



USAID | **SOUTH AFRICA**
FROM THE AMERICAN PEOPLE

STRATEGY STATEMENT

This Strategy Statement for South Africa was assembled by USAID/South Africa. This is a USAID planning document and does not contain budget information approved by the U.S. Government. Any budget information contained therein is for illustrative purposes only.

Additional information on the attached can be obtained from Lorie Dobbins in USAID/AFR/SA.

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A. Program Rationale

1. Country Context: South Africa is a country in which statistics are often misleading. The Republic of South Africa is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors; a stock exchange that ranks among the 20 largest in the world; and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. Yet despite 28 successive quarters of economic growth, unemployment remains high, estimated at 26.5% in 2005, and deep economic and social fissures that were engendered in the apartheid era persist. In South Africa 'two economies' co-exist in one country. The 'first economy', which is comparable to Hungary or Mexico, is advanced, sophisticated, based on skilled labor, and becoming more globally competitive. The 'second economy', which is comparable to Cote d'Ivoire or Cameroon, is mainly informal, marginalized, unskilled and populated by the unemployed and those who lack the qualifications to work in the formal sector. This large gap in skills and opportunities is startlingly evident in income distribution. Close to 50% of black South Africans live at or below the poverty line in comparison to only 2% of white South Africans, and income per capita for white South Africans is nearly six times that of black South Africans. South Africa is a democratic transition success with three peaceful national elections and two municipal elections in its 11 year history. However, deep-seated socio-economic inequity remains a serious source of concern. As President Thabo Mbeki said in his February 11, 2005 State of the Nation Address:

"Success in the growth of our economy should be measured not merely in terms of the returns that accrue to the investors or the job opportunities to those with skills. Rather it should also manifest in the extent to which the marginalised in the wilderness of the Second Economy are included and are at least afforded sustainable livelihoods."

During the past 11 years, the Government has supported access to land and provided security of tenure for numerous poor and previously disadvantaged communities. It has also vigorously promoted social transformation with the provision of services to these groups. Since 1994, close to nine million people have been provided with potable water, extending access to 81% of the population. Over 1.5 million houses have been built to provide shelter to over six million people; and over 3.5 million homes have been electrified with nearly 80% of households now connected to the national electricity grid. South Africa has further targeted 100% water supply, sanitation, and electrification to its population by 2008, 2010 and 2012, respectively. At the same time, large disparities remain between population groups in quality, access and affordability of services. For example, in the 2001 census, only 18% of black African households had access to piped water in their homes in comparison to 88% of the white households, and only 39% of black African households could afford to use electricity for cooking, even though 62% of these same households had access to basic electricity. In contrast, over 98% of white and Asian South African households used electricity for cooking.

Responsibility for delivery of basic services is largely decentralized and is under the mandate of South Africa's 284 municipalities. Leaders from both the governmental and private sector underscore the need for increased delivery of local services, and all agree that the challenge with service delivery is not generally a lack of resources, but a lack of skills, planning and management. In an October 2005 interview Finance Minister, Trevor Manuel, underscored this constraint, stating, "Optimally...you should have people designing the future now. That is a capacity that we in South Africa lack."

The provision of social services is also a Government priority. Close to 50% of the total budgetary resources over the last decade were devoted to social services, of which almost half went to the education sector. The primary and secondary education sector targets are to reach enrolment of 95.5% and 85%, respectively by the year 2014. Top priorities in the health sector include HIV/AIDS, tuberculosis and improving the quality of health delivery services. Currently, HIV prevalence in South Africa is 29.5% in pregnant women aged 15-49, with over six million individuals infected. In addition, South Africa is ranked eighth in the world with regard to tuberculosis (TB) with 227,320 cases reported in 2003. Within the increased budgetary allocation for health, particular attention is given to reducing the incidence of HIV and AIDS, other sexually transmitted infections and tuberculosis. The roll out of medication to the victims

of AIDS has systematically reached most provincial public hospitals and clinics with 178 sites in all 53 districts. As of August 2005, over 78,000 patients had been enrolled for antiretroviral therapy. Targets under the Government's *Operational Plan for Comprehensive HIV and AIDS Care, Management, and Treatment* are to reach over 1.4 million people with antiretroviral therapy by 2009.

Because apartheid systematically excluded the majority of South Africans from full economic participation, today's economy is dominated by large, almost exclusively white male-owned businesses. To encourage the broad-based entry of the historically disadvantaged population into the mainstream, the South African government has developed a strategy for "Black Economic Empowerment" (BEE). Its foundation is a legislative framework that addresses human resource development, employment equity, enterprise development and preferential procurement, along with increased black investment, ownership, and control of enterprises and economic assets. BEE is driving the transformation of the private sector.

Continuing high unemployment, associated elevated crime rates, the incessant spread of the HIV and AIDS pandemic and limited capacity of the government to deliver basic and justice services are the most pressing challenges facing the South Africa Government today. Unemployment will be tackled through enabling the first economy and by strengthening the second economy; thus integrating the informal sector into South Africa's economic mainstream. Targeted efforts to promote skills improvement and private sector development along with labor-intensive public works programs are specific measures South Africa will take to address the unemployment challenges. HIV and AIDS will be addressed through the Government's Comprehensive Plan and will require the integration and strengthening of HIV and AIDS programs in all Government departments as well as partnerships with communities. Reinforcing the capacity of local governments to deliver basic municipal and justice services will be achieved through capacity building programs with targeted municipalities, requiring collaboration with the private sector and civil society. Enhancing the capacity of the justice system to protect the rights of vulnerable populations will also be undertaken.

South Africa's vision for 2014 envisages entrenching democracy, creating a true non-racial and non-sexist society, eradicating poverty, instilling safety and security, and establishing an efficient and effective democratic state contributing to the African Renaissance. The United States has strong strategic interests in promoting and supporting South Africa's economic growth and social transition. As the lead trading partner in the region, South Africa is a key market for the United States. Equally important is South Africa's role as the political and economic anchor for the Southern Africa region. As such, its continued stability and demonstrated success in dealing peacefully with transformation and empowerment issues provide a model for neighbors encountering similar challenges.

2. Links to National and Regional Development Priorities: The proposed strategy for USAID programs in South Africa is directly supportive of South Africa's key priorities set forth in President Mbeki's State of the Nation address, key budget speeches, and the Government's *Programme of Action*. South Africa's priorities rest on three pillars: 1) Encouraging the growth and development of the 'first economy'; 2) Addressing the challenges of the 'second economy'; and 3) building a social security net to alleviate poverty. Achievement of these goals will be through five objectives which are: a) Increasing the investment rate; b) Facilitating economic activity in the 'second economy'; c) Addressing social services, income support and human development; d) Improving the capacity of the state; and e) Partnering with states in the region to promote democracy and development. The critical importance of working within the framework of the Paris Declaration was highlighted during a recent review of U.S. assistance to South Africa undertaken by the South African Government. The review underscored specific areas for inclusion in new development assistance activities such as: promoting South African ownership of development programs and increasing communication channels throughout project operations and between spheres of government involved in these activities; increased transparency and predictability of resource flows; and the use of joint evaluation procedures and common measures for program progress and success. The proposed USAID/South Africa strategy will incorporate operational principles to address these issues. South Africa's leadership and contributions to the New Partnership for Africa's Development and the African Union as well as its leadership on conflict resolution in African nations underscore its role as the regional powerhouse. Although South Africa is not a donor country, close co-operation with countries in Africa to achieve economic growth and development on the African continent is a primary focus of South

Africa's foreign policy. USAID will seek to support South Africa's tri-lateral cooperation efforts in programs complementary to its bilateral assistance programs.

3. Global Issues, Presidential and USAID Initiatives: A number of key global issues and special concerns are addressed in the USAID program, principally through participation in Presidential and USAID Initiatives. Support from the **Africa Education Initiative** complements long term basic education programs with its emphasis on teacher training, learning materials and scholarships. In line with the expansion of this initiative through 2010, USAID/South Africa anticipates continued work in these key areas along with a new focus on orphans and vulnerable children, youth and workforce skills development – a key component of reducing unemployment in South Africa. An emphasis on sustainable service delivery helps South African cities provide services that reduce greenhouse emissions and generate energy savings under the **Global Climate Change Initiative**. USAID/South Africa addresses **biodiversity** issues by protecting endangered areas and species through eradication of alien species, thus conserving scarce water resources. Congruent with Agency and South African priorities, funding from the **Anti-Corruption Initiative** is integral to promoting integrity in all spheres of government and reducing perceptions of corruption. South Africa has been named as one of four countries which will participate in the new **Women's Justice and Empowerment Initiative** which will promote awareness of and support for victims of gender-based violence. In the context of the high level of crime against women and children and the high crime statistics in South Africa, this is a particularly important initiative. As a focus country under the **President's Emergency Plan for AIDS Relief**, USAID and other United States Government agencies in South Africa work in concert with governmental and non-government partners to mitigate the impact of HIV and AIDS in support of South Africa's *Operational Plan for Comprehensive HIV and AIDS Care, Management, and Treatment*. With additional funding to combat **TB**, USAID programs work to strengthen provincial, district and community responses to the TB crisis through social mobilization and improved service delivery. USAID/South Africa further participates in the **Initiative to End Hunger in Africa** through limited funding for biotechnology using South African researchers. In addition, USAID/South Africa is ideally placed to participate in the new **Africa Global Competitiveness Initiative** to expand trade and boost private sector development.

B. Program Structure

USAID programs in South Africa directly support the two Operational Goals for transformational development countries set forth in the USAID Strategic Framework for Africa.

- Foster a healthier, better educated, and more productive population;
- Increase the effectiveness of African institutions in promoting a vibrant private sector and democratic governance.

Even though South Africa is a middle-income country, it has one of the most unequal distributions of income in the world.¹ This creates a real challenge for the South African Government to ensure that its domestic resources are effectively used to address a substantial range of development needs while simultaneously encouraging investment in the organized business sector. Optimal use and management of its resources is a critical concern of South Africa as can be seen by its commitment to well researched strategies and increased service delivery. All donor resources flowing to South Africa total approximately 1% of the national budget. Therefore, the USAID program over the period from 2007 – 2012 will dedicate its efforts to complement South Africa's own initiatives and will focus on, *strengthening program design, strengthening systems, identifying and resolving bottlenecks, and promoting quality assurance*. Reflecting South Africa's strong emphasis on building capacity for monitoring and evaluation, USAID-supported programs will ensure that evaluative procedures are integrated into all activities which include data collection geared to measure progress toward goals of sustainability and transparency. Discussions with partners and South African-led analysis underscore the need for targeted specialized assistance that will help to catalyze advancement toward South Africa's stated objectives. The USAID/South Africa

¹ <http://www.sarpn.org.za/documents/d000990/P1096-FactSheetNo1Poverty.pdf>

program will support activities to build capacity across all spheres of Government to: 1) expand basic municipal and justice services to historically disadvantaged populations; 2) broaden access to quality education with a focus on developing skills needed for productive employment; 3) increase access to primary health care and HIV and AIDS services; and 4) develop the small, medium and microenterprise sector to build a platform for sustainable employment. Activities in these areas encompass Agency "special concerns" with a large program on HIV and AIDS and limited biodiversity activities.

The four Strategic Objectives set forth below have been developed through consultations with host country partners to address the most critical constraints to South Africa's continued progress and to consolidate the gains of transformation. USAID's program in South Africa is built on principles of: support to South African Government priorities; maximizing use of South African expertise through supporting capacity building in Government and the private sector; emphasizing appropriate technologies; increasing South African ownership of activities; enhancing communication and reporting channels; promoting inclusion and advancement of historically disadvantaged groups; and fostering systems that are transparent, accountable and sustainable. These themes will guide the implementation of all activities.

1. Strengthened capacity to deliver sustainable and accessible integrated municipal and justice services (*Year of Initial Obligation 2007, Estimated Year of Final Obligation 2011*)

This will be a new strategic objective focused on meeting South Africa's priority to improve service delivery which directly supports Operational Goal 2 as outlined above and key program areas in the democracy and governance, environment, and urbanization areas: 1) Strengthen institutions of democratic governance; 2) Increase civil society's effectiveness in advancing reforms; 3) Reduce corruption and strengthen the anti-corruption environment; 4) Promote equitable natural resource governance and management of competing claims on resources; and 5) Improve the urban environment. Combining key focus areas from two previous Strategic Objectives in Democracy and Governance and Housing and Municipal Services, the new program will consolidate USAID's work with local government while completing USAID assistance to the justice sector. Activities will be associated with seven of the Agency's new Program Components: Support Democratic Local Government and Decentralization; Strengthen the Justice Sector; Improve Sustainable Management of Natural Resources and Biodiversity Conservation; Reduce, Prevent and Mitigate Pollution; and Improve Access to Clean Water and Sanitation. Cutting across all programs will be activities associated with the following program components: Strengthen Civil Society and Promote and Support Anti-Corruption Reforms.

Service delivery is the most significant challenge facing local governments in South Africa today and over the next ten years. It is among the national government's top priorities and requires an integrated response from all three spheres of government: national, provincial and local. Although South Africa has made great quantitative strides in delivering housing, water and sanitation over the last decade, frustration levels have been rising among residents of townships across the nation still waiting for shelter and basic services. Recently, citizens have staged violent protests in several townships over the lack of response from local government officials. The South African Government has responded with *Project Consolidate*, its flagship initiative for improving local government, in 136 of South Africa's 284 municipalities. USAID programs will strengthen capacity to deliver quality municipal services in a sustainable manner through: active engagement of citizens and local authorities to identify bottlenecks and seek resolution in a mutually supportive manner; and through approaches that protect water, energy and biodiversity resources. This approach will include addressing the challenges of a culture of non-payment and disparate operational policies. It will also require increased capacity building in financial management, deepening financial management reforms in budgeting, accounting, and reporting including building the expertise and leveraging of resources from domestic financial markets to support the environmentally sound expansion of services such as water and sanitation, housing and energy. USAID will support capacity building in government institutions and the development of indigenous solutions for public-private partnership models through the use of inter alia creative financing and credit guarantees to help address the financial gap. Enabling civil society to play its role in joint problem-solving while assisting South African Government efforts to ensure transparent local government are also key elements to sustainable service delivery and enduring institutional capacity supported by this program. Capitalizing on previous successful efforts to assist South Africa to reduce levels of crime, justice sector activities in

this new program will advance South African objectives to improve effectiveness of the criminal justice sector, including support for dedicated courts, and to strengthen the capacity of the justice system to protect the rights of women and children, including expansion of victim support services and diversion programs.

By the end of fiscal year (FY) 2012 it is anticipated that municipalities will have achieved on average 80% revenue collection rates, and a range of alternative service delivery models in water, sanitation, and electricity sectors will have been adopted as best practices. In addition, by 2011, South Africa will have in place effective and efficient institutions which improve access to justice and reduce recidivism -- especially of youth--in partnership with non-governmental organizations. By the end of FY 2008 increased numbers of sexual offenses courts, community courts, and commercial crime courts will be established and will be trying cases efficiently.

2. Strengthened capacity to provide quality basic education and productivity-increasing job skills (*Year of Initial Obligation 2007, Estimated Year of Final Obligation 2011*)

The Education program supports the Operational Goals 1 and 2 as outlined above and its education program areas to: 1) Promote equitable access to quality basic education and 2) Improve access to productivity-increasing job skills. It is associated with two program components: Achieve Equitable Access to Quality Basic Education and Improve Quality of Workforce through Vocational/Technical Education. Addressing the impact of HIV and AIDS is an important element of the overall education strategy and USAID anticipates funding under the President's Emergency Plan for AIDS Relief for education sector interventions.

Presently, there are more than 12 million students, 366,000 teachers and around 28,000 schools in South Africa (of which 22,000 are primary schools). Educational funding shifted after apartheid to address equity concerns, but the percentage of government budget devoted to education has decreased over time with the result that many more people have to be served with fewer resources. Despite greatly increased access to education, many South African students still attend schools with inferior facilities, poorly trained teachers, and inadequate supplies of learning materials. In 2000, 34% of schools still lacked access to water, 17% had no toilets and 34% no telephones. By July 2003, the country's net primary school enrolment rate was 95%, reaching targets for access to education. However, between 1998 and 2002 only 64.5% of children reached grade five, indicative of high rates of repetition and dropout in response to low quality education, resulting in poor performance for South Africans compared with other countries in the region on student tests. Only 14% of the black and 17% of the colored populations have a high school or higher qualification and achieving mathematical and scientific literacy remains a challenge throughout the entire schooling system. Because sound foundational skills such as literacy and numeracy as well as math and science knowledge are essential to securing productive employment, many of USAID's efforts will strengthen key South African systems. The program will emphasize enhancing teachers' capacity to provide quality student-centered instruction, strengthening supervisory and administrative management for teachers and school systems, while promoting quality assurance. In addition, South Africa has prioritized teacher professional development as a key factor in improving quality of education. USAID programs will move to a systemic approach to support development of both new and in-service teachers. Activities will target with selected teachers who urgently need professional development in math, science, information communication technology, and languages. Training will be linked to the creation of sustainable models of collaboration between South African higher education institutions and provincial and national education structures to ensure a quality supply of professional teachers both for the present and the future of South Africa. A key skills development priority for South Africa is to recapitalize all technical training institutions. These 50 institutions reach 406,000 students mostly youth aged 18 – 25 years, in fields such as business studies (accounting, financing, marketing, and management), social sciences, engineering, general education, art/music, information and communications technology (ICT), tourism, interior design, hair care, catering, and hospitality. USAID programs in workforce skills development will complement and leverage South African Government and private sector partnerships in this field by working with these institutions to increase efficiency and effectiveness in providing employment-relevant training and placement services to the nation's youth.

By the end of FY 2012 USAID technical assistance, training, and public-private partnerships will have strengthened governmental, non-governmental and community capacity to effectively manage education at a variety of levels. A specified number of higher education institutions will have improved teacher training programs serving the needs of the most disadvantaged teachers in South Africa. The professional skills of thousands of rural South African teachers will be upgraded and this will translate into improved student learning. By FY 2012 USAID technical assistance, training, and public-private partnership creation will have strengthened the capacity of a targeted number of South Africa's training institutions to provide quality skills development to thousands of South African youth.

3. Strengthened public-private capacity to support a competitive small business sector

(Year of Initial Obligation 2007, Estimated Year of Final Obligation 2011)

This strategic objective directly supports Operational Goal 1 and contributes to Operational Goal 2 as outlined above. The program will contribute also to the Bureau's economic growth, agriculture and education program areas of: 1) Improved private sector development; 2) Increased integration of African economies into regional and global markets; 3) Increased agricultural trade; and 4) Improved access to productivity-increasing job skills. Program activities are associated with the following four program components: Improve Private Sector Competitiveness; Strengthen the Financial Services Sector and Increase Access to Capital; Improve Economic Policy and the Business Environment; and Improve Quality of Workforce through Vocational/Technical Education.

Despite a middle-income level gross national income per capita, South Africa's legacy of apartheid and its exceptionally unequal income distribution mean that the majority of the population faces keen challenges including the struggle to find productive employment. In a 2004 survey, South Africans ranked unemployment, reported at 26.5% overall, but over 32% for black South Africans in March 2005, as the country's most serious problem. South Africa's principal strategy for reducing unemployment is to stimulate the development of small, medium and micro enterprises (SMMEs), focusing on historically disadvantaged businesses to fuel broad-based growth that generates benefits for all. USAID's SMME development program will primarily support the government's priority of inclusion and expanded participation by historically disadvantaged individuals in the economy, as embodied in South Africa's Black Economic Empowerment (BEE) initiative, including the agricultural BEE (AgriBEE) program. The program will work with relevant government entities to ensure development of appropriate strategies and strengthening of capacities. Financial sector practices continue to constrain loan and equity financing for SMMEs and remain an obstacle to business expansion. USAID activities will seek to improve competition through creative approaches including the use of credit enhancements and guarantees. While the ultimate objective of the Mission's small business development program will be integration of South African small businesses, including those in agriculture, into regional and international markets, activities will focus on strengthening businesses to reliably meet domestic market-driven requirements with the intent that they will enter the export market as supplies to larger exporting firms. To build sustainability, the program will pay special attention to strengthening SMME business development service providers. Targeted biotechnology research will be supported to develop crops that have the potential to help small and marginal farmers participate in agricultural markets. Activities will build on opportunities under the African Growth and Opportunity Act, as well as focus on business linkages and business sector clusters that can contribute to employment generation, e.g., tourism and value-added aspects of the minerals industry. The strong macroeconomic framework developed by South Africa since 1994 has paved the way for sustained economic growth. However some microeconomic policies continue to impede small business growth, and USAID will direct limited resources to address specific policies, responding to South African requests. Because sustained equitable economic growth requires a productive workforce, USAID activities under this program will complement those implemented under the Education Strategic Objective to accelerate skills-building programs. With BEE and corporate social investment requirements acting as catalysts, several large formal sector businesses seeking to develop training programs to strengthen SMME potential suppliers have expressed their desire to work with USAID to ensure that their investments are developmentally sound.

By the end of FY 2012 program interventions will have contributed to a sustainable SMME sector. Key results will be an increased contribution by SMMEs to overall economic output; increased formal sector finance flowing to SMMEs; a sustainable core of SMME business service providers; and a more skilled

workforce with sustainable training programs in place.

4. Strengthened Capacity to Deliver Sustainable and Integrated Primary Health Care and HIV and AIDS Services *(Year of Initial Obligation 2007, Estimated Year of Final Obligation 2011)*

This strategic objective directly supports the Operational Goals 1 and 2 as outlined above and its health program areas to: 1) Prevent and control infectious diseases of major importance; 2) Improve reproductive health; 3) Reduce transmission and impact of HIV and AIDS; and 4) Reduce child mortality. It relates to four Agency program components: Prevent and Control Infectious Diseases of Major Importance; Support Family Planning; Reduce Transmission and Impact of HIV and AIDS; and Improve Child Survival, Health, and Nutrition.

South Africa's public health system is highly decentralized and is the source of modern health services for over 80% of the population. During the past decade, South Africa has made enormous strides in creating a single unified public health care system and in improving access to a more equitable set of primary health care services especially for historically disadvantaged communities. As such, service delivery has increased, and in 2004, 82% of children under one year of age were immunized, though there is considerable variation by province, ranging from 67% to virtually universal coverage. Nonetheless, the historical inequities in the health of South Africans remain a daunting challenge. Among South Africa's strategic priorities in health for the period 2004-2009, which USAID's health portfolio will support, are improving health through prevention and promotion of healthy lifestyles and consistently improving the health care delivery system by focusing on access, equity, efficiency, quality and sustainability. In response to South African Government requests, USAID assistance will concentrate on systems strengthening (e.g., logistics, management information systems, supervision systems, and clinical training) in selected provinces, districts and municipalities in order to improve demand, availability, quality, and management of key primary health care services. The program will assist districts selected in consultation with the Department of Health in the five most disadvantaged provinces which hold 60% of the national population to: 1) strengthen key elements of primary health care; 2) build effective health management capacity and systems; 3) provide a comprehensive package of quality maternal and child health services with special attention of the needs of young mothers; 4) strengthen the capacity of community networks to manage their health status; and 5) leverage effective public private partnerships at the community and district level, a key issue for South Africa as it relates to strengthening the link between the first and second economies. The HIV and AIDS program component, which is implemented under the President's Emergency Plan for AIDS Relief and which supports the South African Government's HIV and AIDS plan, is covered in the five year strategy submitted to the Office of the Global AIDS Coordinator (OGAC) and is not discussed here.

By the end of FY 2012 it is anticipated that USAID assistance will contribute to the delivery of an integrated package of primary health care services through fully functioning health districts in 25% of the country's 53 districts. A functional district is one where: 1) service providing entities have access to basic health information that is used for decision making, a trained and motivated staff, and an adequate supply of essential commodities and drugs; 2) communities are mobilized and involved in support of health services; and 3) clients have ready access to quality services, are able to identify and act upon their health needs, and communicate with service providers.

D. Cross-cutting Themes

Gender: South Africa has become a regional leader in policies and actions aimed at advancing gender equity and equality. The country's Constitution, National Framework for Women's Empowerment and Gender Equality, Office on the Status of Women, and Commission on Gender Equality exemplify national commitment to integrate gender into the national policy discourse. Implementation remains problematic and women are more affected than men by historic social imbalances. For example, unemployment among women is 31.4%, compared to 22.41% for men. USAID's programs in South Africa respond to some of the most pressing development realities resulting from current gender relations and pursue opportunities for advancing gender-equitable development as they arise. Programs in the education and health sectors address specific gender-differentiated gaps affecting the advancement of girls and women

while also engaging boys and men in interventions aimed at transforming norms and practices to promote gender equality. Economic growth programs include attention to gender equity in economic opportunities and access to productive resources, while programs focused on governance and service delivery strive to include women and address gender concerns in decisions about public resources and services and improved access to justice. A 2004 Gender Assessment and subsequent training and technical assistance have identified specific steps for integrating gender into current and planned programs. These include retaining a strong focus on gender and building USAID staff and partner capabilities in this area.

HIV and AIDS: Consequences of the HIV and AIDS epidemic in South Africa touch virtually every aspect of public and private life, demanding sustained attention across sectors and institutions to achieve a coordinated and effective response, to which USAID actively contributes, consistent with South African Government plans. USAID is a key institutional player in the U.S. response under the direction of OGAC. Details of that program can be found in the OGAC five-year country strategy. USAID's other health programs help strengthen many of the health institutions and service delivery centers critical to implementation of the OGAC strategy. Programs in the education sector address the epidemic's impact on both students (including orphans and vulnerable children) and teachers in terms of access to and quality of education services, mindful of the threat to the sector's future capacity posed by high teacher HIV prevalence rates. USAID's economic growth programs focused on SMMEs acknowledge the economic and workforce pressures of the epidemic on these enterprises and help them to develop basic business survival skills including business contingency planning, cross-training of workers and managers, and estate planning. At the local government level USAID programs will enable decision-makers to plan to mitigate the vulnerabilities that the pandemic presents to the sustainable supply of services for the poor. HIV and AIDS impacts in shelter will be addressed through housing programs which will promote special needs requirements and through the continuation of innovative financial products, including specialized insurance products that mitigate the risk of default of HIV positive homeowners.

Democratic Governance: Issues of democratic governance and their role in national development dominate South African public discourse. USAID's programs help reinforce the South African Government's clustering approach to service provision and contribute to the promotion of good governance across sectors at multiple levels. They strengthen the program management capacity of national institutions while helping to develop the institutions and skills necessary for ongoing decentralization at district and local levels. For example, USAID is providing technical assistance, training, and credit enhancement to help local governments resolve log jams and provide basic services effectively and sustainably. USAID is also working with the National Departments of Education and Health to strengthen district-level institutions' capacity to design and provide services, and promote professional development of service providers, thereby improving public sector governance and performance. Such programs reflect USAID's commitment to assuring public sector capacity and sustainability for the long term.

Youth: In the 2001 census, approximately 21% of South Africa's population was between 15 and 24 years of age. Unemployment among those aged 15-24 in March 2005 was 52.6%. A key study of youth in 2000 indicated that 73% of those with no education are unemployed, compared to 58% of those completing high school. Through all its programs, USAID addresses the primary challenges confronting youth, considered as a group between the ages of 15 – 28. USAID's education and economic programs work in tandem to ensure equitable access to high-quality education, job-relevant training opportunities, and the services and resources needed to initiate SMME activities. Critical age-related health needs of youth are addressed through efforts to improve primary health care, promote the health of young mothers, and provide age-appropriate responses to HIV and AIDS. The family planning program will focus its program on youth interventions to reduce unwanted pregnancies and promote healthy lifestyles. Youth also benefit from support for strengthened service-delivery capacity of local governments and improved access to basic services that improve the quality of their lives.

Urbanization: Equitable provision of basic services such as water, sanitation, and electricity in urban areas has become increasingly important in South Africa since 1994, given the large and growing share of the population living in urban areas (up to 75% by Mission estimates). Equitable access to justice has also become an issue as urban areas, often with high rates of crime and domestic violence which have

expanded beyond the capacity of the existing justice institutions and legal services. The national transition toward decentralized public services in recent years has not been accompanied by the requisite shift in skills and human resources required to meet the growing demand for services. USAID supports efforts to build the necessary skills for management of public services at local levels and fosters the ability of local authorities to provide services equitably and sustainably, thereby improving the quality of urban environments and the lives of their inhabitants.

E. Key Issues: The two critical issues identified for programs in Africa are counterterrorism and extractive industries. While there are no dedicated USAID/South Africa programs in these areas, various program interventions will indirectly support South Africa's efforts to fight terrorism and to ensure transparency and economic inclusion in the extractive industries sector. South Africa's sophisticated logistical and financial infrastructure could be used by terrorists to support attacks. In order to reduce opportunities for terrorist activities, South Africa has established a strong legal and technical framework that includes a Financial Intelligence Centre which instituted a comprehensive anti-money laundering administrative regime which obliges financial institutions to report suspicious and unusual transactions. In addition, new domestic anti-terrorism legislation criminalizes terrorism in its various manifestations and provides for extraterritorial jurisdiction. South Africa also has ratified most international instruments on terrorism and is compliant with United Nations and African Union conventions in this area. USAID's work to strengthen the justice sector will assist in building a system which works against terrorism, while efforts to reduce unemployment and provide critical services, including building job-related skills, will alleviate tensions among underserved populations.

With regard to extractive industries, South Africa's mineral natural resources are among the most diverse and abundant in the world. It is the world's largest producer of platinum, gold, and chromium. For decades South Africa's mineral industry contributed to the development of physical infrastructure and secondary industries. However, at the same time the colonial and apartheid regimes prevented South Africa from achieving its potential due to repressive and discriminative policies which denied the majority population the right to participate productively in the economic activities of the country. Like all economic sectors in South Africa, the minerals and mining sector is undergoing policy and operational changes to assure greater participation of disadvantaged populations and to accelerate the contribution of the sector to poverty eradication. The South African Diamond Board, which regulates the diamond industry and exports and imports of rough diamonds, adheres strictly to the Kimberly Process Certification Scheme. In addition, though South Africa is not a participant in the Extractive Industries Transparency Initiative, a number of key South African firms including Anglo American and Lonmin are members of this initiative. Although USAID will not support direct activities in the extractive industries, it will seek partnerships with large firms and consortia for training and employment for youth and to address HIV and AIDS issues.

F. Regional Aspects: Because of South Africa's dominant economic position in the region, its successful economic and social transformation is essential for regional stability. In addition, South African policies and trading arrangements have great impact throughout Southern Africa and beyond. The Regional Trade Hub operating under the Regional Center for Southern Africa (RCSA) has the potential to expand and build on South African trade linkages. In addition, as disease knows no bounds, the Regional HIV/AIDS program, managed by USAID/South Africa but reporting through RCSA, will continue to be of paramount importance in addressing cross-border aspects of the pandemic with specific attention to South Africa's neighboring states of Swaziland and Lesotho. The work of the Regional HIV/AIDS program to strengthen regional institutions will continue to benefit South Africa through its involvement in regional fora. There is strong United States Government coordination in all key areas of this strategy which includes interagency task forces and specialized sub-committees to ensure smooth implementation of activities which support the Mission Performance Plan goals.

G. Donor Coordination, Public-Private Partnerships and Indigenous Expertise: Over 30 donors are active in South Africa, and coordination is primarily at a sectoral level. USAID coordinates programs with other principal donors including the European Union, the British Department for International Development (DfID), and the Nordic countries. One prime example of donor coordination to support South African priorities is the joint work of USAID and DfID on pro-poor budgeting and poverty

alleviation. Consultations with other donors, particularly the European Union member states indicate great consistency in objectives for the next five years. At present USAID is supporting twelve Global Development Alliances (GDA) and public-private partnerships. Together these efforts will leverage over \$448 million on USAID funding of an estimated \$24 million. The partnerships support diverse programs ranging from the administration of justice, to expanded support for at risk orphans, students in disadvantaged areas and out-of-school youth, HIV and AIDS research and training, and the delivery of basic municipal services to disadvantaged communities. USAID also has numerous other relationships and collaborative approaches that do not meet the USAID/W strict definitions for GDA or Public-Private Partnerships, but which nonetheless advance South African priorities. Use of South African expertise is a key principle of the USAID program and is included in solicitations and selection criteria. Use of local knowledge is essential for sustainability and is consistent with South Africa's middle-income status.