAYMENTS			
<i>Illustrative Loan Terms:</i>			
<i>Interest Rate: 8%</i>	<i>Term: 10 years</i>	<i>Grace Period: 1 year</i>	
<i>Service Schedule [US\$ Millions (R Millions)]</i>			
Year	Interest	Principal	Total
1	6.00 (22.80)	0.00 ( 0.00)	6.00 (22.80)
2	6.00 (22.80)	8.33 (31.67)	14.33 (54.47)
3	5.33 (20.27)	8.33 (31.67)	13.67 (51.93)
4	4.67 (17.73)	8.33 (31.67)	13.00 (49.40)
5	4.00 (15.20)	8.33 (31.67)	12.33 (46.87)
6	3.33 (12.67)	8.33 (31.67)	11.67 (44.33)
7	2.67 (10.13)	8.33 (31.67)	11.00 (41.80)
8	2.00 ( 7.60)	8.33 (31.67)	10.33 (39.27)
9	1.33 ( 5.07)	8.33 (31.67)	9.67 (36.73)
10	0.67 ( 2.53)	8.33 (31.67)	9.00 (34.20)

*Source: Author's calculations. For converting between US\$ and SAR, a rate of SAR 3.80/US\$ was used.*

#### IV. Potential Effects on Employment and Household Incomes

The identification of the employment and income effects of the BSE-HG is complicated by the fact that the program will not directly generate additional resources in the economy. Rather, the program will result in the reallocation of existing resources to the housing sector to benefit the lower income segment of the population. The ultimate macroeconomic effects of this reallocation will depend on the original use of the funds going into this program. *The estimates presented below represent maximum effects where it is assumed that there is no loss from transferring the funds to the housing sector, i.e., these estimates are based on an unrealistic estimate that the funds were completely economically unproductive in their prior use.* Since it is not possible to identify where the disinvestment will occur to free up funds for the purchase of the NHFC stock, it is not possible to estimate the net effects of the BSE-HG on employment and incomes. Thus, it is possible that the net effect could be negative if the funds were removed from investments with high employment and income generating effects. Such an effect is highly

unlikely, however, since such an investment would be expected to yield higher returns for the private sector borrower in which case the borrower would not disinvest from such an area.

The methodology used to estimate the effects of the BSE-HG on employment and household incomes is based on South Africa's Social Accounting Matrix (SAM). The basic assumption is that the funds available in the NHFC will be spent in the building construction sector of the economy. Thus, the final demand for this sector's output is expected to increase by the amount of the NHFC funds less management costs. The resulting final demand vector is then used to estimate the effects on employment and household incomes, both disaggregated by racial groups.<sup>2</sup> This methodology captures the full multiplier effects on production and employment based on the 1992 structure of the economy, but does not include an explicit time dimension to the estimates. In effect, the estimates presented below represent the expected effects once the full value of the funds are expended on building construction. The effect of possible eventual reflows from the repayment of housing bonds are not considered.

Six scenarios based on the level of funds are examined. The first scenario uses the value of the BSE-HG loan under the sovereign borrowing option (US\$ 75 million). The second scenario considers the total resources provided by the borrower under the sovereign borrowing option, i.e., the equivalent of US\$ 150 million. The third scenario considers the effects of the total resources of the NHFC under the sovereign borrowing option, i.e., the equivalent of US\$ 300 million. Scenarios four through six follow a similar pattern but based on the BSE-HG loan under either options one or two, i.e., values of US\$130 million, US\$260 million, or US\$ 520 million, respectively, for scenarios four, five and six.

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<sup>2</sup>See Richard P. Harber, "South Africa's Growth Dilemmas," Annex A, for a discussion of the detailed methodology of such an approach.

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<b>TABLE E.3. SUMMARY OF SCENARIOS FOR THE ANALYSIS OF THE EFFECTS OF THE BSE-HG ON EMPLOYMENT AND INCOMES</b>			
<b>Scenario</b>	<b>US\$ Value (Millions)</b>	<b>SAR Value (Millions)</b>	<b>Net Percentage Increase in Final Demand for Building Construction</b>
I	75.0	285.0	1.727
II	150.0	570.0	3.455
III	300.0	1,140.0	6.909
IV	130.0	494.0	2.994
V	260.0	988.0	5.988
VI	520.0	1,976.0	11.976

For each scenario, the dollar values are converted at an exchange rate of SAR 3.8/US\$ and a 0.5 percent management cost is imposed. The balance of the funds are then assumed to go to an increase in the final demand for building construction. Table E.3 summarizes the basic characteristics of the three scenarios. In the third scenario when the full US\$ 300 million under the sovereign borrowing option is considered, the implied increase in expenditures for building construction is under seven percent. Even under the sixth scenario when the full US\$ 520 million of the first and third options is considered, the increase in expenditures for building construction is under twelve percent. These figures highlight the fact that the total program is minimal in size and scope. This latter statement holds true when compared to the actual expenditures for construction or to the need for housing among the lower income population which this program is designed to serve.

#### A. Effects on Employment

The maximum effect of the BSE-HG scenarios on employment are presented in Table E.4. As seen from these data, even in Scenario VI, the total effect on employment is only an increase of less than one percent (1.0%). When only the loan funds are considered (Scenario I and IV), the increase in total employment is 0.11 percent and 0.2 percent, while for scenarios II and V the increase is 0.23 percent and 0.4 percent. The different scenarios are essentially proportional to the increase in final demand identified above. As is also seen from these data, the Coloured and African populations gain the most in terms of employment growth, while the Asian population gains the least.

<b>TABLE E.4. PERCENTAGE INCREASE IN TOTAL EMPLOYMENT, BY POPULATION GROUP AND SCENARIO (PERCENT)</b>			
<i>Population Group</i>	<i>Scenario I</i>	<i>Scenario II</i>	<i>Scenario III</i>
<i>African</i>	0.13	0.26	0.52
<i>Coloured</i>	0.15	0.30	0.62
<i>Asian</i>	0.09	0.18	0.36
<i>White</i>	0.10	0.20	0.40
<i>All Groups</i>	0.11	0.23	0.46
	<i>Scenario IV</i>	<i>Scenario V</i>	<i>Scenario VI</i>
<i>African</i>	0.22	0.45	0.92
<i>Coloured</i>	0.26	0.53	1.09
<i>Asian</i>	0.15	0.31	0.64
<i>White</i>	0.17	0.35	0.71
<i>All Groups</i>	0.20	0.40	0.82

Given the basic proportionality of the growth rates, the growth rates for employment by skill level are presented in Table E.5 only for the first scenario. As seen from these data, the greatest employment growth occurs in the low skill job categories for each of the population groups. As a general rule, the induced growth rate for low skill employment is roughly double those of high and medium skill employment. For the African and Coloured population, the low skilled employment growth is more than twice the high and medium skill employment growth, while for the White population it is less than twice these growth rates.

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<i>Population Group</i>	<i>Skill Level</i>			
	<i>High</i>	<i>Medium</i>	<i>Low</i>	<i>All</i>
<i>African</i>	0.06	0.07	0.16	0.13
<i>Coloured</i>	0.09	0.07	0.21	0.15
<i>Asian</i>	0.07	0.06	0.13	0.09
<i>White</i>	0.10	0.07	0.13	0.10
<i>All Groups</i>	0.09	0.07	0.16	0.11

### **B. Effects on Household Income**

The maximum effects on average household incomes by population group are presented in Table E.6. As was the case for employment, the effects of moving across the scenarios are largely proportional for each population group. Also as was the case for employment, in scenario VI where there is the greatest growth in overall household income, the percentage increase is less than three-quarters of one percent (0.75%). The pattern of these growth rates show that the Coloured and African households benefit the most from the increase in construction spending, followed by the White households.

<b>TABLE E.6. EFFECTS OF BSE-HG ON HOUSEHOLD INCOME GROWTH, BY POPULATION GROUP AND SCENARIO</b>			
<i>Population Group</i>	<i>Scenario I</i>	<i>Scenario II</i>	<i>Scenario III</i>
<i>African</i>	0.12	0.24	0.48
<i>Coloured</i>	0.14	0.29	0.59
<i>Asian</i>	0.08	0.17	0.35
<i>White</i>	0.09	0.18	0.36
<i>All Groups</i>	0.10	0.20	0.42
	<i>Scenario IV</i>	<i>Scenario V</i>	<i>Scenario VI</i>
<i>African</i>	0.21	0.42	0.86
<i>Coloured</i>	0.25	0.51	1.04
<i>Asian</i>	0.15	0.30	0.61
<i>White</i>	0.15	0.31	0.64
<i>All Groups</i>	0.18	0.36	0.74

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<b>TABLE E.7. EFFECTS OF BSE-HG ON HOUSEHOLD INCOME GROWTH, BY POPULATION GROUP AND INCOME QUINTILE FOR SCENARIO I</b>					
<i>Income Quintile</i>	<i>Population Group</i>				
	<i>African</i>	<i>Coloured</i>	<i>Asian</i>	<i>White</i>	<i>All</i>
<i>Quintile 1 (Poorest 20%)</i>	0.103	0.118	0.090	0.088	0.108
<i>Quintile 2</i>	0.116	0.134	0.089	0.091	0.117
<i>Quintile 3</i>	0.126	0.149	0.088	0.092	0.122
<i>Quintile 4</i>	0.125	0.155	0.086	0.088	0.116
<i>Quintile 5a</i>	0.118	0.150	0.082	0.089	0.113
<i>Quintile 5b (Richest 10%)</i>	0.113	0.136	0.078	0.084	0.090
<i>Average</i>	0.118	0.143	0.084	0.088	0.102

The growth effects of scenario I across the income distribution for the entire population and each population group are shown in Table E.7. The results for the other scenarios produce similar patterns which are roughly proportional to the overall increase in final demand for building construction. The basic effect of these growth rates is to produce a small, relative increase in the middle income categories for the African, Coloured, and National populations. For the Asian and White population groups, the pattern is a roughly equal, small relative increase in the incomes for the poorest ninety percent of these groups.

## V. Other Possible Benefits from the Program

In addition to the above potential economic effects, the structure of the BSE-HG will have other benefits resulting from its successful implementation.

First, the BSE-HG program will function as a demonstration mechanism that private sector resources can be successfully used to finance socially and politically important initiatives. If successful, this will help to reduce the future fiscal burden of such programs without the

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requirement of providing a quasi-subsidy to the private sector financial institution(s).<sup>3</sup> Nevertheless, this will not eliminate the basic problem associated with the financing of any such program, i.e., resources are limited.

Second, by establishing a mechanism for providing housing bond finance for the lower income segment of the population via a demand-side program rather than a supply-side program, the BSE-HG is expected to also stimulate demand in the small construction contractor market which includes the major proportion of the majority owned construction firms.

Finally, if the NHFC provides funding for other financial institutions and/or non-traditional retail outlets, BSE-HG will also have the effect of deepening and expanding South Africa's financial infrastructure servicing the lower income market.

## **VI. Issues**

This section briefly identifies and discusses the economic issues associated with the program.

### **A. Nature of the National Housing Finance Corporation**

As noted above in section II, the National Housing Finance Corporation will be jointly owned by private sector investors and the South African Government. The structure of the NHFC's Board of Directors will be such that the Government may control the Board of Directors even though it does not own 51 percent of the NHFC stock. Thus, the NHFC could effectively be a full parastatal financial institution.

The worldwide experience with parastatal financial institutions has not been positive. Thus, care and attention will be required to ensure that the NHFC remains a viable financial institution. Using the technical assistance funds to be provided through the Shelter and Urban Development Support (SUDS, 674-0312) and the on-going policy dialogue, the Mission will work with the Ministry of Housing and the NHFC to maintain the commercial viability of the NHFC and to push for a commitment to the eventual privatization of the NHFC. Issues that will be involved in this dialogue will include loan evaluation procedures and criteria, avoidance of excessive market segmentation, lending terms, i.e. market based lending without subsidized interest rates, staffing and management of the NHFC, etc.

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<sup>3</sup>*The U.S. Government loan guarantee results in a reduced interest rate on the U.S. loan which provides a quasi-subsidy to the borrowing entity.*

## **B. Transparency and Nature of the GNU Housing Subsidy**

In conjunction with the NHFC, the South African Government will also be providing a direct subsidy program of up to R15,000 per household to enable lower income households to qualify for housing bonds. Two key characteristics of this subsidy program will be required in order to avoid future fiscal difficulties. First, the housing subsidy should be a direct capital subsidy, i.e., a lump sum payment on the purchase price of a house or site, rather than an interest rate subsidy. This approach will make the subsidy a one-time affair for each household and will not generate future claims on the government's future revenue base.

The second characteristic is that the subsidy be transparent. This will involve several items. First, the housing subsidy should be a specific line item of the national budget for the Ministry of Housing and fiscal discipline should be used to ensure that the amounts approved in that line item are not exceeded. Second, specific criteria for receipt of this subsidy will be needed and strict enforcement of those criteria will be required. Third, a system of detailed and auditable records will be required to ensure that the eligibility criteria are followed and that individuals do not receive multiple subsidies.

These issues will be pursued with the Ministry of Housing through the Mission policy dialogue and SUDS-funded technical assistance will be used to assist the government in meeting these criteria.

## **C. Crowding-Out**

The structure of the financial transaction in the BSE-HG is such that no new resources are brought to bear in South Africa. Instead, existing investment resources are reallocated to the housing sector. As pointed out above, this implies that the economic benefits resulting from the increased investment in housing must be offset by the reduction of economic benefits in the sector(s) of disinvestment. Thus, the primary justification for this activity cannot be on economic grounds. Instead, it is based on the fact that it helps the South African Government meet one of the key social needs of the country's poor.

***ANNEX L***

## **ANNEX L**

### **ENVIRONMENTAL ANALYSIS**

#### **Basic Shelter and Environment Housing Guaranty Program 674-HG-002**

- 1. INTRODUCTION**
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- 3. URBANIZATION IN SOUTH AFRICA**
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## **1. INTRODUCTION**

Rapid urbanization in the developing world is threatening health, the environment and urban productivity. Cities can be the engines of economic growth, but the environmental implications of such growth needs to be assessed and appropriately managed. Urbanization is an international phenomena and estimates indicate that by the year 2000, twenty one cities will have populations in excess of 10 million with 17 of these mega-cities being in developing countries (World Bank, 1992). The so called "brown" agenda has been recognized as a key component of the urban environmental agenda if environmental protection and improvement are to be obtained and sustainable development achieved.

It should be noted that the term environment covers all social and biophysical conditions affecting and being affected by people and other living organisms. The meaning of 'environment' therefore extends from its commonly used ecological focus to include the concept of decent, healthy living and work environment. The process has begun in the democratic structures in South Africa to re-define the environment as a peoples issue, driven by people and seeking harmony and order among people, animals and nature. Thus, the issue of housing and provision of services are as much environmental concerns as are the protection of endangered species and issues of health and safety in the work place.

Although South Africa has a number of characteristics typical of a developed country, it is predominantly a developing country, which faces a range of urban environmental problems. This paper highlights the critical environmental issues facing the urban sector in South Africa, examines the historical roots to these problems, summarizes some of the solutions which are being implemented to minimize the problems and alludes to factors which are influencing the success of these solutions.

## **2. THE APARTHEID CITY**

While many urban areas partition themselves on socio-economic and ethnic grounds, the apartheid systems of South Africa institutionalized this partitioning for longer than any country in the world, which has resulted in a unique, yet problematic urban environment. Although the national elections in 1993 brought an end to apartheid structures, the city structure created during this era will influence the urban environment in South Africa for many years to come. Some aspects of the apartheid city which have aggravated the present environmental problems of South African cities are commented on below.

In general, cities depend on a fragile and limited ecological resource base, yet South African urban systems tend to forage on the productive peri-urban areas instead of looking at ways of conserving and recycling resources (refer to Figure 1), resulting in an extremely inefficient city environment.

The apartheid urban planning was based on a zoning concept which was extended into a form of social engineering and racial control. Partitioning of people into ethnic groups in specific areas, with particular areas being restricted for residential or economic activity for particular race groups was a cornerstone of the apartheid city. People were forcibly removed from their homes in established areas to new areas, where all people of a specific racial group were forced to live. Only black<sup>1</sup> persons working in white areas were allowed to reside in the urban area, but their families were required to live in the apartheid created homelands which were often remote from the urban areas.

These townships were usually situated close to industrial areas, thus providing cheap labour. Other townships have been developed on land which is considered unsuitable for other forms of development, for example land which is prone to flooding as in Khyaletsia in Cape Town, or was excessively steep, or was adjacent to industrial areas etc. Some townships have developed within existing towns, placing severe restrictions on their spatial growth and giving rise to relatively high population densities. While others were developed on the periphery of cities, which required that workers had to commute large distances on a daily basis. In general, the apartheid city was an inefficient and expensive city structure..

A further element of the apartheid city was that funds for development within the townships were severely constrained. Few formal houses were constructed and usually only the most basic sewerage facilities were provided and community services and schools were limited. In areas where development has occurred, funds for maintenance were limited and facilities were soon overloaded and in a state of disrepair. Planning was imposed on communities, with no meaningful participation being allowed. The politicisation of the community, resultant protest actions including the implementation of rent and service boycotts exacerbated the problems and impeded further deliveries.

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<sup>1</sup> The term "black person" will be used to refer to all persons of colour including Africa, Indian and Coloured communities. While homelands were not created for the Indian and Coloured communities these people were also subjected to segregation.

Within black areas neither the green nor the brown agendas were considered. Within white middle class urban areas, parks and facilities were provided to beautify the environment. It was perceived by some that the function of African townships was not to provide homes, but merely to provide resting places for people whose permanent home was in some homeland outside South Africa. Africans were merely temporary sojourners in white towns.

### **3. URBANIZATION IN SOUTH AFRICA**

#### **3.1 THE SCALE OF URBANIZATION**

It is estimated that 28 million people or 66 % of South Africa's population are functionally urbanized<sup>2</sup>, the total SA population being estimated to be 42,8 million in 1995 (White paper on Housing, 1994). It has been estimated that by 2010 the number of persons living in urban areas will increase from some 11 million in 1990 to 23.6 million. The growth rate of South African cities has been estimated at 3 and 5 % (IDRC, 1994). It is also estimated that within 10 years 75 % of the people living in urban areas will concentrated into the five major metropolitan regions viz. Johannesburg, Durban, Cape Town, Pretoria and Port Elizabeth (IDRC, 1994)

#### **3.2 REASONS FOR URBANIZATION**

There are a variety of reasons for the current urbanization process in South Africa and some of the key aspects are highlighted below.

- **The end of apartheid planning.**  
During the apartheid period, the urbanization of black people was strongly discouraged. With the democratization of the system, the legal restrictions on the movement of persons were lifted and people flocked to the urban centers in search of opportunity and in attempt to reunite families.

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<sup>2</sup> Functional urbanisation includes all people clustered around or in towns, whether such people are included in the official local authority boundaries or not (urban and peri-urban), as well as people living in the vicinity of urban areas who are dependant on it for income (semi-urban).

- **Poverty**  
The rural areas of South Africa are historically poorly developed with few job opportunities and limited access to land. Rural people frequently survive in poverty-stricken conditions. In an attempt to improve their quality of life, these impoverished people have moved to urban areas.
  
- **Droughts**  
South Africa has an unreliable climate and in recent years, parts of the country have experienced severe droughts. People who were able to survive in rural areas before the drought have found themselves unable to do so and have been forced to move to urban areas. White farmers who employed laborers have been forced to scale down their operations as a result of the drought, forcing staff to find new opportunities often in urban areas.
  
- **Political and ethnic violence**  
In certain parts of the country (for example KwaZulu Natal), political and ethnic violence in rural areas has forced people to move from their traditional rural homes to urban areas in search of security (Todes, 1994).
  
- **Economic trends**  
South Africa has experienced an economic 'down-swing' in past years, causing farms and small business in the rural areas to close. Income earners working in the urban areas have been retrenched as a result of the economic down-swing. Surviving in the rural areas can be difficult and as a result, families and individuals have moved to urban areas in search of opportunities.

#### **4. CRITICAL ENVIRONMENTAL ISSUES**

##### **4.1 INTRODUCTION**

The critical environmental issues affecting the urban environment in South Africa are highlighted below. The environmental issues are discussed under three headings: infrastructural and institutional issues, socio-economic issues and biophysical issues. The issues are interrelated and an attempt to develop solutions to any one of them without taking cognisance of the other issues and their implications will be of limited success. However an attempt to develop workable solutions for all issues in one paper is not practical. A list of the critical issues is presented in Table 4.1.

## **4.2. INFRASTRUCTURAL AND INSTITUTIONAL ISSUES**

### **4.2.1 The backlog in housing and service delivery**

It is estimated that the urban housing backlog in 1995 is approximately 1.5 million units (White paper on Housing, 1994). Given the population growth rate, it is estimated that this backlog will increase by 178 000 units per annum (White Paper on Housing, 1994).

**Table 4.1 Critical environmental issues**

### **CRITICAL ENVIRONMENTAL ISSUES**

#### **INFRASTRUCTURAL AND INSTITUTIONAL ISSUES**

- The backlog in housing and service delivery
- Community participation (women and marginalised communities)
- Inadequate policy and legislation
- Inadequate environmental policing
- Inefficient urban areas

#### **SOCIO-ECONOMIC ISSUES**

- Poverty
- Overcrowding and population growth
- Health problems (respiratory, diarrhoea)
- Social problems (alcoholism, family abuse, delinquency)
- Tribal and political violence

#### **BIOPHYSICAL ISSUES**

- Air pollution (indoor, outdoor)
- Water scarcity and quality
- Waste management
- Hazard management
- Loss of productive lands, habitat, and biodiversity
- Energy efficiency

Some 4.6 million people in urban areas do not have access to a safe water supply (PDG and UCT, 1993a) and 7.7 million lack access to adequate sanitation (PDG

and UCT, 1993b). Two thirds of all South Africans live in non-electrified homes (IDRC, 1994) and many of these people cannot afford electricity. The provision of housing, water and sanitation, and electricity will dramatically improve the environment as experienced by millions of people. A critical issue is how to provide these homes and services in an environmentally sustainable way.

#### **4.2.2 Community participation (women and marginalised communities)**

Urban planning in South Africa has traditionally been carried out using a top down approach. Participative planning is a relatively new concept for many in South Africa (technical practitioners and the general public) and lessons are being learnt about the processes and problems in an ongoing way (Sowman and Gawith, 1994). One of the keys to successful implementation of development projects is community participation in all stages of planning and that projects are community driven (White paper on the RDP, 1994). The involvement of women in development projects is important, as they are responsible for many urban households and can play an important role in involving marginalised communities, such as immigrants.

#### **4.2.3 Ineffective policy and legislation**

Historically environmental concerns in South Africa have been concerned with the green issues, rather than the brown agenda, and town planning was carried out along racial lines. In terms of the new constitution, environmental matters are dealt with primarily at the provincial level with a limited number of functions being dealt with at national level. No comprehensive national environmental policy exists and few provincial or local governments have established environmental policies. Until environmental standards are created and enforced, effective environmental protection will be difficult to accomplish.

Environmental legislation is also considered to be disjointed and ineffective. One problem which exists is that *locus standi* is restricted to those directly affected by

the problem (Rabie et al , 1992) e.g. the Wildlife Society could not take a polluter to court unless its members were directly affected by the pollution incident. The legality of this situation in terms of an interim constitution, which guarantees everyone to the right of a healthy environment, is yet to be established.

#### **4.2.4 Inadequate environmental policing**

Environmental concerns have always been afforded a low priority in terms of government spending. The government departments responsible for environmental control are generally understaffed with insufficient capacity to operate effectively. The problems is made more difficult in that many of the persons now responsible for environmental affairs at provincial level were previously employed by conservation authorities and have limited exposure to the wider range of environmental issues.

#### **4.2.5 Inefficient urban areas**

The myriad of crises evident on urban land is reinforced by policies which support urbanization. It is assumed that cities provide the greatest return on investments and that the concentration of people creates a proliferation of economic opportunities, particularly in the informal sector - unfortunately the poor people seldom achieve this wealth.

Within the current political and economic climate, the location of housing is being thought of in terms of access to the city, which assumes that people can move, but work cannot. This approach to planning results in overcrowding and produces a situation in which the first comers get the best opportunities. This creates a rush, in which planning processes are overtaken by the urgency to deliver. Elsewhere in the world, access to the city is not the priority - the priority is in providing appropriate public transport, which results in well planned developments.

As a result of past apartheid policies and the lack of a coherent development framework, present urban development planning is reactive and in a state of

turmoil. Attempts are being made to develop a more comprehensive planning framework. This approach results in various problems including the continuation of existing settlement patterns even where such patterns are unsustainable, costly and ineffective, land invasion, urban sprawl, and the creation of "transit camps". Urban sprawl results in people to living far from their places of work and having to spend money on transport, which in turn contributes to urban pollution. Unless action is taken soon to improve the efficiency of the apartheid city, a window of planning opportunity will be lost and South Africans will have to live in poorly planned, unfriendly and inefficient post-apartheid cities.

### **4.3 SOCIO- ECONOMIC ISSUES**

#### **4.2.1 Poverty**

Internationally some 1.1 billion persons are estimated to live in extreme poverty (WHO, 1995). Poverty deprives people of the ability to make choices regarding resource use. People living in poverty have no choice but to utilize the resources around them or that they can afford even if such actions have significant environmental impacts. For example, requesting people not to utilize wood and cheap coal for heating even when it causes air pollution is futile, unless the people have the resources to purchase alternative fuel sources.

Poverty in the rural areas also forces people to move to urban areas in search for a way to survive and for better opportunities.

#### **4.2.2 Overcrowding, urbanization and population growth**

It is estimated that about 20 % of urban residents live in informal housing (shacks) and this percentage is as high as 30 % in the PWV region. The average number of persons living in a shack is estimated to be 6 with an average of 12 persons living in a single house in the PWV region and 10 persons nationally (Pansegrouw, 1994). In Alexandra near Johannesburg, it is estimated that the some 160 dwelling

units, mostly shacks are developed per hectare (IDRC, 1994). Given that cities are growing at a rate of between 3 and 5 % per annum, with a population growth of 2,3 % (Green paper on Population, 1995) overcrowding can be expected to increase unless effective management actions are implemented.

The quality of the environment as experienced by people living under the crowded conditions indicated above is poor. The provision of housing and services will vastly improve the environment as experienced by many people living in such conditions. However, the delivery of the required number houses and services is slow in materializing. In the short to medium term therefore overcrowding and the population and urbanization rates will compound urban environmental problems.

#### **4.3.3 Health problems ( diarrhoea, respiratory illness etc )**

Some 10 000 persons die annually from diarrhoea in South Africa. In 1984 some 9 984 of these deaths occurred in children under five years of age which accounted for 27,7 % of all deaths in this age group (Yach, 1989) . While a large percentage of these deaths will be rural areas (no accurate statistics are available); a significant number will occur in urban areas where it is estimated that 7.7 million people or 31% of the urban population do not have access to adequate sanitation (PDG and UCT, 1993).

The second highest cause of infant mortality in South Africa is respiratory illness. Over one million people in the country are dependant on coal for cooking. This exposes them to particulate matter which at times can be in concentrations significantly higher than accepted health guidelines (IDRC, 1994). Tuberculosis (TB) is the largest communicable disease problem in Cape Town, and TB notification rates correlate highly with areas of social and environmental deprivation (Romanovsky, 1995). An issue of concern is that the incidence of respiratory problems is increasing more rapidly than diarrhoea and is largely attributed to different sources of air pollution.

Improvements in the general environmental indicators in black urban areas should improve health conditions and the quality of life.

#### **4.3.4 Social problems**

Social problems (alcoholism, family abuse, crime and delinquency etc) are often viewed as the result of living in a poor environment. There is a vicious cycle, as the occurrence of the social problems further demoralizes the marginalised communities, making it harder for them to escape from the trap imposed by their poor environment.

In Cape Town, areas which suffer physical deprivation (poor environment, limited facilities, poor open space areas) were found to also be areas of high social stress (Romanovsky, 1995).

#### **4.3.5 Violence**

Violence, which should result from political agitation or ethnic differences, destabilises communities. Within violence-affected communities basic service provision (refuse removal, repairs to sanitation systems etc) becomes extremely difficult. Furthermore, people who live in fear for their life are not usually in a position to consider the environmental issues as being of significance.

### **4.4 BIOPHYSICAL ISSUES**

#### **4.4.1 Air pollution (indoor and outdoor)**

Within urban areas, air pollution occurs both indoors and outdoors. Indoor pollution is mostly associated with burning of fossil fuels for cooking and heating purposes, which has been discussed above. Other pollution sources include asbestos which has been used as a construction material in many houses and old paints which have high lead contents.

Apart from the effects of industry, the majority of pollution sources in residential areas is due to the burning of coal for cooking and heating. Concentrations of total suspended solids in the air above Soweto regularly exceed both US EPA guidelines and South African guidelines which are less stringent. Even when fossil fuels are not burned directly by households and electricity is used, there are still air pollution problems in those urban areas within proximity to power stations, particularly in the Eastern Transvaal Highveld. The emission levels of South African power stations are generally well above those set by most European countries (Petrie et al, 1993).

A further air pollution problem is the high levels of lead in automobile fuels. Concentrations of lead in the blood in 13 % of Cape Towns 'coloured' preschoolers have been shown to be above the US lead blood safety level for children ( $\geq 25 \mu\text{gdl}^{-1}$ ) (Von Schirnding, 1992). Lead free petrol will be phased in over the next few years. However, a large proportion of the urban population is dependant on automobiles for public transport and therefore the lead problem will probably remain significant for several years.

Urban air pollution problems are aggravated in certain areas by apartheid planning principles, which often located black townships adjacent to industrial areas. In the community of Merebank, some 50 000 person, living south east of Durban are surrounded by industrial development with some families living within 20 metres of an oil refinery (IDRC, 1994).

#### **4.4.2 Water conservation and water quality**

South Africa is a country with limited water resources. In many parts of the country the local water resources are fully or over utilized (White paper on Water and Sanitation, 1994). Various complex and expensive water transfer schemes are being developed to provide people with water. For example, the Lesotho Highlands Water project will bring water from the headwaters of the Orange/Senqu

River in Lesotho to South Africa to meet the demand of the Gauteng industrial complex. In the course of developments such as these, the ecological integrity of the countries river systems are being degraded. The environmental sustainability of continued water intensive development in a country with limited resources must be questioned and emphasis shifted to demand management.

Water quality may become an immediate issue with respect to water resource management than water quantity. With a noticeable deterioration in water quality already being noted in many part of the country (White paper on Water and Sanitation, 1994), the scarcity of water requires that the quality is maintained.

Bearing in mind the attempts to plan the national water resources, the provision of adequate water and sanitation in urban areas is viewed as an issues of national importance. A critical environmental concern is how to meet these deficiencies in a sustainable way, which will not negatively impact on water quality.

#### **4.3.4 Waste management**

Waste management or the lack of comprehensive waste management policy in urban areas is reaching critical levels in some urban areas. In Gauteng which generates 70-80 % of South Africa's hazardous waste, only one hazardous waste disposal site is presently operating. On a local scale municipal waste collection services in low income areas are often infrequent causing health problems. Waste disposal facilities are also frequently located adjacent to townships.

#### **4.3.5 Energy inefficiency**

As indicated existing heating and cooking practices give rise to air pollution and health problems. The provision of electricity to under privileged communities is presently an ongoing initiative of Eskom (the South African electricity supplier), who are planning to provide the network to electrify Southern Africa. The provision of electricity is a limited solution as not all urban dwellers can afford electricity or the appliances to use this electricity. Critical issues with respect to

energy are the need to ensure that low smoke fuels which limit air pollution, have fewer health risks and general environmental degradation are used, and that houses are energy efficient thereby reducing costs for consumers and reducing environmental costs (Greening the RDP, 1994).

#### **4.3.6 Hazard management**

Associated with the demand for basic shelter and the present problem of land invasion many black urban dwellers live in areas of natural hazards. For example in Alexandra (Johannesburg), many people live immediately adjacent to the banks of the Jukskei River. When the river comes down in flood, the people have to leave their home for safety on higher ground. These natural hazards severely effect the environment and strategies to manage these problems are required. Developing strategies to cope with these hazards is complicated, because the people living in these hazardous areas are often a transient population. People move to hazardous areas when they arrive in the urban environment as these places provide the only space available, but once they have established themselves, they move to more hospitable, less hazardous areas.

#### **4.3.7. Loss of productive land, habitat destruction and biological diversity**

Urban sprawl and land invasions are common in South African urban today. People moving from overcrowded or crime ridden or newly urbanized people usually settle on the edge of existing settlements, resulting in urban sprawl. Alternatively unused open space areas are settled on irrespective of landuse or property rights and these areas are often agriculturally productive.

In certain areas, for example the Driftsands Nature Reserve in Cape Town, it is not agricultural land which is lost but habitat for natural species. Biological diversity is also threatened by the urbanization process.

## **5. INITIATIVES**

The South African government and various other groups have initiated various strategies to address the above issues. Some of the more important are highlighted below.

### **5.1 THE RECONSTRUCTION AND DEVELOPMENT PROGRAMME**

The Reconstruction and Development Programme (RDP) is the major vehicle through which the South African government is seeking to redress the imbalances of the past. The RDP was published by the ANC prior to the elections and has been subsequently published in a revised form as a White Paper for discussion purposes (GZ No. 16085, November 1994).

The RDP White paper has been criticized by environmental NGO's as it has lost the emphasis on environmental issues which was prevalent in the pre-election RDP base document. In addition, the lack of delivery has resulted in skepticism by the public, that the RDP can assist in solving the current problems.

### **5.2 GOVERNMENT POLICY AND OTHER DOCUMENTS**

Several national government departments have published draft legislation, policy documents or papers for discussion. These include:

- The White paper on Housing (Gz No. 16178, December 1994)
- The White paper on Water Supply and Sanitation Policy
- The Green paper on the Population Policy for South Africa
- The Development Facilitation Bill (Gz No. 16015, October 1994)

In addition, the Gauteng Provincial Legislature has also published a draft development planning and environmental management policy.

### **5.3 OTHER INITIATIVES**

- An International Development Research Centre (IDRC)/ANC/COSATU/SACP/ SANCO Missions examined critical issues and options facing future Environmental Policy (IDRC, 1994).
- The Environmental Justice Networking Forum (EJNF) convened a conference in November 1994 entitled "Greening the RDP" (ENJF, 1994). The conference made various resolutions with respect to improving the environmental sustainability of the RDP and development as a whole.
- A government appointed commission of inquiry into the need for a civil society advisory body to government, the Lorimer Commission. This has resulted in the publication of the Lorimer Report on the restructuring of the Council for the Environment and other related matters.
- The Department of Environment Affairs and Tourism has convened a consultative Conference on the National Environmental Policy, to be held on 17 August to discuss the National Environmental Policy.
- The initiation of a Provincial Advisory Forum by the Gauteng province.
- The start of more participative planning approaches and capacity building at all levels of government should also be recognized.

### **5.4 PROBLEMS**

While the above initiatives have to be commended, various problems have been experienced in attempting to improve urban environmental problems. The most significant aspects are addressed below :

■ **Slow delivery**

Disadvantaged communities want to see the results of the new government and to date, housing and service delivery appears to be slow. Given the scale of the task, the inertia and difficulties involved in creating enabling structures for developments, this delay in services delivery can be expected. Disadvantaged communities are, however, losing patience. Moratoriums have been placed on land invasion and evictions, but both of these still occur.

■ **Political instability**

National government elections were held in 1993 and provincial elections are scheduled for September 1994. However, in some areas elections will be delayed as a result of disagreements about municipal boundaries and on-going violence. Insecurity about the future and the impact that decisions may have on re-election and changing government structures have impeded the decision-making processes.

■ **Violence**

This still affects many parts of the country and impedes service delivery to the marginalised people.

■ **Public insecurity**

Traditional white communities have been slow to accept change. The participative planning process has been delayed as groups try to protect their suburbs and property values from the development of affordable housing in adjacent areas. In response to slow delivery, disadvantaged communities have acted on their own, resulting in land invasions which have heightened white fears. Governments responses to housing pressures have included the establishment of temporary "transit camps" in high income areas. Conditions in these camps are poor and the belief that they will become permanent slums has eroded confidence in government structures.

■ **Lack of capacity**

Black communities have been historically disadvantaged with respect to education and skills. Capacity to facilitate development needs to be created by the body responsible for development. Until capacity exists within communities development processes will be delayed or inappropriately implemented and managed.

**6. CONCLUSIONS**

South Africa faces a range of urban environmental problems many of which are not unique to this country. The scale of the problem may appear daunting at times and problems in delivering solutions have been experienced. However, the opportunity for the establishment of environmentally sustainable national and provincial policies and solutions does exist. It can only be hoped that policy makers, politicians and planners do not lose sight of this opportunity in the attempt to meet short term objectives and to further political agendas.

The urban environmental problems in South Africa are severe and seem to stem from the high rate of urbanization, a lack of a comprehensive urban development policy and increasing poverty. These aspects, together with a lack of an integration of environmental concerns in urban planning, has led to the present crisis.

Experience from other countries has demonstrated that an effective approach for confronting urban environmental issues is to formulate an urban environmental management strategy and action plan. This strategic approach should pertain to regions and be based on participation, capacity building and the compilation of appropriate policies, all of which comply with Agenda 21 for sustainable development.

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***ANNEX M***

ANNEX M

MONITORING AND EVALUATION PLAN

Basic Shelter and Environment Housing Guaranty Program 674-HG-002

BSE-IIG	Objectives	Indicators	Targets	Base	Source	Time	Action
<b>Goal</b>	To increase opportunities for access to and ownership of assets by historically disadvantaged while supporting economic development	Number and value of value of houses built and improved linked to BSE-IIG program resources	Up to \$260 million Rand equivalent	-0-1995	NIIFC; and retail lender records	4 yrs	NIIFC; Retailers; EDIS; & Project assistance
<b>Purpose</b>	To increase access to capital for expanded ownership of shelter through strengthened financing targeted primarily to the private sector	<ol style="list-style-type: none"> <li>1. # financing models</li> <li>2. Number and \$ value of loans to low-income families</li> <li>3. Number of policies</li> </ol>	<p>2 models</p> <p>Up to \$260 million Rand equivalent</p> <p>60,000 loans</p> <p>2 policies</p>	-0-1995	<p>NIIFC/DOH</p> <p>NIIFC/Retail lenders</p> <p>National and Provincial DOHs</p>	4 yrs	<p>NIIFC/DOH</p> <p>NIIFC &amp; Retail Lenders</p> <p>Nat/Prov. DOHs</p> <p>EDIS</p>
<b>Output 1</b>	Improved Institutional capacity at wholesale and retail shelter lender levels	<ol style="list-style-type: none"> <li>1. Number of lenders and borrowers reached through NIIFC outreach programs</li> <li>2. Number of NTRLs and community banks with improved lending capacity as judged by Number of new loan products issued</li> </ol>	<p>minimum 2 new lenders reached by NIIFC (may include NTRLs)</p> <p>2 NTRLs capacity improved</p> <p>Minimum 60,000 eligible borrowers assisted</p>	-0-1995	<p>NIIFC</p> <p>Retail lenders including Banks &amp; NTRLs</p>	<p>4 yrs</p> <p>4 yrs</p>	<p>NIIFC</p> <p>Retail lenders</p> <p>EDIS</p>

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Activities	1. Provide TA to NIIFC committees on performing mandated financing, educational and outreach roles for shelter finance sector improvement (including relevant environmental issues).	1. Number TA and training activities involving NIIFC	minimum 20 training/TA activities	-8-1995	NIIFC & Consultants	4 yrs	NIIFC Consultants EDIS USAID
	2. Provide TA to NTRLS to improve lending policies & techniques for low-income households, especially to female-headed households.	2. Number TA and training activities delivered to NTRLS	minimum 20 TA/training activities		NIIFC & Consultants	4 yrs	
	3. TA to NIIFC Evaluation unit	3. Monitoring and evaluation reports	Periodic (quarterly, semi-annual etc. with required data)		NIIFC & Consultants	4 yrs	
Output 2	Increased private sector financial resources available for housing sector	\$ private sector financing available for low-income housing	Up to \$260 million Rand equivalent	-8-1995	NIIFC Banks NTRLS	4 yrs	NIIFC Banks NTRLS

Activities	<p>Purchase of NIIFC equity by local private sector institutions based on IIG loan;</p> <p>or, private sector direct transfer of capital to community-banking retail outlets or NTRLs</p>	<p>\$ purchase of NIIFC holdings by private sector institutions</p>	<p>Up to \$260 million rand equivalent</p>	<p>-0-1995</p>	<p>DOH NIIFC NTRLs Banks</p>	<p>4 yrs</p>	<p>NIIFC Banks NTRLs</p>
Output 3	<p>Increased supply of housing solutions to low-income households</p>	<p>\$ value of loans provided to build and improve low-income houses.</p> <p>Number of homes, and/or sites built or improved</p>	<p>Up to \$260 million Rand equivalent</p>	<p>-0-1995</p>	<p>NIIFC Retail lenders  Participating builders, developers, contractors</p>	<p>4 yrs</p>	<p>NIIFC Retail lenders  EDIS</p>

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Activities	<p>1. NIIFC funds transferred to retail institutions including NTRLA.</p> <p>2. Private sector funds transferred to NTRLA &amp; community banks</p> <p>3. Loans made to households, and construction firms</p>	<p>1. R amount funds transferred to retail lenders by NIIFC.</p> <p>2. R amount funds transferred to retail lenders by private companies &amp; banks</p> <p>3. R amount of loans made to low-income households, construction firms developers etc...</p>	<p>1. Up to \$260 million rand equivalent recorded by gender and household income</p> <p>2. Idem.</p> <p>3. Idem, plus type of firm</p>	-0-1995	NIIFC Retail lenders; Companies	4 yrs	NIIFC EDIS Lenders
Output 4	Policy reforms developed through USAID continuing policy dialogue with GNU and concerned stakeholders in areas of finance, environmental control/review, and shelter development	Number policy reforms articulated and instituted.	<p>1. At least 2 reforms in environment</p> <p>2. At least 2 reforms in finance</p>	-0-1995	DOH (national and local); banks; builders	4 yrs	DOH (national and local); banks; builders
Activities	1. Periodic meetings with policy makers at NIIFC, DOH and lower levels of government; concerned environmental agencies and concerned NGOs to review progress made.	<p>1. # policy reforms assessed/discussed</p> <p>2. # changes made and documented</p> <p>3. # lessons learned discussed reviewed in national fora</p>	<p>1. At least 4 reforms reviewed</p> <p>2. At least 4 policies changed or developed</p>	-0-1995	DOH (national & provincial)  NIIFC  USAID	4 yrs  with  yrly review	DOH  Concerned GNU agencies and NGOs.  USAID  EDIS

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