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COUNTRY STRATEGIC PLAN FY 1996 - 2005

SOUTH AFRICA



April 1996



Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

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22 MAR 1996

Mr. John F. Hicks
Assistant Administrator
Bureau for Africa
U.S. Agency for International Development
Washington, D.C. 20523

Dear John:

We are pleased to forward to you USAID/South Africa's Country Strategic Plan (CSP) covering the period 1996 - 2005. Review of this document is scheduled for the end of April and early May. The U.S. Mission very much looks forward to this review as it will be the culmination of over a year of considerable dialogue, analysis and consultation.

Key U.S. Mission staff have been involved in the development of this CSP, and concur in the document and strategy. Similarly, we have broad concurrence from key representatives of the Government of National Unity for our proposed strategy. Elements of the strategy have been developed in concert with and have been concurred in by relevant technical ministries. The overall picture has been reviewed with and concurred in by representatives of both the Reconstruction and Development Program in the President's Office and the GNU's International Donor Coordinating Committee (IDCC). Finally, this strategy is based on long and extensive consultations with representatives of South Africa's civil society and other international donors.

As instructed by USAID's Africa Bureau, this CSP presents our best proposals for an exit strategy for South Africa and is framed within (a) a high budget option (\$405 million), obligated over 8 years and implemented over 10 years; and (b) a low budget option (\$301 million), obligated over 6 years and implemented over 8 years. Added to both of these funding options would be the budget for the Southern Africa Enterprise Development Fund (SAEDF), representing an additional \$30 million at the high option and \$20 million at the low option.

You will recall that agreement on two funding options was the result of the Agency's review of our Concept Paper during July

1995. At that time, the Bureau instructed the USAID Mission to assume a high budget option of \$500 million. Our assessment of program needs, however, combined with our understanding of increasingly tight Agency and Bureau budget constraints, resulted in a lowering of our high budget option to a more realistic level of \$405 million. As a result, the difference between the two budget options has narrowed significantly from the \$200 million difference proposed in our Concept Paper to \$104 million proposed in the CSP (again, the latter amount exclusive of the SAEDF budget).

The CSP presents a program comprising six strategic objectives (SOs). This is an increase of two SOs over the program configuration outlined in our Concept Paper, and is based upon separating the Mission's focus on economic empowerment into three components: targeting economic policy capacity, private sector development and housing and urban development. The Mission has retained the remaining SOs targeting democracy and governance, education and health development.

The Mission is making excellent progress on its reengineering initiatives. In fact, in many respects, USAID/South Africa has been a "cutting edge" mission owing to the unique set of circumstances under which the Mission has had to operate -- circumstances which have combined to enable the Mission to get an early start on some aspects of reengineering. Therefore, the advent of formal reengineering guidance, training and new management systems has been well received by the staff and has added excellent momentum, discipline and structure to our reengineering efforts. Foremost has been the impact which reengineering has had on our strategy development. For example, on the heels of AFR/W technical assistance, we greatly expanded our initial consultation exercises and recently laid the groundwork for formally expanding our Strategic Objective Teams, established in March 1995, to include external representation -- including those with whom we have already engaged extensively in strategy development. We also initiated the development of customer service plans at the organizational unit level, both for line and staff functions. As a Mission, we have confidently embraced reengineering.

The strategy has been developed with due cognizance of the importance to the Administration and the Agency of the U.S. - South Africa Binational Commission, and of the pivotal role that USAID plays, in particular, on the Human Resources Development and Education (HRD/E) Committee of the Commission. USAID/South Africa continues to demonstrate an interest in broadly comprehending policy objectives and program initiatives of other committees. You will appreciate the Mission's policy towards the BNC, which is to be alert to (a) identifying possible intersections and perceived opportunities for integration of and/or collaboration between USAID/South Africa's programs and the initiatives of other BNC committees, and (b) ensuring that our declining resource base remains tightly focused on the Mission's own strategic objectives, and

not be unduly eroded in support of BNC objectives which are not congruent with our program.

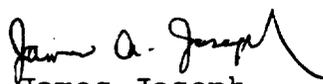
As with other strategy-related visits to Washington, we anticipate engaging with key, interested parties across the Agency and elsewhere (State, OMB, Congress, etc.) to comprehend more fully the rapidly evolving perspectives on our program in South Africa.

We look forward to the formal presentation of the USAID/South Africa Country Strategy Plan in late April and early May and continued close consultations on the implementation of a highly-successful program which, by all accounts, represents a vital part of our foreign policy vision for Africa.

Sincerely,


Cap Dean
Director

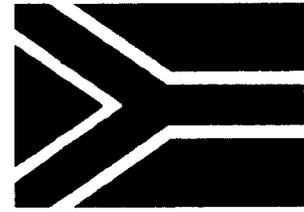
Sincerely,


James Joseph
Ambassador

cc: Carol Peasley, DAA/AFR
Wilbur Thomas, AFR/SA
Will Elliott, AFR/SA/South Africa



**COUNTRY
STRATEGIC
PLAN**



FY1996 - FY2005

A grayscale, textured map of South Africa serves as a background for the central text.

**SUSTAINABLE
TRANSFORMATION
IN
SOUTH AFRICA**

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- J. Other Agency Programs Active in South Africa
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 - 2. Regional Center for Southern Africa

- K. Reengineering of USAID/South Africa
 L. Mission Strategic Framework
 M. Crisis Prevention and Disaster Preparedness

ACRONYMS

Adult Basic Education and Training	ABET
African Institute for Policy Analysis &	
African Institute for Policy Analysis & Economic Integration	AIPA
African National Congress	ANC
Binational Commission	BNC
Business Linkages for Under-Utilized Enterprises	BLUE
Civil Society Organizations	CSO
Community Outreach and Community-based organizations	CBOs
Congress of South African Trade Unions	COSATU
Constitutional Development and Provincial Affairs	CDPA
Critical Assumptions	CAs
Customer Service Plan	CSERV
Democracy/Governance	D/G
Demographic and Health Survey	DHS
Department of Health	DOH
Department of Trade and Industry	DTI
Development Bank of Southern Africa	DBSA
Development Research Unit	SALDRU
Education Management Information Systems	EMIS
Enhanced Credit Authority	ECA
Equity Access Systems	EASY
Equity and Growth through Economic Research	EAGER
European Union	EU
Foreign Service National	FSN
Government of National Unity	GNU
Gross Domestic Product	GDP
Health Care Points	HCPs
Historically Disadvantaged Institutions	HDI
Historically Disadvantaged Population	HDP
Housing Guaranty	HG
Human Development Index	HDI
Initiative for Southern Africa	ISA
Inkatha Freedom Party	IFP
Institute for Social and Economic Research	ISER
Intermediate Result	IR
International Foundation for Education and Self-Help	IFESH
Micro and Small Enterprise Development	MSED
Ministry of Education	MOE
National Bureau of Economic Research	NBER
National Commission on Higher Education	NCHE
National Economic Development and	
National Economic Development and Labour Advisory Committee	NEDLAC
National Health Information System for South Africa	NHIS/SA
National Health System	NHS
National Institute for Economic Policy	NIEP
National Qualifications Framework	NQF

National Small Business Council	NSBC
New Partnerships Initiative	NPI
Non-governmental Organization	NGO
Ntsika Enterprise Promotion Agency	NEPA
Overarching Strategic Team	OST
Overseas Development Administration	ODA
Primary Health Care	PHC
Private Voluntary Organizations	PVOs
Public Service Commission	PSC
Rapid Assistance for National Development	RAND
Reconstruction and Development Plan	RDP
Reengineering Task Force	RTF
Requests for Agreements and Requests for Proposals	RFAs/RFPs
Results Review	R2
Results Review and Resource Request	R4
Shelter for Urban Development Services	SUDS
Small and Medium and Micro Enterprise	SMME
South African Chamber of Business	SACOB
South African Labour and Development Research Unit	SALDRU
South African Network of Economic Research	SANER
Southern Africa Enterprise Development Fund	SAEDF
Strategic Objective Team	SOT
Support for Economic Growth and Analysis	SEGA
Tertiary Education Linkages Project	TELP
U.S. Direct Hire	USDH
University of Cape Town	UCT
World Trade Organization	WTO

SUSTAINABLE TRANSFORMATION IN SOUTH AFRICA

USAID/South Africa--Country Strategic Plan EXECUTIVE SUMMARY

*At the end of the day, the yardstick that we should all be judged by is: are we creating the basis to better the lives of all.
Nelson Mandela (Business Day, 19 August 1994)*

EXECUTIVE SUMMARY

Introduction
Summary Analysis of Assistance Environment
Legacy of Apartheid
Proposed Strategic Plan
Program Strategic Objectives
Goal: Sustainable Transformation
Sub-Goal: Empowerment
Strategic Objectives 1 - 6
Resource Requirements

INTRODUCTION

The Government of National Unity (GNU) has set a course towards reconstruction and development. The commonality between the GNU's goals and the following sustainable development objectives of the United States Agency for International Development (USAID) facilitates partnership in many areas:

- broad based participation in political and economic life;
- rising living standards, reduced poverty, and broadly available social benefits for current and future generations;
- population growth which is within the economic and ecological capacity of the country and that permits maintenance of healthy and productive populations; and
- responsible stewardship of the natural resource base.

USAID/SOUTH AFRICA'S SIX STRATEGIC OBJECTIVES (SOs)

USAID/South Africa, in consultation with our South African customers and partners, has articulated the following six strategic objectives.

SO1: Democracy/Governance: Strengthened democracy, governance, and capacity for participatory development

SO2: Education: Transformed education systems based on equity, access, and quality

SO3: Health: More equitable, unified, and sustainable system delivering integrated primary health care services

SO4: Economic Policy Capacity: Improved capacity of key GNU/CSO entities to formulate, evaluate, and implement economic policies to promote economic growth and equity

SO5: Private Sector Development: Increased access to financial markets for the historically disadvantaged population

SO6: Shelter And Urban Services: Improved access to environmentally-sustainable shelter and urban services for the historically disadvantaged population

PART I: SUMMARY ANALYSIS OF ASSISTANCE ENVIRONMENT

LEGACY OF APARTHEID

Apartheid, which literally means "apartness," represented the codification of all the laws and regulations that politically, economically, and socially oppressed the majority population, (largely Africans but including Coloreds and Asians). Beginning with the 1913 Land Act, apartheid consolidated and made systematic the segregation of the races. In the 1960s, apartheid took on the guise of separate development. Instead of claims about biological or genetic differences, arguments for racial separation after this time were based on cultural or ethnic differences and the rights of different groups to maintain their identities. "Blacks," "majority population," and "historically disadvantaged" are used to refer collectively to South Africans of African, Colored (mixed), or Asian (Indian) descent.

In April 1994, South Africa entered a new stage of non-racial and non-sexist democracy with the election of Nelson Mandela as President. The newly-elected Government of National Unity (GNU) inherited a structure developed to promote and defend the social and economic system of apartheid. As a result, many of the inherited apartheid policies and practices, if left unchanged, will seriously jeopardize the capacity of the government to succeed in the social and economic transformation of the country.

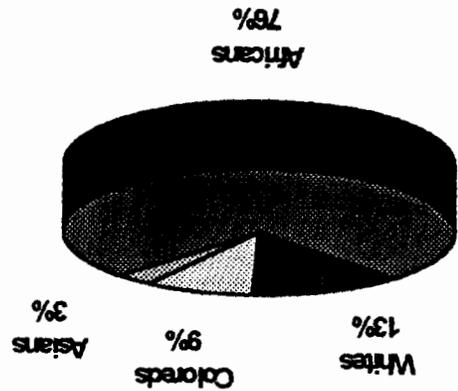


FIGURE 1: SOUTH AFRICA POPULATION

Population Group	Life Expectancy at Birth (years)	Adult Literacy rate (%)	Gross Geographic Product per capita (PPP\$)
Total	62.77	82.16	3,885
Africans	60.30	76.64	1,665
Whites	73.11	99.52	16,722
Coloreds	66.46	91.06	3,020
Asians	68.89	82.16	3,885

TABLE 1: POPULATION GROUPS (1991)

Central Statistical Service (CSS) Human Development Index (1995)
*Gross Geographic Product is the total value of the goods and services produced in a geographic area. Purchase Power Parity (PPP) adjusts official exchange rates to reflect domestic purchasing power.

PART II: PROPOSED STRATEGIC PLAN

Some of the factors that have impacted on particular choices of strategic objectives and choices of mechanisms to achieve these results are summarized below. These factors have also influenced the focus for the high level (\$435 million over ten years) and the low level (\$321 million over eight years) funding options.

Strategic Choices: The strategic choices for the program were influenced by the following factors: (a) the Agency's strategies for sustainable development, and Agency and Africa Bureau guidance; (b) sector assessments and consultations; (c) experience with past program areas; (d) Congressional interest areas as represented by legislative or budgetary earmarks or targets; (e) the Mission's judgments concerning its ability to achieve results given likely resource constraints including program budgets, staffing and operational budgets; (f) relative focus of other international donor programs; (g) opportunities for appropriate support of the Reconstruction and Development (RDP); (h) extensive, inter-agency and Congressional consultations; and (i) comparative advantage. The Agency's review and approval of the Mission's March 1993 Concept Strategy Paper, reaffirmed a focus on political, social, and economic empowerment of the disadvantaged majority population. Specific areas of intervention identified included community development, human rights, democracy, basic and higher education, health, private sector development, and shelter and urban services provision.

Consultation in Strategy Development: The Mission's significant rethinking of its portfolio through the strategic planning process has involved extensive and structured consultations with customers and partners. These consultations have served to ground-truth the strategy by ensuring its relevance to South Africa and confirm the validity of its development hypotheses. USAID/South Africa initiated a comprehensive evaluation of the program covering the period 1986 - 1994. This was accomplished in a consultative manner, involving customers, partners and stakeholders. Then, consultations with all levels of the new Government of National Unity were begun. We also deepened dialogue with South African civil society and relevant U.S. PVOs. Finally, the Mission established Strategic Objective Teams (SOTs) and an Overarching Strategic Team (OST), to guide the strategy development process and to stimulate broader participation.

Policy Dialogue: The USAID/South Africa approach to policy dialogue will be atypical to approaches used elsewhere in other sub-Saharan USAID programs. Typical approaches are not relevant to South Africa due to: (a) the strong desire of government officials to lead the policy reform process; (b) the sheer size of the South African economy in proportion to the resources of any one donor or even all donors combined; (c) the general availability of many highly-qualified and experienced South Africans to fill full-time, government positions and to serve as *ad hoc* consultants to government; and (d) the absence of traditional World Bank and IMF programs in South Africa. USAID/South Africa will continue to foster good relationships with key officials in national and provincial government positions, will continue cooperative efforts with civil society and government to identify lessons learned, will respond positively and selectively to limited requests for U.S. consultant expertise, and on a highly-selective basis, will support pilot exercises.

Donor Coordination: USAID/South Africa has continued to play a leadership role in donor coordination. The extensive consultation process for the development of the CSP catalyzed substantial involvement of the donor community at various levels. The large size and breadth of our program and issues raised during the strategy design process effectively triggered other donors to reassess elements of their own strategies. The GNU has continued to evolve a donor coordination strategy based on: (a) periodic plenary sessions, (b) sector working groups, (c) annual consultations, and (d) the recently announced South African International Donors Forum (SAIDF).

Southern Africa Regionalization: The Mission will soon consult with our partners to identify ways in which the program can help South Africa realize its potential for contributing to regional development. We will continue to coordinate activities with the Initiative for Southern Africa (ISA) and the Southern Africa Enterprise Development Fund (SAEDF). Potential areas of further collaboration include democracy/governance, HIV/AIDS prevention, and regional economic policy.

Role of NGOs: Extensive participation of South African NGOs and U.S. PVOs has been and will remain a hallmark of our program. This has been confirmed and embraced across South African civil society and by the GNU. In addition to continuing direct support to NGO programs, USAID/South Africa negotiated a series of bilateral Project Agreements which are structured to: (a) address the insufficient delivery-capacity of many government departments (both national and provincial); and (b) apply lessons learned from successful relationships with NGOs. These bilateral Project Agreements obligate funds to South African government ministries for capacity building but also establish joint or tripartite mechanisms for activity-level programming and clear targets for allocating resources to NGOs and the private sector.

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Mission Reengineering: This CSP reflects a Mission newly energized by reengineering. The Mission has made significant progress in re-examining all of its operations and structures in order to operationalize the five core values of reengineering: empowerment and accountability; teamwork; customer focus; results orientation, and valuing diversity. To facilitate teamwork, the Mission will, subject to USAID/W concurrence, formally restructure to abolish the old technical office/division structure and operate under Strategic Objective Teams (SOTs). The Mission has finalized Mission orders which empower the SO teams by delegating all programmatic authorities to SO team leaders and establish operational procedures based on teams and the principles of teamwork. The Mission recognizes the need to align its existing portfolio to the proposed CSP and Results Framework. In order to ensure that future activities contribute directly to achieving expected results, the Mission will compete more grant awards and will utilize umbrella mechanisms for the award of grants.

PART III. PROGRAM STRATEGIC OBJECTIVES

GOAL: SUSTAINABLE TRANSFORMATION

The proposed strategy covers the period from now until the Mission's planned exit from South Africa between 2003 and 2005. The strategy is a "graduation" or "completion" strategy. USAID/South Africa believes that the overall goal of the program should be **support for sustainable transformation**. Sustainable transformation goes beyond short-term transition but not as far as long-term sustainable development. There is a general shift in the strategy's emphases over the ten-year (1996-2005) program. Programs focused on sustainable sectoral transformation of the private sector, housing, and health will be completed by 2000 to 2003. After this the program will concentrate on sectoral transformation in education and sustainable structural transformation in governance and economic policy designed to ensure an environment for long-term development and growth. Sustainable transformation means:

South Africa is at the point where democracy is sufficiently consolidated; basic systems and policies for social service delivery in education and health are moving from being fragmented to being unified; and institutions are establishing mechanisms so that the historically disadvantaged and previously disempowered women and men participate in, contribute to, and benefit from the development of South Africa.

SUB GOAL: EMPOWERMENT

The strategy sub-goal is political, social, and economic empowerment. The Mission will continue to ensure that the program strengthens the capacity of the historically disadvantaged population to take the next steps in their own and their community's development. That is, in all our efforts we seek to empower the historically disadvantaged to sustain the transformation and development processes. USAID/South Africa's efforts towards achieving racial equality are planned to ensure gender balance as well. Our strategic objectives will increase opportunities for women and men to participate in, contribute to, and benefit from the development of their country.

SO1: DEMOCRACY, GOVERNANCE, AND CAPACITY FOR PARTICIPATORY DEVELOPMENT STRENGTHENED

Problem Analysis/Background: South Africa's transformation is, in the first instance, political. Democratic governance is pursued not only as an end in itself but because it also provides the enabling environment to achieve USAID/South Africa's other strategic objectives. Progress in the political arena must continue in order to provide the stability and overall framework for the sustainable transformation of all sectors within South Africa. Programs under SO1 will look quite different in the future compared with the past. Programs in traditional community and leadership development will have ended; programs in human rights, conflict resolution, and governance will continue but with tighter targeting and more focus on long-term goals; and new programs in support of models for effective government/civil society cooperation for development will be added. The Mission is already involved in all three fields of democracy, governance, and participatory development and the question is how these fields should be balanced in the new strategy. The proposed strategy targets significant results in all three areas. Democratic consolidation results are front-loaded with most of them to be completed before the 1999 general election. Governance support is spread out over the duration of the Mission's program. Partnerships for development is also spread out over the duration of the Mission's program.

DEMOCRACY/GOVERNANCE-INTERMEDIATE RESULTS

- 1.1: Increased human rights and access to equitable justice systems.**
Given South Africa's history, human rights consolidation and access to equitable justice are critical components of democratic consolidation.
- 1.2: Political and community-level conflicts effectively mediated.**
Although political violence has been reduced since the 1994 elections, conflict resolution remains a critical need because violence continues to disrupt development and democratic participation.
- 1.3: Public policy reflecting Civil Society Organization (CSO) and public participation.**
South Africa's new democracy still lacks developed channels for citizen participation, thus the need to strengthen both the capacity of civil society to generate public policy inputs and the capacity of government to receive these inputs.
- 1.4: Executive structures (especially provincial) better equipped to manage participatory development.**
South Africa's new democracy also requires assistance to better equip elected and appointed officials and the civil service to manage participatory development, and to expand the long-term capability to produce effective and qualified government officials.
- 1.5: Innovative practices of partnership and participation adopted in provinces.**
Promoting innovative partnerships among government, CSOs, and the private sector will improve RDP delivery and participatory development.

SO2: TRANSFORMED EDUCATION SYSTEM BASED ON EQUITY, ACCESS, AND QUALITY

Problem Analysis/Background: A strategic objective which focuses on the transformation of the public education system in South Africa is essential for "Sustainable Transformation." The need to establish an equitable and efficient educational system is not subject to compromise. The fragmented and undemocratic nature of the education system it produced may be the most damaging feature of the apartheid system. Maintenance of hard-won democratic principles rests on an educated population that can articulate its needs. Strategic Objective 2 contains three elements: (a) policy reform, (b) establishment of systems to execute and implement policies, and (c) capacity building. The vision for a transformed system of education in South Africa includes: a unitary system of education; 10 years of free, compulsory (basic) education; lifelong learning opportunities; the right to instruction in the language of choice, where practicable; and the right to establish educational institutions based on common culture, language or religion, provided there is no discrimination on the basis of race. USAID/South Africa will be most successful in applying limited resources in assisting the national and provincial departments of education to establish policies and to create or enhance the systems necessary to implement these policies, rather than focusing on direct service delivery.

EDUCATION-INTERMEDIATE RESULTS

- 2.1: Policies for transformation of the education system are enacted and approved.**
The GNU currently lacks specified policies and strategies, particularly at the provincial level, to operationalize the promise of equitable access to quality education.
- 2.2: Responsive and functional organizational systems.**
The legacy of the apartheid structures of government for different racial groups has resulted in a lack of efficient organizational systems for implementing policies and strategies once articulated.
- 2.3: Adequate qualified human resources base.**
An acute shortage of trained personnel, at both the national and provincial levels, has a severe adverse impact on the GNU's ability to deliver equitable access to quality education.
- 2.4: Functional infrastructural capacity to deliver services in place.**
Difficulties in widely disseminating models of educational practices, methodologies and materials hamper the GNU's ability to provide quality education to the majority disadvantaged population.

SO3: MORE EQUITABLE, UNIFIED AND SUSTAINABLE SYSTEM DELIVERING INTEGRATED PRIMARY HEALTH CARE SERVICES TO ALL SOUTH AFRICANS

Problem Analysis/Background: The major health care challenge for the new South Africa is to provide equity in basic health care to all South Africans and, in the process, to rectify the underlying inequities in health services provision brought about and supported by apartheid. SO3 will accomplish this both by increasing access to an integrated package of primary health care (PHC) services, and by improving the institutional sustainability of critical PHC management and service delivery systems. South Africa has had a highly fragmented public health system designed to serve the different population groups separately. Fragmentation, curative focus, and lack of community participation resulted in a large, majority population which was deprived of even basic primary health care. USAID/South Africa and the GNU have mutually decided that USAID will support the integrated PHC systems development approach. The rationale for supporting the development of an integrated primary health care system rather than the delivery of specific health interventions, such as family planning or HIV/AIDS, is based on the fact that the GNU has identified such a system as the cornerstone of its new health system and lessons learned from health and child survival programs elsewhere in Africa that such interventions cannot be sustained without reinforcing the support components of integrated health systems. SO3 will be achieved through the implementation of two phases. During Phase 1 (Years 1-4), SO3 will be implemented principally in a single province, the Eastern Cape. During Phase 2 the results will be disseminated nation-wide. Given the systems development approach, the project will not support the actual delivery of services except as part of research or pilot activities to determine more effective ways to deliver services.

HEALTH INTERMEDIATE RESULTS

- 3.1: Access to integrated package of PHC services increased.**
Increased access to PHC services for the majority disadvantaged population is the most critical element of rectifying the inequities in the health service program brought about by apartheid.
- 3.2: Effective health care referral system operating.**
The development of an effective system for health care referrals is an essential component of delivering PHC services in a cost efficient manner so as to maximize the availability of PHC services.
- 3.3: PHC managers at provincial level and below effectively utilizing enhanced management skills.**
The lack of management skills impairs the ability of provinces to deal effectively with planned organizational changes and other issues regarding equitable access to integrated PHC services.
- 3.4: Efficiency and effectiveness of PHC service delivery increased.**
The fragmentation of South Africa's existing health care system causes numerous inefficiencies that impair the equitable delivery of integrated PHC services.
- 3.5: PHC training program strengthened and institutionalized at provincial level.**
Current training programs for medical/health professionals are based on curative models of health care and do not prepare medical/health professionals for PHC service delivery.
- 3.6: Information systems at provincial level and below being used effectively for program development, management and monitoring.**
The fragmentation of South Africa's existing health care system has resulted in the absence of uniform reporting on health care, and this lack of information makes it impossible to identify and overcome service delivery problems.

SO4: IMPROVED CAPACITY OF KEY GOVERNMENT AND NON-GOVERNMENT ENTITIES TO FORMULATE, EVALUATE AND IMPLEMENT ECONOMIC POLICIES TO PROMOTE ECONOMIC GROWTH AND EQUITY

Problem Analysis/Background: An improved economic policy environment is critical to achieving the economic empowerment of South Africa's historically disadvantaged population. This strategic objective addresses the issue of capacity to formulate, evaluate, and implement economic policies, but does not directly address the overall policy environment or specific policy reforms. The major challenge for South Africa is to generate increased broad-based, sustainable economic growth and improved equity for the historically disadvantaged population. The achievement of a growth promoting policy environment will require strengthened capacity within the governmental and the non-governmental sectors to engage in economic policy formulation, evaluation and implementation. Of special concern is the ability to participate, both in the sense of opportunity and technical ability, by those previously excluded from such processes. The process of effective policy change will require a major effort in applying "variable geometry" to form different coalitions to support change. Strengthened capacity of critical governmental and non-governmental organizations to engage in the economic policy process is required not only to directly support the efforts for policy change, but also to help influence different groups and to help identify and form winning coalitions for reform and change.

ECONOMIC POLICY CAPACITY - INTERMEDIATE RESULTS

- 4.1: Human resource development in economics and policy analysis for key government entities.**
A critical component of improving the GNU's capacity in economic policy is to address the human resource development needs of those government entities that are key to economic and policy analysis, including issues related to participation of the majority population.
- 4.2: Strengthened government departments that deal with economic policy matters.**
Another critical component of achieving the Mission's strategic objective in Economic Policy Capacity is to strengthen the government departments that deal with economic policy issues.
- 4.3: Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers.**
Because of the important role that civil society can play in public dialogue regarding economic policy options, capacity building for think tanks and other NGOs involved in economic policy formulation is necessary.
- 4.4: Strengthened centers of economics training (Centers of Excellence in Economics), especially within the historically disadvantaged institutions.**
South Africa lacks institutions for meeting the country's continuing human resource development requirements in economics, particularly for the disadvantaged majority population.

SO5: INCREASED ACCESS TO FINANCIAL MARKETS FOR THE HISTORICALLY DISADVANTAGED POPULATION

Problem Analysis/Background: While political participation has been greatly enhanced with the establishment of a majority government in South Africa, social and economic disparities along racial lines are still very evident. Blacks dominate the ranks of the unemployed and the informal sector, both as survivalists and microentrepreneurs. Women dominate in the survivalist category. In order to provide overall economic growth, entry of blacks into the formal sector is critical. The problem in South Africa is not lack of capital, *per se*, but facilitating access throughout the economy. SO5 focuses on improving the policy environment to facilitate access to capital for historically disadvantaged enterprises, improving the capacity of the financial sector to service the historically disadvantaged and improving the capacity of the historically disadvantaged to respond to financial market requirements. The interventions to be pursued are divided between results focused on informal and micro enterprises where our partners are NGOs and the GNU and results focused on small, medium and large enterprises where our development partners are from the private sector.

PRIVATE SECTOR DEVELOPMENT - INTERMEDIATE RESULTS

Intermediate Results Focused on Informal and Micro Enterprises

- 5.1: Improved policy environment for facilitating access to capital for historically disadvantaged informal and microenterprises.**
Because South Africa's impediment to private sector development is access to capital, and not the lack of capital, it is critical to create a policy environment that facilitates access to capital for the historically disadvantaged.
- 5.2: Improved capacity of the financial sector to service historically disadvantaged informal and microenterprises.**
South Africa's relatively sophisticated financial sector lacks experience in the methods and techniques necessary to service historically disadvantaged informal and micro enterprises.
- 5.3: Improved capacity of historically disadvantaged informal and microenterprises to respond to financial market requirements.**
Historically disadvantaged informal and micro enterprises are unfamiliar with, and, thus, unable to satisfy financial market requirements for obtaining capital.

Intermediate Results Focused on Small, Medium and Large Enterprises

- 5.4: Improved policy environment for facilitating access to capital for historically disadvantaged small, medium and large enterprises.**
Because South Africa's impediment to private sector development is access to capital, and not the lack of capital, it is critical to create a policy environment that facilitates access to capital for the historically disadvantaged.
- 5.5: Improved capacity of the financial sector to service historically disadvantaged small, medium and large enterprises.**
South Africa's relatively sophisticated financial sector lacks experience in the methods and techniques necessary to service historically disadvantaged small, medium and large enterprises.
- 5.6: Improved capacity of historically disadvantaged small, medium and large enterprises to respond to financial market requirements.**
Historically disadvantaged small, medium, and large enterprises are unfamiliar with, and, thus, unable to satisfy financial market requirements for obtaining capital.

SO6: INCREASED ECONOMIC INTEGRATION OF LOW-INCOME HOUSEHOLDS THROUGH IMPROVED ACCESS TO ENVIRONMENTALLY SUSTAINABLE SHELTER AND URBAN SERVICES.

Problem Analysis/Background: South Africa's urban landscape is currently dominated by sprawling slums and squatter settlements. They stand in vivid contrast to the communities where the privileged few reside. They serve as a constant reminder of the gap between the economically empowered and the economically deprived and underscore the need for access to shelter and basic urban services for the historically disadvantaged majority. A cornerstone of the apartheid system was legislation which specifically prohibited ownership of key economic goods (i.e., houses and businesses) and restricted access to vital services (i.e., water and electricity) by black South Africans. Today, an estimated one million historically disadvantaged households live in squatter settlements in appalling conditions. The magnitude of the shelter and urban infrastructure problem in South Africa dictates the form of USAID's strategy. Given the size of the shelter deficit versus USAID's limited available resources, in order to make an appreciable impact, USAID/South Africa must focus upon *access* to shelter as opposed to the actual *production* of shelter. Access to shelter can be improved by improved policy formulation, improving access to credit for shelter and urban services and non-credit support for the very low-income households. These are also areas where USAID/South Africa has experience. USAID/South Africa possesses an arsenal of tools that are particularly well-suited to the implementation of its chosen strategy, including: (1) grants and cooperative agreements; (2) technical assistance and training for institutions that are recipients, providers and facilitators of credit and non-credit assistance to the historically disadvantaged population; (3) bilateral agreements with national, provincial and local-level policy developing entities; and (4) loans under the Housing Guaranty (HG) program.

SHELTER AND URBAN SERVICES - INTERMEDIATE RESULTS

6.1: Improved environment for the development and implementation of a policy agenda for increasing access to shelter and urban services for the historically disadvantaged population.

The creation of a policy framework that affirmatively makes provision for access to shelter and urban services by the historically disadvantaged is the foundation on which subsequent results will be erected.

6.2: Previously-ineligible households, developers, builders, and municipal service providers obtain access to credit for shelter and urban services.

Access to credit from the private financial sector remains an impediment to those constructing shelter and providing urban services for the historically disadvantaged population.

6.3: Increased non-credit forms of assistance made available by participating institutions to historically disadvantaged South Africans for obtaining access to shelter and urban services.

For the majority of the disadvantaged population who currently have no prospect of obtaining credit from the formal financial sector, non-credit forms of assistance are the only means of increasing their access to shelter and urban services.

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PART IV: RESOURCE REQUIREMENTS

SUPPORT RESOURCES AND STAFF REQUIREMENTS

USAID/South Africa staff levels have lagged behind the increase in program resources and the Mission is critically understaffed. The Mission envisions constant total staff requirements through FY 2000 with a decline of approximately 7 percent annually thereafter. The workforce will decline significantly with the completion of SO5 in 2000, SO6 in 2001, and SO3 in 2003. SO1, SO2, and SO4 will continue until the end of the program, and although beginning in FY 96 USDH staff levels will decline, FSN staff will be critical for managing the remaining program.

FULL FUNDING OPTION

Program resources required for completion of the Mission's strategy are \$435 million over 10 years (8 years funding and 2 years close-out). This will allow the Mission to fully fund its bilateral programs (and their close-out) and to complete funding for the South Africa portion of the Southern Africa Enterprise Development Fund (SAEDF).

(\$ Millions)

SOs	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04-05*	TOTAL 96-05
SO1 (D/G)	23.7	18.6	18.0	17.0	15.6	15.0	10.9	5.0	-	123.8
SO2 (Educ)	44.0	22.0	15.7	13.0	11.6	10.0	9.6	5.5	-	131.3
SO3 (Health)	13.8	9.0	9.0	8.0	2.3	-	-	-	-	42.0
SO4 (Econ)	4.8	4.0	4.0	4.7	3.5	3.0	3.0	3.0	-	30.0
SO5 (Priv.Sec)	14.7	6.1	6.0	-	-	-	-	-	-	26.8
SO6 (Housing)	16.1	8.0	5.0	4.0	-	-	-	-	-	33.1
Self Help	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-	4.0
Program Support	2.5	1.8	1.8	1.8	1.6	1.5	1.0	1.0	1.0	14.0
Bilateral Total	120.0	70.0	60.0	49.0	35.0	30.0	25.0	15.0	1.0	405.0
SAEDF**	0	10.0	10.0	5.0	5.0	-	-	-	-	30.0
TOTAL	120.0	80.0	70.0	54.0	40.0	30.0	25.0	15.0	1.0	435.0
Housing Guar. ***	10.0									
Sm.Busn.Loan ****	3.0									

* FY 04 and 05 are estimated close-out costs

** The Southern Africa Enterprise Development Fund is a regional program. USAID/South Africa will use bilateral funds to provide South Africa specific funding

*** The Housing Guarantee Program funding for FY 96 is an estimate. Should future year funding become available it will be provided under the Enhanced Credit Program

**** \$3.0 million in guarantees leverages \$6.0 in loans to small and micro businesses.

LOW FUNDING OPTION

The low option is based on \$321 million over 8 years (6 years funding and 2 years close-out). In this option, time becomes the critical factor. A reduction in time, regardless of funding levels, limits the amount of technical assistance that can be provided, the evolution of policies, and the time to redesign systems to implement those new policies.

(\$ Millions)

SOs	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02-03*	TOTAL 96-03
SO 1 (D/G)	23.7	17.2	15.0	12.9	9.0	6.9	—	84.8
SO 2 (Education)	44.0	19.0	10.0	7.0	6.0	3.2	—	89.1
SO 3 (Health)	13.8	9.0	9.0	8.3	—	—	—	40.0
SO 4 (Economic)	4.8	3.5	5.0	4.7	3.5	3.5	—	25.0
SO 5 (Priv. Sector)	14.7	6.9	—	—	—	—	—	21.6
SO 6 (Housing)	16.1	7.0	3.9	—	—	—	—	27.0
Self Help	0.5	0.5	0.5	0.5	0.5	0.5	—	3.0
Program Support	2.5	1.8	1.6	1.6	1.0	1.0	1.0	10.5
Bilateral Program	120.0	65.0	45.0	35.0	20.0	15.0	1.0	301.0
SAEDF**	0	5.0	5.0	5.0	5.0	—	—	20.0
TOTAL	120.0	70.0	50.0	40.0	25.0	15.0	1.0	321.0
Housing Guar. ***	10.0	—	—	—	—	—	—	—
Sm.Busn.Loan ****	30	—	—	—	—	—	—	—

* FY 04 and 05 are estimated close-out costs

** The Southern Africa Enterprise Development Fund is a regional program. USAID/South Africa will use bilateral funds to provide South Africa specific funding

*** The Housing Guarantee Program funding for FY 96 is an estimate. Should future year funding become available it will be provided under the Enhanced Credit Program.

**** \$3.0 million in guarantees leverages \$8.0 in loans to small and micro businesses

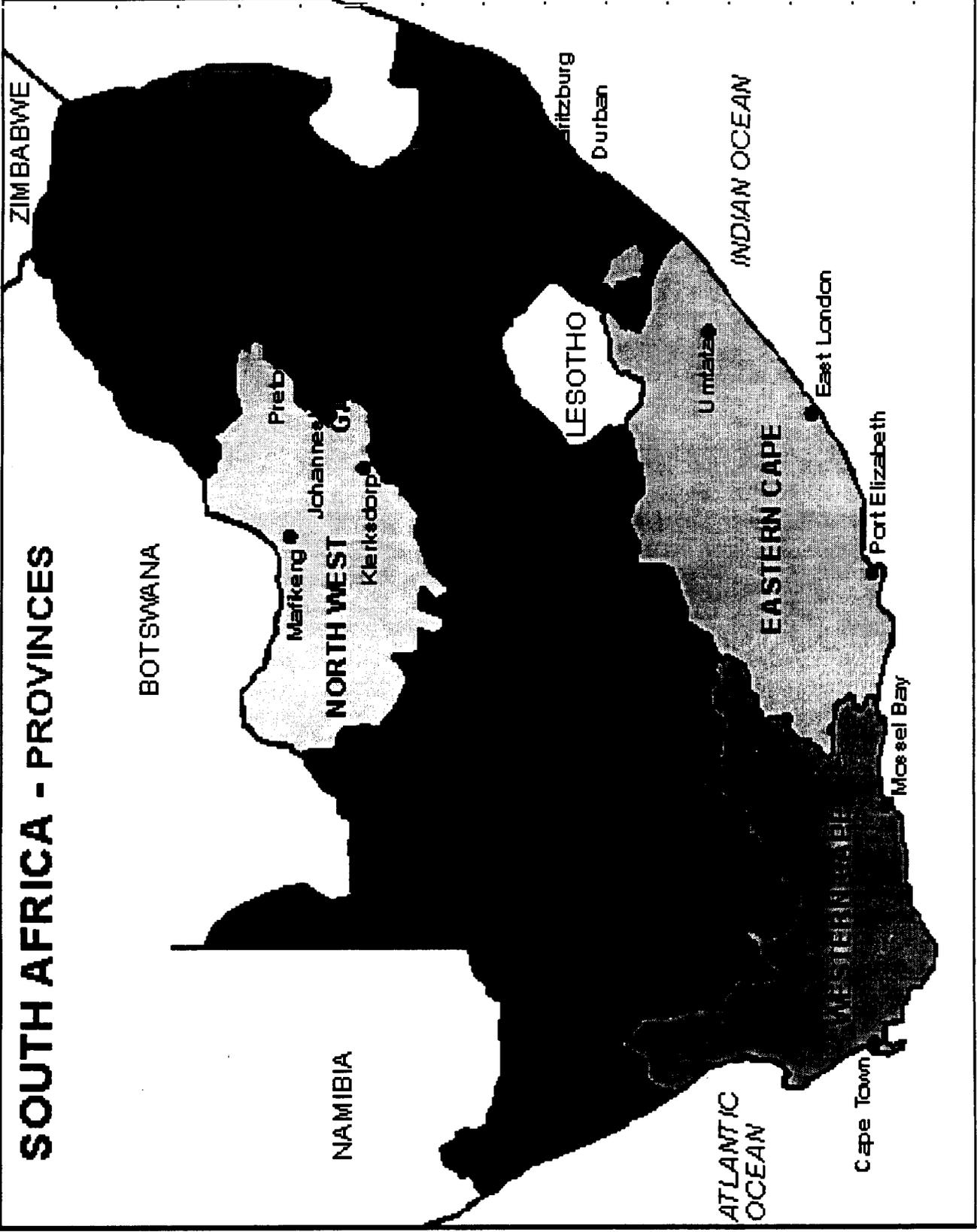
PROGRAM IMPLICATIONS OF A LOW FUNDING OPTION

The low funding option will have the following negative effects on the Mission's ability to fully achieve its goal of sustainable transformation:

- a sharp reduction in U.S. economic assistance could trigger similar reductions by other international donors;
- a sharp decline in donor resources for South Africa will slow down and put at risk the country's ability to meet the pent-up needs and expectations of the majority population;
- a significant decline in USAID and other donor assistance will lead to sharper competition between the GNU and the NGO community for donor resources and will put at risk this important element of the strategy;
- a major decrease in USAID funding will practically eliminate flexible, timely response to changing conditions; and
- across the portfolio, the low funding option, and shorter implementation period, will put at risk the Mission's ability to ensure institutionalization and wide-scale dissemination of positive results.

3/22/96

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SOUTH AFRICA - PROVINCES

INTRODUCTION

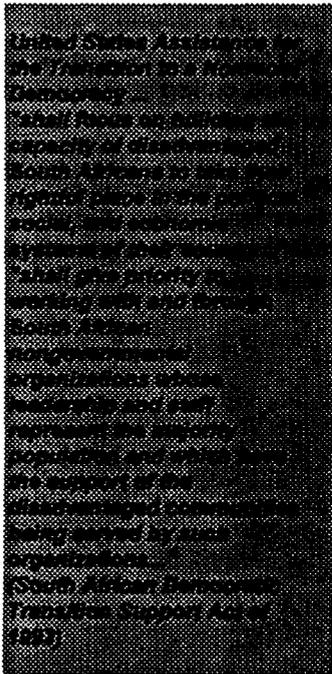
At the end of the day, the yardstick that we should all be judged by is:

are we creating the basis to better the lives of all.

Nelson Mandela (*Business Day*, 19 August 1994)

The Government of National Unity (GNU) has set a course towards reconstruction and development. The commonality between the GNU's goals and the following sustainable development objectives of the United States Agency for International Development (USAID) facilitates partnership in many areas:

- broad based participation in political and economic life;
- rising living standards, reduced poverty, and broadly available social benefits for current and future generations;
- population growth which is within the economic and ecological capacity of the country and that permits maintenance of healthy and productive populations; and
- responsible stewardship of the natural resource base.



The GNU targets call for a transformation in South Africa. A foundation for USAID assistance in South Africa was established by legislation. The *Comprehensive Anti-Apartheid Act of 1986* established a "framework to guide the efforts of the United States to bring an end to apartheid in South Africa and lead to the establishment of a nonracial, democratic form of government." The *South African Democratic Transition Support Act of 1993* underscores the sense of the Congress that the United States should "support a consolidation of democracy" and should continue "to provide assistance to support the transition to a nonracial democracy in South Africa".

U.S. foreign assistance grew from \$7 million in FY 85 to \$212 million, after the first, all-race election was held in April 1994. To support this democratic change and to help redress the social and economic legacies of apartheid, President Clinton committed \$600 million of U.S. assistance over the period FY 94-FY 96.

The goal of USAID's proposed strategy is consistent with South African efforts at transforming from a society based on apartheid to a "united, nonracial, non-sexist" state. The aspiration of South Africans is to manage social change effectively and to sustain development progress towards increased political participation, improved educational and health status, and increased economic growth and equity.

The United States is interested in helping South Africa succeed for several reasons:

- South Africa is a symbol to the world of the possibility of resolving serious racial and ethnic differences through negotiation and compromise. South Africans have shown a commitment to and skills with implementation of democratic principles. Vice President Gore emphasized this role when he said that South Africa ranks with Russia as two of the top U.S. foreign policy concerns worldwide.
- South Africa is important as a U.S. trade and investment partner. U.S. trade with South Africa is greater than with all of Eastern Europe.
- South Africa has potential for sustainable, private sector-led growth and has demonstrated a willingness to foster free markets; fiscal discipline; and provides a model of participative development of national economic policies.
- South Africa has potential to lead regional economic cooperation and political stabilization in the southern Africa region. South Africa is now a member of the Southern Africa Development Community (SADC) which has renewed its commitment to (a) deeper economic cooperation on the basis of balance, equity and mutual benefit, cross-border investment, trade and labor, and capital flows across national boundaries; and (b) common economic, political, and social values and systems, such as free enterprise, free elections, respect for the rule of law and guarantee of basic human rights.

USAID/South Africa's proposed program will be catalytic in *supporting social, economic and political empowerment* of the majority population during the next decade and will eventually support transformation to sustainable development during the next two decades. USAID/South Africa's ultimate customers are very clearly defined by our original mandate -- the historically disadvantaged majority population, mostly black Africans (including Coloreds and Asians)¹, who have suffered from decades of repressive racist policies, and who now seek their fundamental rights as citizens, economically active producers and consumers, and builders of the country's future. USAID/South Africa's strategic objectives address in varying degrees the needs of the historically disadvantaged citizens, students, primary health care users, economic policy-makers, micro-small-medium entrepreneurs, and households. (See Annex H, Customer Service Plan)

USAID/South Africa's Country Strategic Plan (CSP) is divided into four parts. Part I summarizes the analysis of the assistance environment and rationale for focusing assistance in particular areas. Part II discusses the strategy development context. Part III extracts details from the six proposed strategic objectives presented in Annex A. Part IV examines the resource implications of the strategic plan.

¹ "Black" is used in this paper to refer collectively to South African individuals of African, Colored or Asian (Indian) descent. These groups which comprise the majority population are also referred to as "historically disadvantaged" by apartheid or the underserved population.

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PART I: SUMMARY ANALYSIS OF ASSISTANCE ENVIRONMENT

I. SOUTH AFRICA'S COUNTRY PROFILE

To be an African in South Africa means that one is politicized from the moment of one's birth An African child is born in an Africans Only hospital, taken home in an Africans Only bus, lives in an Africans Only area, and attends Africans Only schools, if he attends school at all. When he grows up, he can hold Africans Only jobs, rent a house in Africans Only townships, ride Africans Only trains and be stopped at any time of the day or night and be ordered to produce a pass, without which he could be arrested and thrown in jail. His life is circumscribed by racist laws and regulations that cripple his growth, dim his potential and stunt his life.

Nelson Mandela (Long Walk to Freedom, 1994:89)

A. Legacy of Apartheid Conditions

Apartheid, which literally means "apartness," represented the codification of all the laws and regulations that politically, economically, and socially oppressed the majority population, mostly black Africans (including Coloreds and Asians). Beginning with the 1913 Land Act, apartheid consolidated and made systematic the segregation of the races. In the 1960s, apartheid took on the guise of separate development. Instead of claims about biological or genetic differences, arguments for racial separation were based on cultural or ethnic differences and the rights of different groups to maintain their identities.

In April 1994 South Africa entered a new stage of nonracial and non-sexist democracy with the election of Nelson Mandela as President. The newly-elected Government of National Unity (GNU) inherited a structure developed to promote and defend the social and economic system of apartheid. As a result, many of the inherited apartheid policies and practices, if left unchanged, will seriously jeopardize the capacity of the government to succeed in the social and economic transformation of the country. The GNU's institutions, processes and public service will need to be transformed into more coherent, representative, competent and democratic instruments for executing public policies and meeting public needs.

B. Government of National Unity's (GNU) Vision: Transformation via the Reconstruction and Development Program

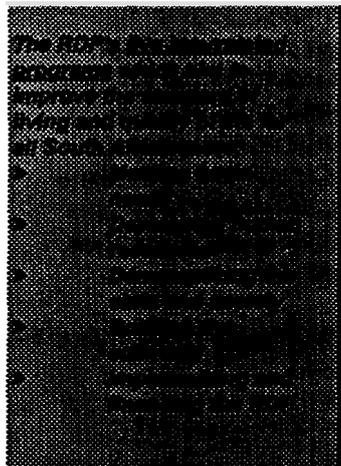
Following extensive national consultation in 1994, the GNU released a national Reconstruction and Development Program (RDP) aimed at reversing the effects of apartheid and improving the lives of South Africa's majority population. The RDP calls for cooperative efforts by GNU, civil society, business, and labor, putting a premium on community involvement and grassroots participation.

Annex B outlines key tenets of the RDP in juxtaposition to principal goals and objectives of USAID in general, and USAID/South Africa in particular.

Through the RDP, the GNU is endeavoring to transform all governmental systems simultaneously although at different speeds, and keep the governmental systems aligned with each other in a unified pursuit of all the

GNU's common goals. The transformation of South Africa's public institutions is based on a holistic framework, very similar to the reengineering of USAID.

REFRAME GOVERNMENT VISION AND DIRECTION: Through the RDP, a shared sense of motivation and commitment from the individual to entire governmental institutions is being created. This vision is shared from the grassroots level up and from the leadership level down through various communication, empowering, and participatory processes.



➤ **REENGINEER GOVERNMENT PROCESSES :** The GNU has initiated a "Performance Management Plan" that will monitor impact, program outputs, program inputs, and empowerment and participation of the poor in processes that affect them. The GNU also plans to link performance to budget allocations to government departments. There is also a shift to better information technology as a way of both providing information to the public and receiving input from the public.

➤ **RESTRUCTURE GOVERNMENT INSTITUTIONS:** The Interim Constitution abolished the fiction of independent homelands and restructured existing provinces into nine new provinces. Provincialization of sectoral departments, such as education, health and justice, has to take place alongside the creation of new unified departments at the national level. The establishment of a new

provincial department for each sector means assembling nine different "jigsaw puzzles" from the pieces of ethnic administration located in those provinces, and connecting different personnel and other vital systems to create a single, coherent, provincial department for each sector

➤ **RENEW/RETRAIN PEOPLE:** The GNU recognizes the need to create a representative public service reflecting South African demography without eroding competence. This will require that public servants be committed to the Constitution and national interests and the creation of an integrated, yet adequately decentralized public service capable of undertaking both the administrative and development tasks of government. Training will be necessary to encourage the evolution of effective accountability and transparency in public management processes, and to upgrade the standards of efficiency and effectiveness to improve the quality of service delivery.

C. National Growth and Development

In order to carry forward the RDP and to set priorities and targets linked to departmental policies and programmes, the Intergovernmental Forum, which brings together the national Cabinet and provincial Premiers, adopted a framework for a National Growth and Development Strategy (1996/97 Budget Speech, 13 March 1996). It sets broad medium and long term targets for economic growth, a more equitable income distribution, reduced unemployment, provision of household and economic infrastructure and services and improvements in literacy and life expectancy. Policies and programs of the evolving strategy are organised into six pillars:

- investing in people through education and training;
- creating employment in the context of a competitive, rapidly growing economy;
- investing in household, social and economic infrastructure;
- preventing crime;

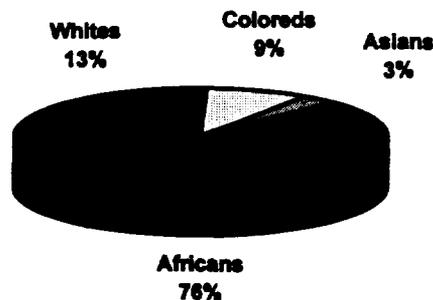
- improving social security provision to eliminate absolute poverty; and
- ensuring an efficient and effective public service.

D. Key Sustainable Transformation Challenges

1. *Demographic Trends*

As of mid-1995, the racial composition of the estimated 41 million South Africans is believed to be 76 percent Africans, 13 percent Whites, 9 percent Coloreds, and 3 percent Asians. The 1991 gender ratio is 49.4 percent male and 50.6 percent female. There are approximately 11 million South Africans in the 16-30 years age group. A nationwide census in October 1996 is expected to provide better estimates of the population and the racial and gender breakdown.

FIGURE 1: SOUTH AFRICA POPULATION FIGURES



Critical population factors are reflected in a 4.1 fertility rate (above 3.5 is considered serious by the Agency) and a population doubling time of 30 years. The country has set a goal of lower mortality rates. The South African debate on fertility rates is being related to the availability of resources, now and in the future, to meet the needs of the population for a good quality of life.

2. *Human Development Index*

The 1991 human development indices (HDI) and related indicators for the various population groups are shown in Table 1 below. The HDI is a composite of three basic components of human development: longevity (measured by life expectancy); knowledge (measured by a combination of adult literacy and mean years of schooling); and standard of living (measured by purchasing power parity or PPP). South Africa's HDI indicates its relative position on a scale of 0 (minimum) and 1 (maximum). As indicated in Table 1 below, the overall HDI for South Africa is 0.650 -- but that for Whites is 0.901, while for Africans it is 0.500. There are also significant gender differences, due almost entirely to disparities within the African community -- the HDI for African males is 0.530, while for African females it is 0.426. The poorest group of all is African rural females with an HDI of 0.356.

TABLE 1: POPULATION GROUPS AND RELATED INDICATORS (1991)

Pop. Group	Life Expectancy at birth (years)	Adult liter. rate (%)	Mean Years of school	Liter. Index	Schooling Index	Educ Attainment Index	Real GGP per capita (PPP\$) ²	Adjusted Real GGP per capita	HDI
Total	62.77	82.16	6.86	0.822	0.457	0.700	3,885	3,885	0.677
Africans	60.30	76.64	5.53	0.766	0.368	0.634	1,665	1,665	0.500
Whites	73.11	99.52	11.67	0.995	0.778	0.923	16,72	5,339	0.901
Coloreds	66.46	91.06	6.94	0.911	0.463	0.761	3,020	3,020	0.663
Asians	66.89	82.16	6.86	0.822	0.457	0.700	3,885	3,885	0.677

Source: CSS Human Development Index (HDI) for the RSA: 1980 and 1991 (1995)

3. *Economic Growth and Development*

Between 1989 and 1993 gross domestic product (GDP) shrank by some 3.5 percent. Since March 1993, real GDP has grown by an average of 2.9 percent annually. For the first time in 15 years, real per capita GNP has increased in three successive years. If the recovery continues through the 1996/97 fiscal year, this will be the longest cyclical upswing since 1945, achieved largely through strong non-gold export growth during 1995 and an acceleration in industrial investment. A GDP growth rate of 3.5 to 4 percent is expected for calendar year 1996. A successful democratic transition, coupled with rising business and consumer confidence and the opening up of international trade and financial flows, has underpinned the recovery.

In the longer term, the Government recognizes the need to improve international competitiveness, the need for continued export growth and a stronger recovery in domestic investment and savings in order to have a sustained economic expansion. The Government is considering other related policy issues, including structural changes, public investment in economic infrastructure, a review of transport policies and subsidies, state asset restructuring, exchange control liberalisation and tax reform. Alongside an improved growth rate, the Government seeks to broaden participation in the economy, improve the distribution of income through job creation and enhance people's livelihoods across a broad developmental front. The Government is also firmly committed to strengthening crime prevention and the administration of justice. These development initiatives reflect a strong redistributive dimension. However, there are compelling efficiency considerations

² Gross Geographic Product (GGP) is the total value of the goods and services produced in a geographic area during a specified period (as a year). Purchase Power Parity (PPP) is based on real GDP per capita adjusted for the local cost of living.

at stake. It is clear that without progress towards more equitable services, healthier living conditions, as well as public safety and security, investment prospects will dim and the opportunity for accelerated growth of the South African economy will remain an unopened window.

4. South Africa and Comparable Countries

South Africa has among the highest income inequality in the world. As shown in Table 2, South Africa's Gini-coefficient, which measures the degree of inequality, is much worse than most comparable countries, with the exception of Brazil. A Gini-coefficient of 0 signifies absolute equality and 1 absolute concentration.

TABLE 2: INEQUALITY – SOUTH AFRICA AND COMPARABLE COUNTRIES

	Thailand	Poland	Chile	South Africa	Brazil	Malaysia	Venezuela
GNP per capita US\$ (1992)	1,840	1,910	2,730	2,670	2,770	2,790	2,910
Gini-coefficient	0.43	0.27	0.58	0.61	0.63	0.51	0.44

Source: Key Indicators of Poverty in South Africa (1995)

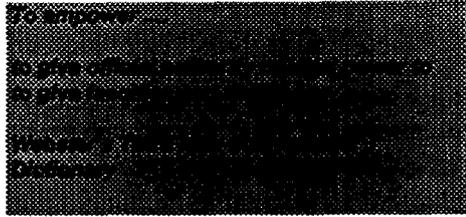
Table 3 shows social indicators in South Africa compared to countries with similar levels of income. South Africa has the worst performance on all indicators except the infant mortality rate and access to safe water (where it is second to the worst).

TABLE 3: COMPARATIVE SOCIAL INDICATORS: SELECTED COUNTRIES

	Thailand	Poland	Chile	South Africa	Brazil	Malaysia	Venezuela
Life Expectancy (years) (1992)	69	70	72	63	66	71	70
Infant Mortality Rate (1992) per 1000 live births	26	14	17	53	57	14	33
Adult Illiteracy Rate (%) (1990)	10	N/A	7	39	19	22	8
Total Fertility Rate (1992)	2.2	1.9	2.7	4.1	2.8	3.5	3.6
Access to Safe Water (%) (1990)	77	89	87	76	86	70	92

Source: Key Indicators of Poverty in South Africa (1995)

E. Empowerment Challenges



Empowerment is defining the challenges facing South Africans during the next decade: empowering people or communities to increase their power and control over their own lives to respond to opportunities and address constraints related to sustainable development. These interrelated factors include (1) democracy and governance, (2) education, (3) health, (4) economic policy capacity, (5) private sector development, and (6) urban development.

1. *Key Factors in Democracy and Governance*

The April elections signaled the start of majority rule, necessitating a transformation of policy frameworks, beginning with constitutional reform, while simultaneously restructuring government processes and reforming legislation. At the same time, the elected leaders, many of whom have never served in public office before, must show tangible benefits for the majority population while civil strife and violence continue in some parts of the country. Key democracy/governance challenges facing these leaders are highlighted below.

Reforming the Constitution

The Interim Constitution is an example of a worldwide trend towards plain language and "user friendly" legal documents. South Africa's new constitution sets new standards of interaction with the public. Not only has there been an unprecedented public participation in the content, but the Constitutional Assembly has a strong commitment to making the document as accessible as possible.

A new round of public participation began in early January 1996 when the Constitutional Assembly reconvened to continue its work. The aim is to produce a final Constitution by May 1996.

Civil Service Reform

Administrative transformation, a complex and controversial process in South Africa, is identified as one of the RDP's top five strategic priorities, along with education, health, housing and land claims. A first step in this direction was taken by the GNU through the introduction of the Public Service Act of 1994 which created the basis for integrating the fragmented system of state administrations, inherited from the apartheid era, into a unified national public service. Much more needs to be done, however, in transforming the public service into an agency capable of achieving the crucial goals set out in the RDP.

South Africa's Three-tier Government

National Level

Legislative authority rests in Parliament, consisting of the National Assembly with 400 members and the Senate with 90 members. Executive authority rests in the President as the Head of State, one or more Executive Deputy Presidents and not more than 27 Ministers, together forming the Cabinet. The GNU also has established a Public Protector, Human Rights Commission, a Commission on Gender Equality, a Commission on Restitution of Land Rights, and a Truth and Reconciliation Commission. Additional commissions addressing youth and labor mediation/arbitration issues are pending.

Provincial Level

Each of the nine, newly-demarcated provinces has its own legislature with between 30 and 100 members, a premier and a provincial executive authority. There are a number of provincial legislative powers and

functions of relevance to the Agency's strategic goals, including: education (except tertiary level), the environment, health services, housing, indigenous and customary law, local government, markets, provincial nature conservation, regional planning and development, roads, soil conservation, tourism, trade and industrial promotion, traditional authorities, and urban and rural development

Local Government

A process to democratize local government started on February 2, 1994 with the promulgation of the Local Government Transition Act. The first municipal elections were held in November 1995 which closed the first phase of local government restructuring. The next phase runs until the next election in 1999 to elect Councillors via a voters roll and ward/proportional representation. The final phase begins after the 1999 national election when local authorities will function in accordance with totally new legislation.

Administration of Justice

Judicial authority is vested in the courts established under the Constitution or an Act of Parliament. Courts are independent and subject only to the Constitution and the law, which they must apply impartially and without fear, favor, or prejudice. The institution, status, and role of traditional authorities, according to indigenous law, are recognized. A traditional authority which observes a system of indigenous law and which was recognized legislatively immediately before the Constitution took effect, may continue to function subject to any applicable legislation and customs. The courts must apply indigenous law when applicable, subject to the Constitution and any other relevant legislation.

Redefining the Role of Civil Society

There are about 50,000 civil society organizations (CSOs) in South Africa, variously referred to as non-governmental organizations (NGOs), community-based organizations (CBOs), professional associations, voluntary associations, and trusts. These organizations enrich democracy, promote accountability, and allow for activity independent of state initiatives or largesse. The GNU has consulted deeply and widely with civil society in its formulation of public policy. A major issue is how CSOs should relate to government particularly as contributors to the implementation of the RDP, and how this role should be balanced against desires for independence from government.

Participation

South Africans have made broad participation by civil society in defining development priorities and approaches a *sine qua non* for constitutional reform and for implementing the RDP. The GNU has ensured that public participation in policy formulation is a people-driven process.

2. Key Factors in Education

The quality of basic schooling, access to training and vocational education opportunities, and the breadth and excellence of the higher education system relate to productivity and technical progress, and are thus key determinants of the pace and pattern of long-term growth. The increase in education of women and girls contributes to a greater empowerment of women, to a postponement of marriage, and to a reduction in the size of families.

The Ministry of Education views education and training as interrelated elements of human resource development. This integrated approach is linked to the development of a new National Qualification Framework (NQF) which is based on a system of credits for learning outcomes achieved. A provisional structure of the NQF will have eight qualification levels: (a) Level 1: General Education Certificate; (b) Levels 2-4: Further Education Certificates; and (c) Levels 5-8: Higher Education diplomas and degrees.

Basic Education

Primary enrolment rates are not directly available due to inadequacy of census and educational information. Estimates of the base number for such rates, i.e., the size of the primary school aged population, vary from 5.4 million to 6.3 million children. These estimates reflect a significant problem of inappropriately aged primary students due to repetition and late starts; however, the available data do not allow the gross primary enrolment figures to be adjusted to an appropriate age basis. With this in mind, the estimated total enrolment rates range from 111 percent to 129 percent for primary aged children. The estimated enrolment rates for girls range from 113 percent to 133 percent. Widespread absenteeism and poor examination performance, coupled with high rates of repetition, reflect deep-seated problems of quality in the system. The mean years of schooling in 1994 is 5.53 for Africans and 11.02 for Whites. Standard 10 examination results in 1993 show that 95% of Whites pass whereas only 39% of Africans pass.

Higher Education (Tertiary)

Although the total enrolment in South African higher education (tertiary education) may be comparable to lower-middle income countries, the participation of its citizens by race and gender is inequitable. Whereas there were 30.9 White university students per 1,000 population in 1989, there were only 2.6 African university students, putting the participation rate of the African population at the level of low-income countries. By 1993, it was estimated that the participation rate of Africans had increased to 6 per 1,000.

3. *Key Factors in Health*

The health status outcomes of the inequities and ineffectiveness of the past political and health systems can be seen from a few basic health status indicators. These indicators reflect the inequities in health care that have led the GNU to designate approximately one third of its RDP health priority areas to those dealing with restructuring and shifting of resources to focus on integrated primary health care, including maternal and child health care and women's services and prevention of STDs/HIV/AIDS.

Child Survival

The infant mortality rate among African children is nearly 10 times higher than that of White children. The life expectancy of African children at birth is 10 years less than that of White children. While diarrheal disease is the major cause of death among 1-4 year old African children, it accounts for only 4% of deaths of White children in this age category. In 1990, 74,283 cases of TB were identified for ages 1-4, and of these, African and Coloured children accounted for 98 percent. As with many other countries, early weaning of babies and low birth weight are both serious child survival problems.

Reproductive Health and Family Planning

The quality and effectiveness of reproductive health services are clearly poorest for South Africa's historically disadvantaged population. At least 30 percent of women in rural areas give birth at home, and a significant proportion of these births are unassisted by trained persons. The most common causes of maternal mortality are sepsis, hemorrhage, and hypertension. In addition, two of the main contributors of morbidity and mortality among adolescents are pregnancy and sexually transmitted diseases, yet health programs specifically targeting youth are virtually non-existent. Family planning has been a sensitive and political issue in the past.

STDs/HIV/AIDS

In the past seven to nine years, the HIV epidemic has continued to progress rapidly, with a doubling rate of infection every 13-15 months. Currently, approximately 2 million South Africans are already infected with HIV, and more than 8,500 have been diagnosed with AIDS. Mathematical models predict that in the next

five years, at least 250,000 HIV-infected people will start to develop AIDS symptoms. In addition, the results of the October/November 1994 national antenatal HIV survey show that more than 7.5 percent of women attending public health antenatal clinics were infected with HIV. KwaZulu-Natal had the highest rate of 14 percent.

4. Key Factors in Economic Growth

The social history of South Africa has resulted in inequality in the majority population's access to, and participation in the definition of economic structures and policies, and in the productive process itself. Race and gender, as well as geographic location, are important variables in understanding the differential impacts.

Equity Consideration

South Africa's Gini-coefficient and HDI related indicators show equity and distributional disparities. Per capita income is R57,546 for Whites and R8,534 for Africans.

Poverty Incidence

Based on household surveys conducted in 1993, 35.2 percent of all households, or 45.7 percent of all individuals, live below the poverty line, defined as about R840 per month for an urban household of two adults and three children and R740 per month for a rural household of the same size. There is a wide variance in these figures provincially. For the two richest provinces, only 14.1 percent in Western Cape and 15.4 percent of households in Gauteng are below the poverty line. For the provinces with the greatest incidence of poverty, the rates are 61.9 percent in Northern Transvaal and 56.8 percent in Eastern Cape. Nearly all poor are Africans with a poverty share of 95 percent. *De facto* female-headed households have nearly a 70 percent poverty rate.

Resource Generation and Use

A key concern is the need to increase the savings and investment rates to the levels necessary to generate and sustain increased economic growth. A related concern is the need to improve use of labor resources.

If South Africa's economy follows a low-growth path, the implications would include continuing increases in unemployment and funding problems for the much needed social programs to redress past inherited imbalances.

5. Private Sector Development

Economic progress depends greatly on the foresight and initiatives of the private sector in response to policy and production possibilities. During the last three years, there has been a sharply increased level of foreign interest in domestic economic developments.

The First World Economy: Small-Medium-Large Industries

South Africa's "first world" economy is dominated by a small number of White or government-owned corporate conglomerates which control most of the industrial and export-oriented sectors of the country, plus a large number of small and medium sized firms which are principally owned by Whites, Coloreds and Asians. Most Africans still remain at the lower end of the spectrum with fewer than 100 African-owned medium to large businesses. However, opportunities for broader participation by Africans in big business are expanding rapidly through more diversified shareholding. The large corporations have multiple sources of capital. Many of the small and medium sized enterprises in the formal sector, however, depend upon loans from domestic financial institutions or on the shareholdings of partners and local corporate owners.

Third World Economy: Micro-Small Enterprises

The "third world" economy is comprised of microenterprises, "survivalists" and a few small companies owned by Africans. In 1993, fully 84 percent of private sector jobs -- employing 42 percent of the economically active population -- were in the small-micro-medium (SMME) sector; while 72 percent were in micro and small enterprises in both the formal and informal sectors. Although exact measurements are difficult to provide, the 800,000 SMMEs, including those in the informal sector, were estimated to contribute between 37 percent and 46 percent of South Africa's GDP that year. Of this total, the informal portion of the SMME sector, which reportedly employs 1.9 million people (1.4 million of them Africans), is estimated to contribute approximately 6-8 percent of GDP. The importance of SMMEs goes beyond these indicators. The declining ability of the formal economy to absorb new entrants into the labor force (from 80% in the mid-1960s to 8% in the early 1990s) has led to a ballooning of the microenterprise/informal sector. Most of these newly created enterprises are survivalists and opportunists, but their contribution to short-term employment and relative social cohesion is hard to dispute. They fill tiny niche markets for the provision of rudimentary transport, food and groceries, entertainment and basic repair services. Microenterprises are also the economic entry point for many women, especially those in rural areas.

Given that Africans dominate the ranks of the unemployed (87 percent of the unemployed are Africans), the high labor absorptive capacity of the small business sector, and the relatively low average capital cost per job created in this sector, it is necessary to examine the opportunities presented by the small business sector.

The small business sector is an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets both domestically and internationally, enhance productivity and technical change, and in the longer term, stimulate economic development.

Participation in Policy-Making

Economic and fiscal policies have come under rigorous scrutiny and have benefited from valuable inputs from the business sector, organised labor, other stakeholders, and the international community. This is a healthy state of affairs - a robust engagement between civil society and the Government on economic trends and fiscal policies is crucial if the gap between South Africa's promise and performance is to be narrowed. Although consensus on all details cannot be expected, the Government seeks to manage fiscal policy, tax reform and expenditure restructuring within parameters which enjoy broad support by the principal constituencies represented in the National Economic Development and Labour Council. Improved business confidence and stable industrial relations signal that a secure foundation has been achieved in this regard during 1995/96.

6. *Key Factors in Urban Development*

Urbanization is a major environmental challenge confronting South Africa. Of the nearly 65 percent of the South African population residing in urban areas, at least one-third live in informal housing and squatter areas. With an urbanization rate of 2.83% per year, it is estimated that as much as 80% of the population will live in urban areas by the year 2010. The South African "apartheid city" enforced residential segregation which resulted in spatially dispersed White towns and African townships and spawned large high density squatter populations. Shelter and urban infrastructure delivery systems subsidized White areas while penalizing black areas. Separate systems of local government with limited resources and lack of access to finance for infrastructure construction were instituted. Stringent prohibitions on economic development in the townships resulted in the lack of an economic and fiscal base.

PART II: PROPOSED STRATEGIC PLAN

I. STRATEGIC CHOICES

The strategic choices for the program were influenced by the following factors (not necessarily in order of priority):

- the Agency's strategies for sustainable development, and Agency and Africa Bureau guidance;
- sector assessments and consultations;
- experience with past program areas;
- Congressional interest areas as represented by legislative or budgetary earmarks or targets;
- the Mission's judgements concerning its ability to achieve results given likely management constraints respecting program budget, staff levels, operational budget, and program duration;
- relative focus of other international donor programs;
- opportunities for appropriate support of the RDP;
- extensive, inter-agency and Congressional consultations involved in the development of the "Clinton Pledge" for South Africa; and
- the U.S.' comparative advantage in different areas.

The Agency's review and approval of the Mission's last strategy paper, the March 1993 Concept Strategy Paper, reaffirmed a focus on political, social, economic empowerment of the disadvantaged majority population (See Annex G, Concept Paper Review and Response). Specific areas of intervention identified included three, long-standing sectors -- community development, human rights, and democracy; basic and higher education, and two additions -- private sector development (focusing heavily on microenterprise development); and shelter and urban services provision.

The (program, project and activity level) evaluations and sector assessments targeted these past focus areas as well as perspectives on the country's needs in other sectors vis-à-vis the U.S.' comparative advantage and the other factors noted above. Extensive consultations with our customers, partners and stakeholders built upon these evaluative efforts to take a longer-term view of development in South Africa.

Conclusions from these exercises were as follows:

- Continued, significant investments by USAID are warranted in the areas of democracy, human rights and, to a lesser extent, community development, and in basic and higher education. These areas speak to critical, basic, social needs of the historically disadvantaged population as the country transforms itself into a sustainable democracy governed by majority-rule. The nature, magnitude and content of USAID's experience in these areas also augurs well for a continuing, leadership role among donors in these areas.
- The Agency and Mission recognized early-on in our strategy development process that health was a similar, fundamental, social need which the Agency's experience elsewhere in Africa could and should be applied in South Africa. The substantial Agency and Bureau Congressional targets in this sector, combined with the fact that the USAID/South Africa program represents a relatively high proportion of Bureau resources, underscored the need for a strategic focus on health. The GNU enthusiastically welcomed and embraced the proposed USAID intervention in this area. A strategic choice was, thus, made with the decision that the USAID program would focus on primary health care with a specific focus on systems development.
- Housing and private sector development are included in the strategic framework because they are: (1) among the highest ranked GNU priorities, (2) critical to sustained economic growth, and (3) have potential to successfully contribute to equity considerations -- via a focus on low-income housing, employment generation, and mobilization of private capital in support of the RDP. USAID's loan guarantee programs, one of the principal tools of the housing and private sector programs, are low in cost to the U. S. Government, have high impact, and are a powerful means of leveraging local funds. Dollar-for-dollar, they are perhaps the U.S.' best aid bargain. USAID also possesses considerable expertise on policy and program implementation in these areas which it can provide through complimentary grant funds.
- Across the GNU and USAID as an agency, there is wide and growing recognition of the role that sound economic policy must play in fostering higher levels of sustainable economic growth -- a clear prerequisite for a democratic, stable South Africa. The Agency agreed during the June 1995 Concept Paper review that a USAID program which is silent on this crucial issue, particularly in South Africa where economic growth and equity issues are extremely pertinent, would represent a considerable, missed opportunity. This is true in light of (a) the U.S.' preeminence in training in this area; (b) the heavy NGO orientation of our program; and (c) related to (b), the important role of civil society in stimulating increasing community participation in economic issues. It was recognized, however, that economic policy is a very sensitive issue in South Africa, and that traditional approaches would not be appropriate. Thus a strategic choice was made to attempt to build on the U.S.' comparative advantage, mobilize increased civil society participation, and meet specific training needs identified by South Africans.

Strategic focus areas considered but not addressed include:

- (a) Agricultural, rural development and land reform. It is widely-recognized that, in South Africa, issues of agriculture and rural development are largely, but not entirely, related to the thorny, political issue of land reform. USAID is providing limited technical assistance in the area of land reform, but this is not focused on agriculture and rural development, *per se*. Rather than focus on the technical issues of increasing the participation of the majority population in agriculture, it is more relevant for USAID's support to target the development of appropriate policies on land issues, and to help ensure broad-based participation in the formation of these policies
- (b) "Green" environmental issues. Following an exhaustive examination of a possible broad-based environmental program, the Mission decided to limit interventions to urban areas and "brown" issues. The rationale for the decision included: the relatively greater magnitude of the urban-based threat to the health of the population and to the physical environment (South Africa's population is 65% urbanized with high rates of urbanization predicted for the poor), and the fact that the Mission already possesses an urban-based

program with the capacity to influence the establishment of environmentally sustainable policies, and program interventions. Limited resources also constitute part of the rationale for limiting the scope of the intervention. Annex E presents a comprehensive view of environmental issues (including institutional arrangements and organizational capabilities), and gives further evidence of the relative importance of urban environmental issues.

(c) An infrastructure development program, including energy. Most major infrastructure is largely in place. Extending this infrastructure (roads, telecommunications, electricity, water and sewage systems) to unserved and under-served rural areas is very expensive and clearly beyond the resources available to USAID. Nevertheless, we will be engaging at a policy level with national and provincial governments, to help address the municipal finance constraint related to the provision of water and sewerage services in urban areas.

II. OVERARCHING HIGHLIGHTS

Prior to presenting a summary of each of the Mission's six strategic objectives, it is helpful to understand something of the approach and context within which USAID/South Africa has developed the strategy.

A. Support to the RDP

The strategy presented herein is supportive of the GNU's Strategy for the transformation and development of South Africa. This is insured by the extensive consultation with government, public institutions (universities, research entities, etc.), NGOs, other donors and relevant elements of the private sector. The most comprehensive statement, to date, of the GNU's strategy is the Reconstruction and Development Program (RDP). The RDP originally was jointly developed by the ANC, COSATU and other CSOs prior to the April/May 1994 transition. Since that transition, the GNU has adopted the RDP as the government's vision for the development of South Africa and the extension of services to the historically disadvantaged population. Implementation of the RDP lies with the GNU's line ministries. USAID/South Africa shares the government's commitment to instill the principles and objectives of the RDP throughout the development area across South Africa. Annex B summarizes the key principles and targets of the RDP and identifies exactly how the Mission's program supports these principles and targets, and is congruent with the Agency's core objectives.

Recently, the GNU and a number of its NGO and private sector partners have been engaged in discussions regarding a strategy for economic and employment growth. The need for this strategy has arisen from the GNU's recognition that both growth and employment are critical factors in achieving the RDP's vision. This growth strategy is intended to be complementary to the RDP and not a replacement for it; both are seen by the GNU as necessary for the successful transformation and development of South Africa.

The proposed USAID/South Africa strategy supports both of these complementary strategies. Governance and empowerment (SO1), the transformation and extension of the education and health systems (SO2 and SO3), small and medium scale enterprise development (SO5) and housing (SO6) are all central elements of the RDP. Expansion of business opportunities and improvement of economic competitiveness (SO5), and efforts to identify and promote economic and employment growth (SO4) are fully supportive of the emerging growth strategy. Just as the GNU's visions are complementary and mutually supportive, USAID's strategy is supportive of both thrusts of the GNU's strategy.

B. Consultation in Strategy Development

Consistent with the Agency's reengineering principles, USAID/South Africa has, over the past year, engaged in an extensive and intensive strategy development process. First, USAID/South Africa initiated a comprehensive evaluation of its program covering the period 1986 - 1994. This was accomplished in a

consultative manner, involving pertinent customers, partners and stakeholders both in South Africa and the U.S. Second, intensive consultations with a new Government of National Unity were begun (and continue) at national and provincial, line ministry levels and at the national RDP level. Third, we have deepened and focused our dialogue with South African civil society and relevant U.S. PVOs. Last, the Mission established in March 1995, Strategic Objective Teams (SOTs) and an Overarching Strategic Team (OST), to guide the strategy development process. This had the critical effect of stimulating broader participation of staff in the process and solidifying our own collective understanding of and commitment to the final product.

As a result, the strategy presented herein is a best perspective from among the options considered for continuing and gradually phasing-out U.S. economic assistance to South Africa. Just as consultation must be an on-going process, so must the strategy continue to evolve. The strategic objectives presented below reflect differences in the Mission's experience with different sectors. They are not and should not be uniform in their depth or level of presentation, consultation, or detail.

C. Policy Dialogue

Before the 1994 national election, there was extensive dialogue with informal government structures, representing the majority population. Through these dialogues, USAID/South Africa forged important and enduring relationships with organizations and individuals, many of whom continue to play important roles both within and outside of government. This provides an important platform for the Mission to identify policy issues and to engage selectively in more formal policy dialogue with the new government.

The USAID/South Africa approach to policy dialogue will be atypical to approaches used elsewhere in other sub-Saharan USAID programs.³ Such approaches are not relevant to South Africa due to: (a) the strongly independent-thinking quality of government officials; (b) the sheer size of the South African economy in proportion to the resources of any one donor or even all donors combined; (c) the general availability of many highly-qualified and experienced South Africans to fill full-time, government positions and to serve as *ad hoc* consultants to government; and (d) the absence of traditional World Bank and IMF programs in South Africa.

There is yet no clear notion as to what policy dialogue approaches will work in South Africa. USAID/South Africa will pursue the following approaches:

- First, USAID/South Africa will continue to foster good relationships with key officials in national and provincial government positions, many of whom we have worked with in the past.
- Second, the Mission will continue cooperative efforts with civil society and government to identify past programs which have the greatest potential to contribute substantively to major problems.
- Third, as reflected in the detailed SO presentations, the Mission will respond positively and selectively to a limited number of requests for U.S. consultant expertise in those sectors where the U.S. has clearly-recognized comparative advantage.
- Finally, USAID/South Africa will continue, on a highly-selective basis, to support pilot exercises, at the community, province, and national levels, and will carefully monitor these exercises. From this, South African policy-makers will be able to draw their own conclusions about the implications that these activities have for policy.

³ Typical approaches to policy dialogue include Non-Project Assistance (NPA) and Commodity Import Programs (CIPs) to leverage policy changes from an often reluctant government; heavy doses of U.S. technical assistance, often functioning in line-positions within government ministries which are cash-strapped to fill key positions; and participation in consortia, multi-donor initiatives, often spear-headed by the World Bank or the IMF, to extract, long-overdue, policy changes from uninitiated governments. Such approaches are completely irrelevant to and inappropriate in South Africa.

D. Synergy Among Strategic Objectives

The Mission has carefully examined and will seek to achieve important synergies among our 6 SOs. Details of this are found in the SO presentations in Part III and Annex A.

E. Donor Coordination

Over the past 18 months, USAID/South Africa has continued to play a leadership role in donor coordination. First, the extensive strategy consultation process catalyzed the substantial involvement of the donor community at various levels. Additionally, numerous donors have commented positively on the transparency of this process. Finally, given the large size and breadth of our program, issues consultatively raised and examined by USAID/South Africa during this process effectively triggered other donors to reassess elements of their own strategies in the context of their own dialogues with the GNU and civil society. Thus, as is evidenced in the SO presentations below, the past 12 months have truly been a period of extensive soul-searching and consultation as government, civil society and international donors have grappled with substantive matters of future direction. SO presentations indicate relative sectors of focus for the international donor community programs and demonstrate linkages or synergies between these programs and that of USAID/South Africa.

Concurrently, the GNU has continued to evolve its donor coordination strategy. This strategy comprises: (a) periodic plenary sessions with representatives of the donor community, (b) sector working groups composed of donors and GNU representatives, (c) annual consultations with each donor agency, and (d) the recently announced South African International Donors Forum (SAIDF). The latter will serve as the equivalent of a donor consultative group (CG) and will be directed by the GNU rather than the World Bank or UNDP. USAID/South Africa has used these various fora plus more informal, ad hoc sessions to ensure that the strategy reflects appropriate coordination with programs of other donors.

F. Geographic Focus

USAID has completed its extensive, consultative strategy development process and is well into a major reengineering exercise. These have afforded the opportunity to rethink substantially the geographic and sectoral focus of the program. The results of this exercise are articulated in-depth in the presentations of our six strategic objectives (Part III, below, and Annex A) and are summarized in Table 4. As is demonstrated in the more detailed SO presentations, all SOs have elements of their programs targeting national issues. Additionally, the selection of focus provinces for SOs is targeted to facilitate synergy among USAID's SOs, dovetail with complementary programs by other key donors, and undergird the objectives of the RDP in a manner that is sensitive to varying needs and resource levels across South Africa's nine provinces.

TABLE 4: FOCUS PROVINCES

Strategic Objective	Relative Geographic Focus Provinces
SO 1: Democracy/Governance	<i>National, KwaZulu-Natal, Northern Cape, Free State, Northern Province, Eastern Cape</i>
SO 2: Education	<i>National, Northern Province, KwaZulu-Natal, and Northern Cape</i>
SO 3: Primary Health Care	<i>National, Eastern Cape</i>
SO 4: Economic Policy Capacity	<i>National</i>
SO 5: Private Sector Development	<i>National</i>
SO 6: Shelter and Urban Services	<i>National, Eastern Cape, KwaZulu-Natal, Mpumalanga</i>

Italics indicate focus by two or more SOs.

G. Southern Africa Regionalization

A democratic South Africa has tremendous potential, across numerous sectors, to contribute to regional development in southern Africa. USAID/South Africa is aware that our contributions to South Africa's development could potentially have considerable impact beyond the country's borders. The Bureau's Initiative for Southern Africa (ISA) will seek to capitalize upon the advent of a democratic South Africa to the region, while being aware of the sensitivities within the region of a dominant role by South Africa. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) has recognized the potential contribution of South Africa to the region in calling for a special, southern Africa, donor coordination effort among key international donors. The DAC recognizes a special role for South Africa's civil society in addressing regional problems.

The Mission will soon consult with our partners both within and outside of South Africa, to identify ways in which the program can help South Africa realize its potential for contributing to regional development. We will continue to increase our understanding of the Initiative for Southern Africa (ISA) program to identify opportunities for collaboration beyond the Southern Africa Enterprise Development Fund (SAEDF). Potential areas of further collaboration include democracy/governance, HIV/AIDS prevention, and regional economic policy. Similarly, we will continue cooperation with Global Bureau initiatives within the context of the strategic objectives and staffing constraints (See Annex J, Other Agency Programs Active in South Africa).

H. Role of NGOs

Extensive participation of South African NGOs and U.S. PVOs has been and will remain a hallmark of our program. This has been confirmed and embraced across South African civil society and with the GNU. It is particularly relevant to note that GNU policy on donor assistance to NGOs has evolved considerably -- from its initial, strong effort to solicit direct, large donor contributions to the RDP Fund, at the expense of donor funding to the NGO community, to its current pro-NGO stance.

In addition to continuing direct support to NGO programs, USAID/South Africa negotiated a series of bilateral Project Agreements which are structured to: (a) address the insufficient delivery-capacity of many government departments (both national and provincial); and (b) apply lessons learned from successful relationships with NGOs. These bilateral Project Agreements obligate funds to government, establish joint or tripartite mechanisms for activity-level programming, set clear targets for allocating resources to NGOs and private sector agents, and help build capacity within government.

I. Mission Reengineering

This CSP reflects a Mission newly energized by reengineering. In just the last seven months, partly in response to the successful visit of Jerry Wolgin, Tony Pryor and Kathy Keel, the Mission has made significant progress in re-examining all of its operations and structures in order to operationalize the four core values of reengineering: empowerment; teamwork; customer focus; and results orientation. In undertaking this re-examination, the Mission has sought and achieved active participation by a broad cross section of employees. This has brought not just new blood, but new ideas into the Mission's reengineering efforts.

Of equal importance, as part of the Mission's significant rethinking of its portfolio through the strategic planning process, the Mission has begun its most extensive and structured consultations with customers and partners ever. In many respects, the Mission's cutting-edge approach in working directly with local NGOs enabled the Mission to make a smooth transition to a more customer-focused system. Moreover, the Mission's pre-existing relationships with its customers and partners facilitated the formalized process of consultations on the proposed strategy. These consultations have served to ground-truth the strategy by ensuring its relevance to the South African context, and helped to confirm the validity of its development hypotheses. Below is a more detailed accounting of the efforts the Mission has undertaken to facilitate aggressive reengineering since July 1996.

Organizational Restructuring

To facilitate teamwork, the Mission will, subject to USAID/W concurrence, formally restructure to abolish the old technical office/division structure and operate under Strategic Objective Teams (SOTs). Under the new management structure, the Executive Office, Controller's Office, RCO, RLA, and Program and Project Development Office will continue to provide support across the Mission. An Overarching Strategic Team (OST) has been established to work closely with the Mission Director in reviewing and approving cross-cutting issues such as the CSP, R4 and USAID/South Africa Customer Service Plan. The OST will ensure broad participation and input with respect to important matters, programmatic or administrative, that have Mission-wide implications. The OST includes personnel from each of the Strategic Objective Teams as well as front office and other senior staff, with a focus on Mission-wide participation.

Reengineering Task Force

An important catalyst in driving reengineering was the formulation of the Mission's Reengineering Task Force (RTF). The RTF is made up of fourteen Mission employees (FSNs, PSCs, USDH) drawn from every primary management group. This committee has spearheaded the Mission's efforts to promote the new organizational thinking of empowerment, teamwork, results orientation and customer focus. As a result of the RTF's input, SOTs have been revitalized and are being expanded to include representation of our partners, stakeholders and customers; and real communication in a variety of directions is going on perhaps for the first time. In fact, different SOTs are conducting joint meetings to examine and develop linkages across strategic objectives in order to achieve synergies and maximize development impact.

Operational Guidance

The Mission, through the RTF, has finalized two Mission orders: one on delegations of authority which empowers the SO teams by delegating all programmatic authorities to SO team leaders; the second establishes a comprehensive set of reengineering operations procedures based on teams and the principles of teamwork. In order to ensure that programmatic authorities are delegated to the lowest responsible programmatic level within the chain of command, the delegation of authority sets the parameters for redelegations from the SO Team leaders to Results Package Team leaders and other SO Team members. To enable a full transition to a reengineered Mission, the second Mission order sets forth the ADS requirements (tailored to USAID/South Africa) for: (1) the composition of the core and expanded SO teams; (2) the design, implementation and performance monitoring of results packages and activities; and (3) the realignment of the Mission's existing portfolio to achieve the results articulated in the CSP.

Program Alignment with CSP/Results Framework

In light of the \$478 million in funds obligated by USAID/South Africa during FY 1993-1995 (mostly in the form of grants to South African NGOs), and the fact that a large portion of these funds have not yet been disbursed, the Mission recognizes the need to align its existing portfolio to the proposed CSP and Results Framework in order to have the greatest impact on achieving its strategic objectives. All of the Mission's SO Teams have begun to examine their portfolios to determine whether activities are consistent with the proposed strategy, and to set forth options to amend those activities that are not consistent, or phase them out as soon as possible. CSP consultations have assisted in this alignment process by developing an understanding, shared by partners and customers, of the importance of focusing existing and future activities on achieving Strategic Objectives (SOs) and Intermediate Results (IRs).

With respect to future activities, in order to ensure that these activities contribute directly to achieving expected results, the Mission will compete more grant awards through an organized solicitation process, and will utilize umbrella mechanisms for the award of grants. This approach has two significant programmatic benefits. First, it will allow for a more rigorous analysis of activities in order to ensure that groups of activities and interventions are selected which contribute in a measurable way to achieving a particular SO and/or IR. This broader type of analysis of groups of activities was not possible under the Mission's former, piecemeal approach of awarding grants in response to unsolicited proposals. Second, by allowing for the use

of more umbrella mechanisms, it will enhance the Mission's ability to manage the large portfolio of activities effectively with limited staff resources.

Lessons Learned

USAID/South Africa has learned two important, related lessons through its reengineering efforts to date. First, it is critical to engage a broad, cross section of FSN and American employees at the beginning in a participatory process in order to engender common ownership and to operationalize teamwork. Second, talking about reengineering, particularly in theoretical terms, is not helpful; in fact it mostly either confuses people or turns them off. In USAID/South Africa, the excitement came from ownership, which resulted from employees actually engaging in the process. In other words, the Mission found that you have to get in there and "JUST DO IT," make some mistakes, and move on (See Annex K, Reengineering).

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PART III. PROGRAM STRATEGIC OBJECTIVES

I. OVERVIEW: RESULTS FRAMEWORK

A. Goal: Support for Sustainable Transformation

USAID/South Africa believes that the overall goal of the program over the next ten years should be support for **sustainable transformation**. Sustainable transformation goes deeper than short-term transition, but not as far as long-term as sustainable development. Sustainable transformation means:

South Africa is at the point where democracy is sufficiently consolidated; basic systems and policies for social service delivery in education and health are moving from being fragmented to being unified; and institutions are establishing mechanisms so that the historically disadvantaged and previously disempowered women and men participate in, contribute to, and benefit from the development of South Africa.

A vital principle of transformation is increasing empowerment of the historically disadvantaged majority population. Apartheid was a top-down system in which most aspects of life of the majority population were decided by the minority government. The GNU does not just want to change the faces of government leaders making decisions for the people, but rather, to include the people in decision-making so they can ensure government programs are responsive to their needs, hold the GNU accountable for performance, and add their own energies and involvement.

The proposed strategy covers the period from now until the Mission's planned exit from South Africa in 2003 to 2005. Thus it is a "graduation" or "completion" strategy. Its goal is support for sustainable transformation in South Africa. This support is intended to go further than short-term transition support but not as far as long-term sustainable development support. The latter is not targeted because South Africa has substantial resources to address its problems over the long term. Short-term transition support is not seen as sufficient because of the major problems South Africa faces in uplifting the majority population that suffered under apartheid. The strategy is presented in the context of two resource scenarios: a high option of \$435 million over eight years (ten years of programs) and a low option of \$321 million over six years (eight years of programs).

No clear-cut standard can be applied to assess when sustainable transformation has been achieved. However, the general notion is that political, social, and economic change will have been carried far enough that definitive new directions have been set, strong momentum for continuing change has been established, and South Africans themselves maintain this momentum without donor assistance. Thus support for sustainable transformation does not guarantee long-term development outcomes, but rather lays the foundation for their achievement by South Africans.

B. Sub-Goal: Empowerment

The strategy sub-goal, thus, is **political, social, and economic empowerment**. The Mission will continue to ensure that the program strengthens the capacity of the historically disadvantaged population to take the next steps in their own and their community's development. That is, in all our efforts we seek to empower the

historically disadvantaged to sustain the transformation and development processes. We will ensure, through our own assistance and with our development partners, that the HDP have the tools to take control of their lives and to take advantage of increased opportunities, options, and access to resources to make informed decisions affecting their lives and their families.

C. Evolution of Strategy

Formulation of an exit strategy roughly two years after South Africa's historic 1994 national election is appropriate. Prior to the election, USAID/South Africa's goal was political, social, and economic empowerment of the disadvantaged population, with the explicit objective of supporting political change. With the advent of democratic rule, the critical goal of formal political enfranchisement was achieved. However, daunting legacies of social and economic disempowerment remain, and even the political sphere needs further transformation and consolidation.

USAID/South Africa's assistance over the last two years addressed critical post-transition needs in political, social, and economic areas. It has supported the new Government's early efforts to expand and consolidate democracy; transform the civil service; establish new policies and systems in education, health, housing, and private sector development; and to deliver tangible gains to the majority population under the Reconstruction and Development Program (RDP). Whereas previous assistance had been exclusively through South African and American NGOs and PVOs, USAID/South Africa used the flexibility of President Clinton's post-elections pledge of increased assistance to South Africa to continue its support to NGOs and PVOs, while initiating a series of bilateral assistance agreements with the Government of National Unity (GNU). Most of these agreements support GNU/NGO cooperation to achieve reconstruction and development objectives. USAID/South Africa's decision to continue major assistance to NGOs distinguishes its post-elections programs from those of many other donors, who have switched more categorically to direct funding of Government programs.

Now that South Africa's transition is through the first phase, it is appropriate to look at the longer-term problems facing South Africa and to set explicit objectives for U.S. assistance in a limited number of areas that are critical for the goal of sustainable transformation. The Mission has done this through an intensive process of consultation with South African and American development partners that has lasted more than a year. The exact form of that consultation has varied by area (now called Strategic Objective), but the common theme was shared discussion and debate about what South Africa's key development needs are, what USAID/South Africa's comparative advantages are, and what USAID/South Africa can realistically hope to contribute.

What USAID/SA can contribute is obviously influenced by the Mission's past assistance relationships in the country. Thus it is not surprising that the Mission's proposed strategy builds on our experience in the three areas of political, social, and economic empowerment that were highlighted in the Mission's 1993 Concept Strategy Paper. However, the content of the new Strategic Objectives has evolved considerably from the concepts of three years ago.

D. Proposed Strategy

Broadly speaking, USAID/South Africa's proposed strategy has three main thrusts. The first is in democracy and governance through SO1. It involves support for key post-elections needs in democratic consolidation, building governance capacity, and developing innovative models of government/civil society/private sector cooperation for RDP delivery.

The second thrust is support to the RDP in key social sectors. This will be done through SOs 2 (education), 3 (health), and 6 (housing). USAID contributions under these SOs will concentrate on policy and the development of effective delivery systems. These efforts build on past USAID/SA programs in these areas, particularly established USAID/South Africa relations with key NGOs with which new Government officials are comfortable working due to long-standing shared objectives.

The third thrust is support for economic growth and economic empowerment of the disadvantaged population. The GNU plans to announce soon a Growth and Development Strategy (complementing the RDP) that focuses on encouraging growth, trade, and investment. USAID/South Africa plans to support this strategy through SO4 (economic policy, which will help build capacity for economic policymaking) and SO5 (private sector, which will help the disadvantaged population participate in private enterprise). SO6 (housing) will also contribute to economic empowerment of the disadvantaged population.

These six SOs vary in the types of results they aim for, how they redirect past programs, proposed funding levels, and how long they require to accomplish their results. This reflects the different needs and opportunities in the political, social, and economic spheres:

In the *political sphere*, SO1 targets "democracy, governance and capacity for participatory development strengthened." SO1 discontinues past efforts to support community and leadership development and civil society for their own sakes, and switches to helping government, civil society organizations (CSOs), and the private sector cooperate in development. It continues support to the government in improving public management, but focuses on sustainable "leave behinds" in schools of government which can help train new officials. These two elements continue to the end of the proposed program. The third component--achieving democratic consolidation in human rights, conflict resolution, and public participation in policy development--is to be completed by 1999. The proposed budget for SO1 under the high budget option is \$123.8 million.

In the *social sphere*, SO2 targets "improved policies, sub-systems, and capacities for a transformed education system;" SO3 targets "a more equitable, unified, and sustainable system delivering integrated primary health care services to all South Africans;" and SO6 targets "improved access to environmentally-sustainable shelter and urban services for the historically disadvantaged population." SO2 does not continue past heavy investments in scholarship programs (a mainstay of the USAID program since 1986). Rather it builds on long-standing investments in development of new education approaches and models by NGOs to support the development of new policies and systems in basic education, further education, and tertiary education. These will be achieved through close cooperation between NGOs and Government at the national and provincial levels and through direct assistance to historically disadvantaged tertiary education institutions. The proposed SO2 budget is \$131.3 million under the high option to support investments that will continue to the end of the program because of the magnitude of the problems being addressed. SO3 is a new program (one year old) that supports the development of an integrated primary health care system in the Eastern Cape and its replication in other provinces. Planned in close coordination with the Ministry of Health, it has a budget of \$42 million under the high option and will achieve its results by 2002. SO6 targets sustainable gains in housing and urban services finance leading to improved shelter conditions for the majority population. It will complete its programming of current Housing Investment Guarantees in FY96 and achieve its results by 2001. Its proposed budget under the high option is \$33.1 million with the possibility of an additional \$40 million in Housing Guarantee funds.

In the *economic sphere*, SO4 targets "improved capacity of key GNU/CSO entities to formulate, evaluate, and implement economic policies to promote economic growth and equity;" and SO5 targets "increased access to financial markets for the historically disadvantaged population." SO4 combines immediate assistance to Government and CSO bodies involved in policy development with longer-term efforts to expand economic policy capacity among the disadvantaged population through degree training. Reflecting the long-term nature of the economic policy development task, SO4 continues until the end of the Mission's program. Its proposed budget under the high option is \$30 million. SO5 builds on past USAID/South Africa efforts to strengthen microenterprises through support to NGOs and adds new elements focused on the development of majority-owned small and medium enterprises through better access to finance and linkages to the broader economy. As a mature and focused program, this SO's results will be achieved by 2000. Its proposed budget under the high option is \$26.8 million. SO6 (housing) will contribute to economic empowerment of the disadvantaged population through improved access to shelter-related finance for disadvantaged households, developers/builders and service providers and through the generation of employment linked to housing construction.

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USAID/South Africa's efforts towards achieving racial equality are planned to ensure gender balance as well. The Mission's Gender Policy is consistent with the RDP's objective of "ensuring a full and equal role for women in every aspect of our economy and society." Our strategic objectives will increase opportunities for women and men to participate in, contribute to, and benefit from the development of their country.

As the above descriptions show, there is a general shift in the strategy's emphases over the 10-year life of the program. From now until 2000 - 2003, the strategy involves: (1) sectoral contributions in democratic consolidation, health, housing, and private sector development; (2) sectoral assistance in education; and (3) general structural contributions in governance and economic policy. After 2000, the first category ends, and the program concentrates on the second two categories. This reflects a USAID/South Africa strategy of providing assistance in a range of sectoral and structural areas in the critical first six years of the new political order in order to help the new Government show tangible progress on RDP goals, and then concentrating in the later years of lower funding on selected areas that will improve the environment for long-term growth and development (governance, economic policy, and education).

South Africa's development is being watched by the world as a test of the ability of a democratic government to maintain stability in an historically divided society and to address daunting economic and social needs in a highly unequal society. In this context, USAID/South Africa believes that a major investment in supporting South Africa's post-elections transformation is merited. A long-term assistance program focused on delivery of services cannot be justified for South Africa because of the country's comparative wealth, especially in an era of declining U.S. development assistance budgets. However, South Africa needs more than immediate transition support, particularly in terms of the development of policies, systems, and capacity. The proposed strategy is a focused, coherent, and time-limited plan for assisting critical post-transition changes in South Africa and represents a conscious attempt to develop a completion or exit strategy.

Our six strategic objectives have these common approaches:

- Expanding roles for Civil Society Organizations (CSOs)
- Building new bilateral relationships with government (national and provincial) and responding to national and provincial needs and priorities for transformation
- Engendering sustainable CSO and GNU partnerships
- Concerted policy dialogue
- Leveraging of funds for maximum impact
- Developing, testing and assessing effective replicable models.

These common approaches will lead to short to medium-term results, such as, more consolidated democracy, a transformed education system, a unified primary health care system, improved economic capacity, increased access to financial markets, and improved access to shelter and urban services. These results will contribute to improved political rights and civil liberties, improved educational and health status, and improved economic growth and equity, which in turn, will lead to improved quality of life for the majority population.

**STRATEGIC OBJECTIVE 1:
DEMOCRACY, GOVERNANCE, AND CAPACITY FOR
PARTICIPATORY DEVELOPMENT STRENGTHENED****I. INTRODUCTION****A. Background**

South Africa's transformation is, in the first instance, political. Beginning with a fundamental change in the rules of the game and the distribution of power, it can best be understood as an effort to make real, tangible, and permanent the principles and promise contained in that initial wave of change. For this reason, the Mission's first strategic objective is **democracy, governance, and capacity for participatory development strengthened**.

Democratic governance is pursued not only as an end in itself but because it provides the enabling environment to achieve USAID/South Africa's other strategic objectives in the country. Progress in the political arena must continue in order to provide the stability and overall framework for the sustainable transformation of all sectors within South Africa. At the same time, socioeconomic and other challenges will impact the democratization process within South Africa.

B. Consultation

The development of USAID/South Africa's strategy under SO1 has been significantly influenced by an intensive process of consultation with partners and customers that began in a formalized manner in October 1995. USAID/South Africa has always had good communication with South Africans through its extensive network of NGO grantees. However, in light of the significant rethinking of USAID/South Africa's portfolio through the strategic planning process, and the need to ensure the new strategy's relevance to South Africa's needs and confirm the validity of its development hypotheses, USAID/South Africa mounted a formal effort to involve South Africans from government and civil society and U.S. partners in the development of the Mission's strategy in this area. This process has involved ten major meetings with South African and U.S. partners, visits to six provinces by local consultants, formation of a Reference Group of South African NGO representatives which has produced specific suggestions for SO1 strategy, and written suggestions for SO1 strategy from selected U.S. partners. These consultations were supplemented by discussions with other official donors, with the U.S. country team, including the Ambassador, and with individuals in AID/W.

C. Fundamental Reassessment

The Mission's strategy development in the political field has involved more of a zero-based review than most other areas of the Mission's program. The Mission's previous political development portfolio was more heavily shaped by the "foundation" mode of programming than most other sectors of the Mission's program. In the past, the majority of political development activities were awarded in response to unsolicited proposals from South African and American organizations, resulting in a diverse portfolio. The emphasis was on responsiveness to evolving needs as identified by local players, and Mission political development priorities were broadly defined and short-term in nature. This was an appropriate approach for a period when political conditions were changing rapidly.

Under the proposed strategy, the Mission's program under SO1 will look quite different in FY97 from corresponding activities in FY95. (FY96 will be a transition year.) A large number of previous program areas will have ended (e.g, traditional community and leadership development); some will continue but with tighter targeting and more focus on long-term goals (e.g, human rights, conflict resolution, and governance); and some major new areas will be added (e.g., support for models of effective government/civil society

cooperation for development). All the new priorities will be implemented with a focus on achieving specified results, with more use of Requests for Applications and Requests for Proposal (RFAs/RFPs) to direct activities, and with more use of umbrella mechanisms (one organization managing a number of sub-activities for the Mission) and other methods to enhance the Mission's ability to manage the portfolio effectively with limited staff resources.

II. DEVELOPMENT OF SO1 STRATEGY

A. South African Context

Annex A.1 presents an analysis of the South African context in democratic consolidation, governance, and participatory development. Some salient points:

- **Democratic consolidation** is going surprisingly well, especially in the areas of reconciliation, democratic norms, openness of government, and strength of civil society. Two challenges are: increasing democratic participation at grassroots level and resolving tensions and political differences in KwaZulu-Natal.
- **Governance** is a difficult area. The GNU faces daunting problems of redirecting government policies and budgets to support the RDP, restructuring government to eliminate the legacies of apartheid, and changing the culture of the public service. All of these are moving slowly. The GNU lacks adequate numbers of trained policymakers and managers.
- South Africa has great potential for **participatory development**, in part because of its strong NGOs and CSOs. The GNU is dedicated to involving the people in development. However, new models will have to be developed for government, civil society, and private sector cooperation.

B. Strategic Choices

Past USAID/South Africa investments in human rights, community and leadership development, and conflict resolution helped build a strong base of CSOs that are now playing important roles in civic and civil society. In the lead-up and follow-on to the 1994 national election, a new range of democracy support activities were added, often with the help of U.S. PVOs, which provided elections support, voter education, party support, and democratic education. After the 1994 election, other activities were added to train new government officials and develop governance capacity. Thus the Mission is already involved in all three fields of democracy, governance, and participatory development. The question is how these fields should be balanced in the new strategy.

C. Democracy, Governance, and Partnerships for Development

As noted in Part I, support for the democratic transition is a cornerstone of the proposed USAID/South Africa strategy. This will be provided through general support for the new government's efforts to deliver tangible development benefits to the majority population (which most observers believe is critical for the long-term sustainability of democracy, and which is supported by all six SOs), and through direct programmatic support for democratic consolidation in SO1. The Mission believes that a major investment in democratic consolidation is merited under SO1 because of its importance to the broader transition. For reasons presented below, the Mission proposes to focus this assistance on three areas: human rights, conflict resolution, and participatory policy development.

Based on the consultation process and its own assessments, the Mission believes that South Africa also has critical needs in areas beyond democratic consolidation. In our terminology, we have grouped these under the headings of governance and partnerships for development. Governance refers to civil service and public management reform, including changing the culture of the public service. Partnerships for development

refers to government/civil society/private sector cooperation for more effective and participatory development.

Improving governance and public management are critical to overall economic development and effective RDP delivery, which in turn will help make democracy sustainable. (One of the main threats to future stability in South Africa could be a perception that the new democratic government is not able to deliver on development.) They are also central concerns of the GNU. Agency democracy strategy does not encourage Missions to provide major support to governance and civil service development, in part because these issues are normally dealt with by the World Bank and the IMF as part of structural adjustment programs. But in South Africa the Bank and Fund are not active in these areas. Moreover, in South Africa the civil service issues are not mainly how to cut the public sector wage bill, but how to transform the public service so that it can serve the new needs of the country for participatory development targeting the majority population.

Partnerships for development is a key theme of the RDP supported by most of the Mission's SOs. While many SOs foster government/CSO/private sector cooperation in technical areas, there are some systemic process changes that SO1 is uniquely able to address. These involve innovative models of government/CSO/private sector partnerships and community participation that can be applied across sectors. SO1 support for such partnerships is consistent with the systems and model focus of the Mission's overall strategy. Systems and models are needed not only within technical areas, but also at the level of general approaches to implementing the RDP. The government has said it wants creative partnerships with civil society and the private sector, in part because it recognizes that it does not have sufficient resources, or in many cases the appropriate skills, to accomplish the RDP's goals by itself. SO1 contributions to partnership models will help the government achieve this goal.

The Mission also believes that support for government/CSO/private sector cooperation South Africa will have broader payoffs. As noted above, South Africa has unique capacity for making participatory development work because of its strong civil society base and willing government. If South Africa can demonstrate special accomplishment in terms of effective delivery and effective popular participation, it can serve as a model of successful participatory development for other countries in Africa and elsewhere.

Finally, there are important linkages and synergies among democratic consolidation, governance, and partnerships for development. For example: helping CSOs find sustainable roles in RDP delivery through partnerships with government and the private sector will help strengthen democratic pluralism; supporting popular participation in RDP delivery will build accountable governance; and a principal goal of governance reform in South Africa is changing the norms and culture of the public service to be more consistent with participatory development.

D. Balance Among the Three Areas

For the above reasons, the proposed strategy targets significant results in all three areas of democratic consolidation, governance, and partnerships for development under the high option. Democratic consolidation results are front-loaded--i.e., most of them are to be completed by the time of the 1999 general election. These results are protected from significant cuts under the low budget option, reflecting the importance of democratic consolidation as a basic fundamental of South Africa's development. In addition, this is consistent with legislative guidance. The 1993 legislation directs USAID to "support activities to promote human rights, democratization, and a civil society" in South Africa. Governance support is spread out over the duration of the Mission's program under the high option, reflecting the long-term nature of the problem. Under the low option, governance takes a major share of the necessary cutbacks in results--not because governance is seen as less important, but because it is a high-cost area in which a number of other donors are, and will remain, active. Partnerships for development is also spread out over the duration of the Mission's program under both the high and low options, reflecting the long-term nature of the task. However, it also takes a major share of the results cutbacks necessary under the low option, with a scaling back of the depth and expanse of efforts proposed. Thus, most of the cuts under the low option are taken in governance (heavy cuts) and partnerships for development (moderate cuts).

Some would disagree with these decisions--arguing that South Africa is doing quite well on democratic consolidation on its own and needs less assistance in this area than in the problem areas of governance and making participatory development work. In particular, some might argue that governance should be protected as a major result area under the low option because it is so important for sustainable development and effective RDP delivery, which are South Africa's biggest challenges over the next 20 years. The Mission considered these arguments and believes them to have considerable merit. However, at the low budget option, hard choices had to be made. In the end, the Mission decided that the arguments for more focus on governance and participatory development under the low option were outweighed by the need to provide basic support to democratic consolidation in the short run.

E. Over-Arching Themes

The proposed SO1 strategy has three over-arching themes:

Catalytic Interventions

SO1 emphasizes catalytic interventions that can spur broader changes by showing how something can be done (models), leveraging other resources, or giving critical processes needed boosts.

Civil Society Emphasis

SO1 emphasizes working with and through CSOs, both as a way of accomplishing effective interventions and as a way of promoting sustainable roles for CSOs (which are in turn important for pluralism and sustainable democracy). One of the principal objectives of SO1 strategy is to help the government implement its stated commitment to build cooperative relationships between government and civil society. USAID/South Africa believes that it has a comparative advantage within the donor community in this area because of its strong base of experience in working with local and international NGOs, its capacity to effectively manage small grants (in some cases through umbrellas), and the special interest of the United States in promoting civil society.

Participation

Fostering participation is a central theme of all three areas of SO1's strategy (democratic consolidation, governance, and participatory development). Popular participation is a South African ideal rooted in the history of the anti-apartheid struggle and the democratic norms of the new government. However, the government needs assistance in developing effective methods of making participation work.

III. RESULTS FRAMEWORK

Figure 2 presents the Mission's Results Framework for the sub-goal of **political empowerment and the Strategic Objective of democracy, governance, and capacity for participatory development strengthened**. The results that USAID/South Africa is willing to take responsibility for, or be a major contributor to, are indicated by solid borders. Results that USAID/South Africa is counting on others to produce are indicated by dotted borders. Results that USAID will take responsibility for under the high option but cannot accomplish under the low option (or, in some cases, only accomplish at a lower level) are indicated by dark, solid borders.

The Results Framework includes six Intermediate Results (IRs): 1.1: Increased human rights and access to equitable justice systems; 1.2: Political and community-level conflicts effectively mediated; 1.3: Public policy reflecting CSO and public participation; 1.4: Executive structures (especially provincial) better equipped to manage participatory development; and 1.5: Innovative practices of partnership and participation adopted in provinces. IRs 1.1 - 1.3 are associated with democratic consolidation; IR 1.4 with governance; and IR 1.5 with partnerships for development.

A. Democratic Consolidation

In consultation with our partners, the Mission decided to target Intermediate Results 1.1 - 1.3 and two Special Results for the following reasons:

1. IR 1.1 - Increased human rights and access to equitable justice systems was chosen because of the special problems that have existed in this area in the past in South Africa and the need to consolidate and protect the human rights culture that the new government has established. Given South Africa's history, human rights consolidation is widely viewed as a critical component of democratic consolidation. USAID/South Africa also has a strong base of experience in human rights and developed relations with most of the NGOs and government officials likely to lead in this area.

2. IR 1.2 - Political and community-level conflicts effectively mediated was chosen because of its importance to democratic stability in South Africa. Although not traditionally a sub-topic of D/G, conflict resolution continues to be a critical need in South Africa. Political violence is reduced considerably from its levels at the time of the 1994 elections, but political and community-level violence are still disrupting development and democratic participation in KwaZulu-Natal and other parts of the country. USAID/South Africa also has a strong base of experience with the country's leading NGOs in this field.

3. IR 1.3 - Public policy reflecting CSO and Public Participation was chosen because of its importance to democratic pluralism and accountable government. As noted above, a weakness in South Africa's democracy is channels for citizen participation and involvement in government decision-making. One important channel for citizen and civil society input to government is through elected legislatures (national parliament, provincial legislatures, and local councils). These institutions have not yet developed strong mechanisms for public input, CSO policy advocacy, and constituency outreach. USAID/South Africa proposes to support political participation by strengthening both the capacity of civil society to generate public policy inputs and the capacity of legislatures (national and provincial) to receive them. USAID/South Africa believes that it has a comparative advantage in this area because: the Mission has established relations with many CSOs that want to play a policy monitoring and policy advocacy role; South African members of legislatures are interested in exploring examples of political participation from a range of experiences (including those of the United States); and U.S. PVOs have expertise in this field.

4. Special Result - Strengthened independent electoral processes was chosen after consultation with U.S. and South African organizations active in the electoral field, based on a Mission view that capacity for legitimate elections is critical for consolidated democracy, but that the principal elements of such capacity (electoral administration, voter education, etc.) can and should be provided by the government and local NGOs.

5. Special Result - Enabling environment for CSOs improved was chosen because of problems in proposed legislation affecting CSO fundraising capacity and independence from government.

Proposed implementation approaches for these results are:

IR 1.1 - Increased human rights and access to equitable justice systems

Commitment to a major USAID/South Africa program in rule of law and human rights was formalized in a bilateral agreement with the Ministry of Justice signed in late 1994. This program emphasizes training of black lawyers and paralegals; expansion of legal access through advice centers and paralegal services for the

poor; and support for further legal reform. USAID/South Africa programming in this area has been, and will continue to be, coordinated with other donors planning major investments in the sector.

The Reference Group also highlighted the need for outside monitoring of government performance on human rights by NGOs (not funded by the government) in order to protect human rights gains over the long term. The Mission agreed with this recommendation and plans to contribute to an endowment to provide permanent funding to a CSO or a consortium of CSOs to carry out human rights monitoring. This IR also includes a result related to strengthening civic culture and democratic values through civic education.

IR 1.2 - Political and community-level conflicts effectively mediated

Previously, conflict resolution focused on politically motivated violence and community disputes. Conflict resolution in the traditional mode will continue in troubled areas, but be supplemented by "second generation" conflict resolution on issues such as border disputes among provinces, land restitution, and water rights. IR 1.2 also envisions helping a conflict resolution CSO that can provide conflict resolution services within South Africa and in other countries reach a level of capacity and financial sustainability that will allow it to continue operations after the end of USAID/South Africa funding.

IR 1.3 - Public policy reflecting CSO and public participation

This IR envisions a two-pronged approach to strengthening citizen, community, and civil society participation in public policy formulation--one on the supply side and one on the demand side. The supply side involves the strengthening of mechanisms for informing people about public policy issues and for developing independent policy inputs from civil society. This will entail support for CSOs to monitor public policy, provide public information, and advocate policy alternatives. The demand side involves strengthening mechanisms for national and provincial legislatures to receive and incorporate inputs from civil society on policy and process issues.

Special Result - Strengthened independent electoral processes

This involves limited support to proposed independent electoral bodies, which could be in the form of an independent electoral commission and/or an NGO consortium.

Special Result - Enabling environment for CSOs improved

This involves limited support for CSO consortia efforts to press for an effective enabling environment for NGOs.

B. Governance

South Africa's governance problems are great and will require concerted efforts by government, CSOs, and official donors. USAID/South Africa's assistance will draw on areas of U.S. comparative advantage -- such as "reinventing government," participatory development models, and training through university-based schools of government and balance short-term training and technical assistance with long-term capacity building.

1. IR 1.4 - Executive structures (especially provincial) better equipped to manage participatory development

USAID/South Africa proposes to target its governance assistance on three lower-level results:

- Local training and exchanges (visits between the U.S. and South Africa) to better equip elected and appointed officials (especially at provincial level) to manage participatory development.

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- Technical assistance and training to help national or other officials deal with key emerging needs such as civil service restructuring and reorientation, interagency coordination for RDP delivery, or a new role for the RDP office focused on monitoring ministry performance in RDP delivery.
- Building the capacity of South African schools of government (especially at historically disadvantaged institutions, HDIs), in order to expand capability to produce new government officials trained in the skills of participatory development. Links with U.S. institutions (particularly in faculty exchanges, curriculum development, and pedagogy) could allow South African institutions to build their capacity at a faster pace (critical to meeting the public service's projected future needs for trained personnel from the majority population). The U.S. has a comparative advantage in university-based schools of government because of its developed system of graduate schools of public policy and public administration. SO1's support for schools of government will benefit from major cooperation with SO2's Tertiary Education Linkages Project (TELP), which will provide significant resources to support the development of a "center of excellence" in government at an HDI.

C. Partnerships for Development

South Africa entered its post-elections phase with the strongest civil society base in Africa and one of the strongest civil society bases in the developing world. The challenge now is to adapt that civil society base to the new needs of the country for RDP delivery and participatory development. The Mission decided to commit to a major result in this area for the following reasons:

A development model of government/civil society cooperation has much more potential to achieve effective social service delivery that is participatory and responsive to local needs than the alternative of government-dominated delivery. The superiority of civil society involvement over a "government does all" approach is one of the general lessons of development experience in Africa and the developing world. It is also supported by the particular conditions of South Africa--e.g., government bureaucracies have little experience in providing quality services to the majority population and no history or culture of implementing participatory development, while South African CSOs have unusually strong capacity for participation and local organization (though not yet for service delivery).

Finding long-term development roles for NGOs appears to be the best, and possibly only, way to make NGOs sustainable in a future environment of reduced or nonexistent donor funding, which is important for the strength of civil society and democratic pluralism.

Supporting partnerships between government and CSOs is consistent with the Agency's global policy guidance under the New Partnerships Initiative (NPI). NPI's emphasis on cooperation among local governments, NGOs, CBOs, and the private sector for local development seems to fit South Africa's conditions quite well.

1. IR 1.5 - Innovative practices of partnership and participation adopted in provinces

There are very few successful models of effective government/civil society cooperation in South Africa to build upon. Government, NGOs, and the private sector are cooperating in some geographic areas, but there are few recognized principles for what works and what doesn't and very little dissemination of experience and lessons learned. The Mission's proposed programs will address this problem. They will work at two levels: in five focus provinces and nationally.

In the five focus provinces, USAID/South Africa proposes to support specialized programs developed in consultation with governmental and civil society organizations in each province that can demonstrate innovative and effective models of government, civil society, and private sector partnerships and community involvement in development. The specific areas that a province's programs will focus on will vary from province to province. Based on a survey and consultations with the South African Reference Group, the Mission has tentatively identified the five focus provinces as KwaZulu-Natal, Northern Cape, Free State,

Northern Province, and Eastern Cape. Tentative areas of focus for these provinces are presented in Annex A.1. The program in KwaZulu-Natal will recognize and address the special nature of the development challenges in that province, which are political as well as social and economic.

At the national level, USAID/South Africa proposes to support: (1) national dissemination of successful models from the focus provinces; and (2) national dissemination of best practices from non-focus provinces (i.e., USAID will help disseminate highly successful models demonstrated by others). The higher-level Intermediate Result to which USAID/South Africa will make a major contribution is adoption of innovative models of partnership and participation in all provinces.

D. Special Result Separate from SO1

1. Special Result - Political and economic linkages between the U.S. and South Africa strengthened through visits to the U.S

This Special Result does not contribute directly to SO1, but is aimed to serve broader U.S. foreign policy interests. It involves strengthening of political and economic linkages between the U.S. and South Africa through visits to the U.S. by South African political leaders, business groups, and representatives of civil society.

IV. LOW OPTION AND WHAT RESULTS WILL NOT BE ACHIEVED

The Mission debated long and hard about what to cut under the low option. As noted earlier, the Mission felt that democratic consolidation Intermediate Results had to be protected because they were essential components of South Africa's transition. The option of cutting an entire Intermediate Result under governance or participatory development was considered, but rejected on the grounds that essential elements under each had to be preserved because of their importance to the RDP and because of U.S. comparative advantage. The compromise was that major but not total cuts were taken in IR 1.4 (addressing governance) and IR 1.5 (addressing government/civil society/private sector partnerships). Reasons for the specific cuts chosen, as well as the programmatic implications of what is given up, follow:

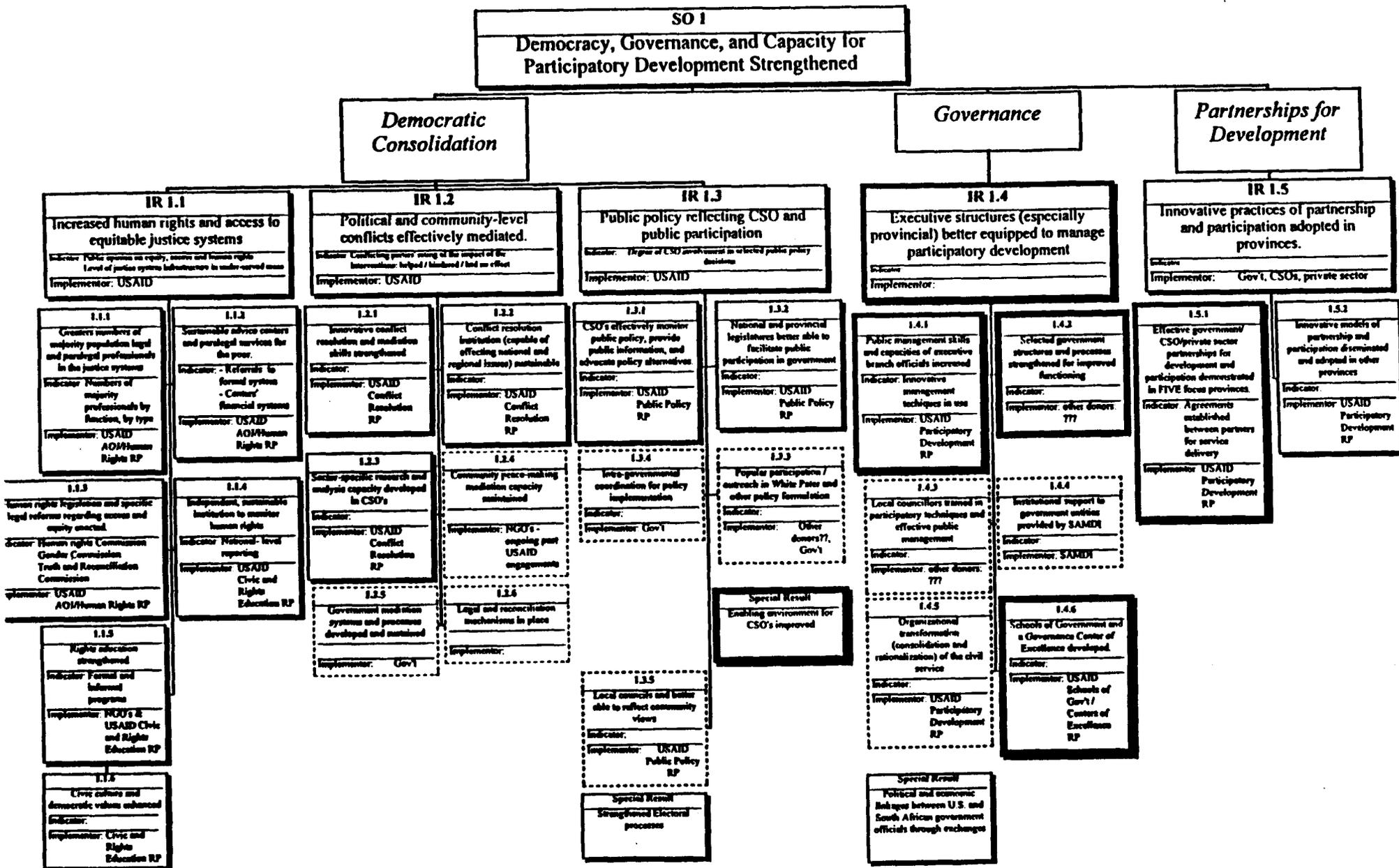
- **The Special Result - Enabling environment for CSOs improved** is cut under the low option because it was seen as the least vital element of democratic consolidation. If USAID/South Africa does not support this result, there is a chance that other bilateral or private donors would substitute. However, at a minimum, there would be likely to be a loss of momentum on improving the NGO enabling environment, and it is possible that there would be serious setbacks. In the latter case, the CSO sector as a whole would suffer, with major impacts on the sustainability of NGOs (including those supported by USAID).
- **In IR 1.4 - Executive Structures (especially provincial) better equipped to manage participatory development** the range of governance results achievable is substantially reduced under the low option. Some capacity building and assistance to structural reforms are preserved, but at lower levels than under the high option, and major USAID assistance to schools of government is cut. The rationales for these cuts are that: (1) other donors are involved in training and technical assistance; and (2) schools of government are a high-cost, long-term investment which are not affordable under the low option. The consequences of these cuts would be: (1) the United States would not be able to provide comprehensive advice on topics in which it has special expertise and experience, such as "reinventing government" and federal relations, which would have some adverse impact on the quality of reforms; and (2) loss of funding for schools of government under SO1 would prevent USAID/South Africa from supporting the strengthening of schools of government across a number of South Africa institutions. Some resources would still be available for a "center of excellence" in governance through SO2, but this would be restricted mainly to development of new curricula, pedagogy, and limited faculty exchanges. This would result in schools of government developing at a significantly slower pace, with proportionally less ability to meet the urgent needs of the government for new officials trained in appropriate skills. This would

impose some immediate costs, but the main effect would be long term, in terms of slower transformation of the public service in representivity, culture, and skills for participatory development.

- **In IR 1.5- Innovative practices of partnership and participation adopted in provinces** the number of focus provinces is reduced from five to three under the low option. Tentatively, the three focus provinces preserved under the low option would be KwaZulu-Natal, Northern Cape, and the Free State-- Northern Province and Eastern Cape would be dropped. Northern Province and Eastern Cape were chosen for cuts because the other three provinces were all seen as having special characteristics that made them higher priority (KwaZulu-Natal's special political needs, Northern Cape's high political will and openness to change, and Free State's activist government). Reducing the number of focus provinces would reduce the demonstration effects possible in government/civil society/private sector partnerships and community participation. Northern Province has high needs due to its rural nature, high poverty, and the fact that it has to deal with incorporation of three homelands (including two which were formerly so-called "independent states" and especially problem-laden). Omitting Northern Province would cut direct benefits for an impoverished area and reduce model demonstration for other less-developed provinces. Eastern Cape is also very poor and includes the two former "independent states" that probably had the greatest problems (Transkei and Ciskei). Omitting Eastern Cape would reduce direct impact on a high-need area (one given special attention by the GNU because of its problems) and reduce demonstration effects for other less-developed provinces.

Annex: Annex A.1 presents additional discussion of the South African context, what other donors are doing, the fit of SO1 with Agency priorities, program synergies, teams, increased use of solicited competition, reducing management units, illustrative activities for each IR, sustainability of each IR, and measuring results. Annex I presents how results will be measured in the Monitoring and Evaluation Plan.

STRATEGIC OBJECTIVE 1 RESULTS FRAMEWORK



STRATEGIC OBJECTIVE 2: TRANSFORMED EDUCATION SYSTEM BASED ON EQUITY, ACCESS, AND QUALITY

I. OVERVIEW

A strategic objective which focuses on the transformation of the public education system in South Africa is essential to advance the Missions's Goal: "Sustainable Transformation." For South Africans, human resource development is pivotal to the Government of National Unity's Reconstruction and Development Program. The RDP has stated that "Improving the ability of people and communities to participate in planning, executing, and managing change is central to a people-driven process, and to the development of a prosperous, democratic, and stable society."

Without improvements in the majority population's education level, other USAID assistance will be diminished and short-lived. From a societal perspective, the need to establish an equitable and efficient educational system is not subject to compromise. Maintenance of hard-won democratic principles rests on an educated population that can articulate its needs and opinions at the polls. In order for the majority population to lead the government effectively, it requires well-honed human resources, which are presently in short supply. Strategic Objective 2, thus, contains three elements essential for the transformation and improvement of South Africa's public education system. These are (a) policy reform, (b) establishment of systems to execute and implement policies, and (c) capacity building. These three elements working together, along with efforts of the government and other partners, will contribute to improvements in access, quality, equity, and cost efficiency, which are key elements of a transformed education system.

USAID/South Africa's strategic objective, derived through careful analyses and consultations with multiple South African partners, addresses crucial needs which enhance the prospects that democracy will have a firm hold. An emphasis on tertiary education is necessary to create the human resources capabilities, in the short term, essential to have majority population participation and leadership. To understand the relatively heavy emphasis on tertiary education, it is imperative to understand that the new democracy cannot succeed without effective public administration and private sector entrepreneurship. The art and skills of proper governance, administration, and management must be accelerated, not only to provide the credibility that positions of leadership require, but also to address the decades of neglect among disadvantaged populations.

In addition, a long-term focus on structural changes in education systems is required. An emphasis on basic education, including adult basic education and training, and access to higher education is necessary to dismantle the old and assist the GNU in establishing a unified but decentralized, equitable, and efficient education system.

II. PROBLEM ANALYSIS

It is difficult to single out the most damaging feature of the apartheid system, but the fragmented and undemocratic nature of the education system it produced must compete for this title. Dismantling such a system is a difficult task, since services cannot be interrupted and all constituent groups are clamoring for immediate access to quality education. Moreover, the apartheid national educational system has to be superseded by a federal-type system where delivery of basic and secondary education services rests with the nine newly established Provinces. The education sector assessment, found in Annex A.2, presents the justification for USAID/South Africa selecting education as a major target under social empowerment.

The GNU's vision for a transformed system of education in South Africa has been articulated well in the Interim Constitution, the Minister of Education's White Paper, the Reconstruction and Development Program, and other policy documents. The hallmarks of the vision are: a unitary system of education; 10 years of free, compulsory (basic) education; lifelong learning opportunities, expressed through the National Qualifications

framework (NQF); the right to instruction in the language of choice, where practicable; and the right to establish educational institutions based on common culture, language or religion, provided there is no discrimination on the basis of race.

USAID will support the GNU's goal of fundamentally transforming the education system by assisting the national and provincial departments of education to develop the policy, legal, structural, administrative and governance systems required for successful transformation. USAID assistance will include technical assistance and training for developing strategic planning capacities, performance-based management systems, and their attendant monitoring and evaluation systems in the South African Government, with NGOs and other institutions providing needed support.

In the new South Africa, the so-called "independent homelands" have been incorporated and the country has been divided into nine provinces. Five of these provinces are new government entities and thus, the level of assistance required is much greater. The nine provinces are responsible for the delivery of educational services, from receptive year to higher education, in their respective areas. Tertiary education, defined as degree awarding programs in universities and technikons, is under the control of the central government.

III. RESULTS FRAMEWORK

Total transformation of the South African education system requires a massive investment. Acknowledging that USAID/South Africa does not possess vast resources, targets have been set to affect: policies which define courses of action; systems as purposeful, functionally related groups of elements for the implementation of policy; and capacities which create the enabling environment for systems and policies to prevail. Policies enacted connote enforceable commitment. Systems established infer sustainability. Well directed, increased capacity improves efficiency. The triad of these components represents a well-crafted approach to achieving the SO2 objective of transforming the education system.

The education sector assessment in Annex A.2, identifies the conditions and constraints in the sector. Of particular importance is a detailed explanation of the National Qualifications Framework (NQF), which will guide all activities to be undertaken under SO2. The National Qualifications Framework is an integrated system which codifies learning, skills, and knowledge into articulated levels. These levels, operationally demonstrated through performance examinations, are in turn correlated to grades, certificates, diplomas, and degrees. The implementation of such a progressive system will require further development of policy and procedures; establishment of standards for units and qualifications; and development of capacities for assessment and evaluation. Therefore, USAID/South Africa will be supporting GNU priority areas focusing on policies, systems, and capacities needed to transform the education system.

IV. STRATEGIC OBJECTIVE 2: TRANSFORMED EDUCATION SYSTEM BASED ON EQUITY, ACCESS AND QUALITY

USAID/South Africa will be most successful in applying limited resources in assisting the national and provincial departments of education to establish policies and to create or enhance the systems necessary to implement these policies, rather than focusing on direct service delivery. USAID/South Africa's program focuses on the following four intermediate results: (1) policies for transformation of the education system are approved and enacted; (2) establishment of responsive and functional organizational systems; (3) assurance of an adequate and qualified human resources base; and (4) having in place a functional infrastructural capacity to deliver services. In South Africa, improvements in selected aspects of the educational system are not enough. The need is for transformation, analogous to, and complementing, the political transformation.

These intermediate results will help to achieve three broader goals:

- Equity attained through rationalization⁴;
- Quality increased through NGO-GNU partnership; and
- Access improved through system-wide articulation and accreditation.⁵

A. Intermediate Result 2.1 Policies for Transformation of the Education System are Enacted and Approved

In basic education, much has been accomplished by the GNU in terms of policies which delineate central versus provincial responsibilities in education, guarantee equal access, and specify minimal standards of educational services to which South Africans are entitled. The next step is to advance these policies at the provincial level and enact the enabling policies which will lead to operationalization of national standards and guarantees. Provinces currently lack the program strategies and options, guiding principals and procedures for accomplishing this.

In further, higher, and tertiary education, policies will be enacted based on recommendations made by national commissions and other consultative and investigative bodies. All policies will address equity. In tertiary, as in basic education, policies will focus on redress, in the short term, to close the gap between majority and previously privileged populations in levels of funding, adequacy of facilities, and standards of quality. In the long term, educational policies will support the creation of the human resource base needed to encourage economic growth and participation in a democratic form of government.

To accomplish the development and enactment of specified policies, USAID will assist the GNU by funding research and providing technical assistance in critical areas, such as revenue generation, financial forecasting, strategic planning, and educational governance. In the higher education sub-sector, USAID/South Africa will assist in defining the general framework concerning the aims of higher education, types of institutions which should serve this sub-sector, student access and distribution issues, general allocation of funds, student funding, and graduate employment issues. Assistance will be provided to the Commission on Higher Education and the Commission on Further Education. These commissions will provide guidance to the Ministry of Education in its effort to transform the tertiary education system. Upon the release of findings and recommendations of the National Commission on Higher Education (NCHE) later in 1996, USAID/South Africa, in consultation with partners and customers, will re-examine the details of the tertiary education strategy presented here.

Another critical area in need of policy direction is the plight of the disenfranchised youth (a South African Presidential Lead Program). This area will be addressed through support to the development of a National Youth Commission. Youth development is also a component of the U.S.-South Africa Binational Commission (BNC) (See Annex C, U.S.- South Africa Binational Commission).

In concert with other partners active in the education sector, USAID anticipates the achievement of the following lower-level results will lead to the accomplishment of IR 2.1:

2.1.1 National and provincial policy bodies developed

2.1.2 Provincial education policies formulated and disseminated

⁴ Rationalization: refers to a more equitable distribution of resources and reduced redundant costs caused by the maintenance of the apartheid system.

⁵ Accreditation: a system by which formal recognition of competence is given to an institution, a body, or a person.

2.1.3 Principles of the National Qualifications Framework (NQF) adopted at all levels of the education system

2.1.4 Governance of education system formulated (to be accomplished by other partners)

2.1.5 Educational subsidies and finance policies rationalized (to be accomplished by other partners)

2.1.6 Consistent admissions standards enacted at all institutions (to be accomplished by other partners)

B. Intermediate Result 2.2: Responsive and Functional Organizational Systems

The proper execution of policies is dependent on efficient systems and organizing principles and specifications which produce operational plans, paradigms, or blueprints. Systems, or functionally related groups of elements, enable the articulation⁶ of educational sub-sectors and institutions to function together to accomplish stated goals: equity, access, and quality in a transformed education system.

At both the national and provincial levels, systems addressing transformational objectives are just now being defined, and to a large degree, are not yet operational. The educational system as a whole is hampered by some structures and personnel of the previous government. USAID/South Africa will provide specialized technical assistance to assist governmental bodies and educational institutions establish functional systems of service delivery. In basic education, with the invaluable assistance of NGOs, academic subject matter skills continuums⁷ are being introduced for the first time. Systems for criterion-referenced testing⁸, linked to course content, are being implemented. Systems to establish correlations between teacher behaviors and student learning gains are being put in place. Research which substantiates such positive correlations will revolutionize the teacher education pre- and in-service practices. With the use of the NQF⁹, the various educational levels and varying academic disciplines will be integrated into a coherent, functional and articulated system.

At the tertiary level, linkages are being promoted to establish more cost-effective educational systems. Centers of excellence in select disciplines will be established or strengthened to promote more effective teaching, relevant to the needs of South Africa. Centers of Excellence in education, governance/public policy, and economics will promote synergies across strategic objectives. USAID/South Africa will also assist in establishing articulated systems for student support to reduce the costly 52 per cent first-year drop-out rate in tertiary education. Finally, USAID will assist in facilitating national dialogue on issues of relevance to tertiary education priorities with respect to development needs.

A sizeable segment of the population, labeled marginalized youth, stands at the fringes of society, able neither to participate further in developing their country, nor to reap the benefits, because they do not possess suitable commercial skills. Yet, this is the very segment of the population which took its protests to the

⁶ Articulation: a system which provides for learners, on successful completion of accredited prerequisites, to move between different providers in the education and training system.

⁷ Academic Skills Continuum: the total skills and knowledge to be covered in given subject matter (e.g., math, science), broken into segments which correspond with school grade levels (e.g., 3rd grade, 4th grade).

⁸ Criterion Reference Testing: testing competence by comparing results against absolute standards (i.e., subject matter taught), as opposed to comparisons against others taking the same test. Unlike norm-reference tests, which are used for selection or classification, criterion reference tests are teaching tools which assist teachers diagnose and prescribe specific learning treatment.

⁹ National Qualifications Framework (NQF): an integrated system which codifies learning, skills, and knowledge into articulated levels. These levels, operationally demonstrated through performance examinations, are in turn correlated to grades, certificates, diplomas, and degrees.

classrooms and became conscientious objectors from the educational system, sacrificing personal, academic prospects for societal democratic gains. Their power, if turned against the present system, could, once again, de-stabilize the country. USAID/South Africa will help to establish systems for continuing education, and continue support to distance education efforts, and adult basic education and training (ABET) systems development. In support of the Commission on Youth Development, USAID/South Africa will assist in the establishment of policy support systems in which the government, private sector, and NGOs are expected to form an alliance to address youth issues.

The lower-level results under this IR are:

- 2.2.1 Integrated, rationalized delivery system established
 - 2.2.1.1 Articulated education system in place (NQF)
 - 2.2.1.2 Systems of CSO/NGO partnerships at national and provincial level established
 - 2.2.1.3 System of accreditation (NQF) rationalized
 - 2.2.1.4 System of further education and youth development strengthened
 - 2.2.1.5 System of Centers of Excellence established
- 2.2.2 Human resources development systems established (to be accomplished by other partners)
- 2.2.3 Curriculum development and quality assurance systems established (to be accomplished by other partners)
- 2.2.4 System of policy monitoring and enforcement established (to be accomplished by other partners)

C. Intermediate Result 2.3 Adequate Qualified Human Resources Base (to be accomplished by other partners)

Broader human resource development is another targeted intermediate result under SO2, critical for transformation of the education system. Section II, above, describes the shortage of trained personnel, at both the national and provincial level, needed to institute social and economic change. Reference was made also to the need for better trained teachers, schooled in student-centered teaching methodologies, and capable of using advanced techniques which incorporate educational technologies, media education, and holistic total-person approaches. The necessary participation of the government in paying salaries will continue; USAID/South Africa will assist in providing "value added," specialized training pertinent to specific objectives. Approaches to human resource development will include (1) reduced level of long-term degree oriented training, (2) short-term in-country training, (3) short-term U.S.-based training, (4) exchanges, linkages, and observational excursion visits, (5) capacity building at individual academic departments of HDIs, (6) establishment of centers of excellence, (7) technical assistance provided by institutional contractors, and (8) assignment of limited number and limited duration of expatriate technicians in key governmental or educational institution posts. USAID/South Africa will also support the creation of CSO/NGO and governmental partnerships to increase teacher effectiveness.

Although the Mission recognizes that its input alone will not accomplish this intermediate result, it is expected that the following lower level results will contribute to achievement of this IR:

- 2.3.1 Improved management and strategic planning skills
- 2.3.2 Government employees trained in selected competencies

2.3.3 Centers of excellence established

2.3.3.1 Centers of excellence staff trained and maintained

2.3.3.2 Centers of excellence infrastructure established and maintained

2.2.4 Pre-service and in-service training of teachers (to be accomplished by other partners)

D. Intermediate Result 2.4 Functional Infrastructural Capacity to Deliver Services in Place

The availability and accessibility of educational infrastructure (e.g., physical facilities, curriculum, materials) is a necessary component of a transformed education system. USAID/South Africa, however, will not invest in physical infrastructure. The government, along with other international donors, CSOs and the private sector, has accepted responsibility for the provision and maintenance of physical educational infrastructure. Under the rubric of capacity building, however, USAID/South Africa will assist in the dissemination of model educational practices by CSO partners. Support for this strategy will hasten the quality transformation process. Support for this strategy will draw on previous USAID/South Africa investments, and the institutionalization of materials, methodologies, and practices will promote their sustainability.

Over the past decades of government neglect, the education NGO sector has played a crucial role in developing viable alternative education models. These have been subjected to various consultative planning processes and have been further refined and evaluated. Particularly valuable NGO expertise exists in the areas of curriculum development, materials development, and assessment. These contributions have proven to be invaluable for setting the standards for systems strengthening. It is crucial that assistance to NGOs which have helped influence policy and systems be continued. Capacity needs to be maintained and strengthened within the NGO sector to ensure complementarity of educational service delivery.

USAID/South Africa will no longer support the development of, or experimentation with new pilots or demonstration models. Emphasis will be on dissemination of proven practices at the provincial level and within institutions leading to sustainable change (e.g., colleges of education).

The lower-level results targeted under this IR are:

2.4.1 Quality curriculum and material adopted (to be accomplished by other partners)

2.4.1.1 Model educational practices disseminated by CSO partners

2.4.2 School facilities are adequate and accessible (to be accomplished by other partners)

V. CAUSAL RELATIONSHIPS AND DEVELOPMENT PARTNERSHIPS

In the two short years since the 1994 democratic elections, the Ministry of Education has demonstrated great commitment and motivation in undertaking the immense task of transforming the South African education system. With the assistance of USAID, new education policies have been formulated and translated into legislation or ministerial regulations. The blueprint for the entire education system below tertiary, developed with substantial USAID support, will be implemented in the near future. The massive job of incorporating the 19 racially-based Departments of Education inherited from the apartheid regime into a unified national Department of Education has been completed, and the Government is now turning its attention to the equally challenging task of establishing entirely new Departments of Education in the nine provinces.

National policy formulation at the basic education level has been largely completed with substantial USAID support. USAID is supporting technical assistance, observational travel, and research to catalyze and

accelerate government policy formulation efforts for youth development, continuing education, and tertiary education. Strong government commitment and resources are required to conduct wide-ranging consultations among stakeholders and then translate these policies into legislation, guidelines, and regulations. Based on past and current performance, it is reasonable to expect a continuation of this strong and effective commitment.

USAID is assisting non-government and national and provincial government entities to develop blueprints and plans for a transformed education system. Much of the design for a new National Qualifications Framework (NQF) delineating the structure of education, certification, and accreditation, has been completed. With excellent cooperation between NGOs and national and provincial Departments of Education, and extensive support from USAID, the NQF will be adopted and implemented over the next few years. USAID will support NGOs working under our bilateral agreements to plan for the provincial or national expansion of successful innovative education methods such as distance education and adult basic education and pre-primary/primary education. Selected provincial Departments of Education have also been assisted to develop strategic planning capabilities and this support is ongoing and will help determine the exact interventions to be supported through the implementation of the two bilateral agreements in basic education. In tertiary education, USAID has supported the development by our partners of strategic planning capabilities, and will continue to assist the academic community to plan for national and regional coordination and for developing selected Centers of Excellence. These blueprints and the demonstrated commitment and resources of Government are important, necessary conditions for transformation of the education system based on equity, access, and quality.

Improving the capacity of education organizations that were deprived of resources over decades of apartheid rule is vital for achieving equity and access in a transformed education system. USAID's support in this area will be selective and carefully focused, with the greatest burden of supporting and implementing this work being carried by the Government. USAID is encouraging the Department of Education to contract with NGOs or contractors to enhance capacity in areas such as early childhood development or adult basic education rather than providing such services themselves. We may provide seed money for such capacity improvement, but not for service delivery. USAID continues to provide technical assistance and training to develop the administrative capacity of selected provincial Departments of Education. Since these entities cannot quickly hire the personnel they need, and still do not have control of their budgets, this assistance may be the difference between success and disaster as these inexperienced Departments have abruptly been given responsibility for delivery of basic education services. At the tertiary level USAID will support capacity enhancement in the HDIs by supporting the development of Centers of Excellence and strengthening key academic disciplines. Much of USAID's support will be through human resources development, with our partners taking the major burden of staff salaries and infrastructure development. Based on experience to date, our national and provincial government partners have a strong commitment to providing the decisions and resources to improve capacity in key administrative and service institutions required to generate sustainable momentum for equalizing capacity for disadvantaged institutions and students.

The results described in previous sections were developed to fulfil Strategic Objective 2. Each IR is a necessary condition, and in concert they are sufficient to achieve the objective. USAID's support is relatively small, but it is critical to catalyzing and accelerating the respective IRs and thus achieving the Strategic Objective.

The burden on NGOs, and particularly the Government, is very heavy, but all evidence thus far clearly indicates the strong commitment and motivation of our partners to carry out their responsibilities. Therefore it is reasonable to anticipate that these Intermediate Results are attainable, and that these Results will lead to achievement of Strategic Objective 2.

VI. CRITICAL ASSUMPTIONS

It is acknowledged that USAID/South Africa's efforts are supplemental and complement the array of activities sponsored by the Government of National Unity, other international donors, and local South

African charitable institutions, foundations, and the private sector. There are inter-dependent and symbiotic relationships that exist in which each agency or institution utilizes its comparative advantage (e.g., financial resources, personnel, facilities, geographic location, hierarchical position, particular sub-sectoral interest) to affect the quality of education provided in South Africa.

Therefore, the success of USAID/South Africa rests to a large extent on the continued involvement of other key players, the political stability gained through the democratic elections of 1994, the success of provincial governments in establishing their functional autonomy, in continued local economic growth which will provide the tax base for continued funding of public education, and many other factors. External to South Africa, but certainly germane to the successful accomplishment of USAID's objectives, is continued GNU funding at a level commensurate with the scope of activities outlined in this chapter. It is paramount that partnerships are established with the GNU, other donors, and NGOs to develop and disseminate quality information and practices to affect policy and improve implementation. The Mission hopes that strong partnership arrangements will be developed allowing for support to be phased out over time, and enabling the government to pick up, on a contractual and other bases, the full cost of interventions it values, thus assuring sustainability.

VII. ILLUSTRATIVE APPROACHES, STRATEGIES, AND ACTIVITIES

A. Intermediate Result 2.1: Policies for Transformation of the Education System are Approved and Enacted

Illustrative activities being funded to address this objective include provision of technical assistance to the national Department of Education and provincial departments of education in educational policy formulation, strategic planning, budgeting and implementation. Through consultations with Provincial officials, areas which need immediate attention and support within the new unified departments of education have been identified and are being addressed. In fiscal year 1995, four Bilateral Agreements were signed which will provide support for a variety of activities which will strengthen national and provincial government structures. For example, one project will enable USAID/South Africa to assist the National Commission on Higher Education (NCHE) to investigate all aspects of higher education and to make appropriate policy recommendations for defining the higher education system and specifying its goals; describing the institutional types required for the system, their particular functions and missions, their respective inter-relationships and their relationship with Government; the structures required to govern and administer higher education; and funding mechanisms for institutions and students in higher education.

Other activities being funded through the Bilaterals which address Intermediate Result 2.1 include the establishment of curriculum and assessment systems to manage national and provincial adult basic education services, as well as the development of an operational system for the NQF and the National Education Bill. This includes support for policy formulation and legislation at the national level on accreditation, testing and assessment, standard setting and validation of services, and research on outcomes-based education for adult basic education and training (ABET). In the area of pre-primary/primary education, technical assistance will be provided under the Bilateral Agreement for the development and institutionalization of a system for program monitoring and assessment which will in turn provide information for further educational policy and planning decisions. This support may also include increased and more diversified use of educational media for the expanded delivery of quality basic education programs and the dissemination of proven and effective models in mathematics, science, early childhood development and English. Support is also being provided for establishing linkages between highly successful NGO in-service teacher training (INSET) programs previously piloted with USAID support and Colleges of Education which are the responsibility of the provincial government structures.

The implementation of the Bilateral Agreements at the provincial level is ongoing and the focus provinces for the two Bilateral Agreements in ABET and pre-primary/primary education were only identified by the GNU in February 1996. The needs assessment and strategic planning process is continuing in these four provinces

in order to determine the exact priority areas of need for further technical assistance and grant support. For example, it is likely that one province may identify curriculum and assessment in ABET as an urgent priority for further policy development while another province may identify teacher training and colleges of education as its priority area in need of support. The Bilateral Agreements were designed and negotiated to accommodate the varying needs of the provinces. It is important to note that USAID assistance provided in one province will often be replicable across other provinces and that there exist formal exchanges of information, policies, structures and training in order to extend the impact of USAID's investment. For example, this past year USAID provided technical assistance for the development of the Gauteng province Education Bill which has served as a model for other provinces now undergoing the same process.

B. Intermediate Result 2.2: Responsive and Functional Organizational System

Extensive technical assistance in strategic and economic planning has been given to National and Provincial governments, and to Historically Disadvantaged Institutions (universities and technikons). Assistance, technical as well as economic support, have been rendered to address student tuition funding issues.

Additional assistance to the Department of Education will be provided through bilateral agreements to provide support for youth development issues. The objective of this activity is to increase the skills, employability and civic values of large numbers of young people whose experiences in the fight against apartheid led them to drop out of school, out of the job market, and out of social structures. Nationwide, there are estimated to be as many as six million disadvantaged and disenfranchised youth who could benefit from these services.

C. Intermediate Result 2.3: Adequate Qualified Human Resources Base

USAID has supported numerous civil society organizations (CSOs) which have been commissioned to conduct applied research and to develop innovative education models or methods for enhancing the quality and efficiency of education. These tested models are now available for replication. Areas impacted include pre-primary education; in-service teacher education; distance education; development of curriculum and teacher training methodologies in math, science and language; and adult basic education and training. Similarly, CSOs have been utilized to expand the provision of services, particularly in areas such as teacher training in the use of innovative, student-centered methodologies.

In basic education two bilateral agreements will provide the basis for the majority of new activities. Although both have activities which apply to Intermediate Result 2.1, they focus mostly on Intermediate Result 2.3. The first bilateral specifically addresses support to the transformation of primary education, particularly at the provincial level. The bilateral program will formalize and operationalize a partnership for reconstruction and development of the education system between CSOs and provincial governments. Services to be provided by CSOs to provincial departments of education include school management programs, in-service and pre-service training and support, linked to colleges of education, provision of tested materials, with a special focus on English, math, and science, strengthening of early childhood development programs, special curriculum and training to address the needs of out-of-school children.

The second bilateral agreement, addresses unique educational needs, focusing on planning and development of adult basic education and training (ABET). Through this bilateral a national plan for ABET will be developed in which NGOs play a critical role in providing delivery services, develop national standards for curriculum, accreditation and learner assessment, and employ distance education models to improve access and impact.

D. Functional Infrastructural Capacity to Deliver Services is in Place

During USAID's first 10 years in South Africa, substantial investments were made in supporting indigenous NGO initiatives which pilot-tested and evaluated improved models and alternative delivery mechanisms for

basic education for disadvantaged South Africans. The models now have the potential for wider dissemination to help support the transformation of educational content and delivery systems. Two factors make this possible. First, there is widespread agreement about the need to open up access to education to allow learners mobility between formal and informal education through standardized certification and validation. Second, there is a growing awareness that traditional delivery mechanisms alone cannot begin to address the current education crisis. Distance education programs by radio, television and print, pioneered by NGOs with assistance from USAID, have opened access to large numbers of educationally disadvantaged South Africans. Recognizing the potential of media as a tool in education reconstruction, the GNU has incorporated distance education as an integral part of a cost-effective education system. Models in English language instruction and science education, funded by USAID, are now distributed nationally through television and radio to reach a potential audience of millions of South African learners. Models in early childhood development and mathematics education are also being refined and it is anticipated that these proven and accepted models will also be disseminated nationally through distance education and through mass "newspapers in education" inserts as well.

VIII. HOW SUSTAINABILITY WILL BE ACHIEVED

Education is crucial for achieving Mission goals, but programmatically, the key to sustainability is our shift to working with the GNU in their priority areas. Also crucial is the involvement of traditional NGO partners with the GNU to enhance the sustainability of their capabilities.

IX. HOW ACHIEVEMENT OF SO 2 WILL BE JUDGED

Targets and time frames are presented in the performance plan found in Annex A.2 and in the Monitoring and Evaluation Plan in Annex I, which references the results outlined above. Through careful process and summative monitoring, and base lines established early on, credible comparisons will be made in which policies and systems are developed and implemented, and capacities strengthened are documented. Attainment of these targets will constitute accomplishment of SO 2.

A Results Reporting document (R2) is presently being developed in conjunction with the CSP. Re-engineering practices are being implemented whereby staff will assume responsibility for Results Packages. As envisioned, there will be concerted emphasis and effort which will facilitate tracking and documentation of progress. The annual Results Review and Resources Request (R4) will be the main vehicle for reporting results.

X. RESOURCE REQUIREMENTS FOR SO2

A. USAID/South Africa High and Low Funding Scenarios

The level of funding required to accomplish SO2 objectives is \$131.3 million over eight years under the high option, and \$89.6 million over six years under the low option. The high option covers the period FY 1996 to FY 2003; the low option runs FY 1996 to FY 2001.

B. Implication of Low Budget Scenario

A case was made earlier, commending the GNU for the high level of funding allocated to public education. However, when issues of redress are considered, the urgency for qualitative improvements in the educational system, the needs of other competing sectors, and the prudent unwillingness of the GNU to increase its debt ratio, resources to address transformational needs become precious and scarce. Since USAID/South Africa's strategy does not address infrastructural or recurrent expenditures, the impact, dollar for dollar, of USAID assistance accomplishes much more. A reduction of \$42.2 million (32.1%), if the low budget scenario were to become a reality, would imply significant changes in the strategy. Funding of NGOs would be

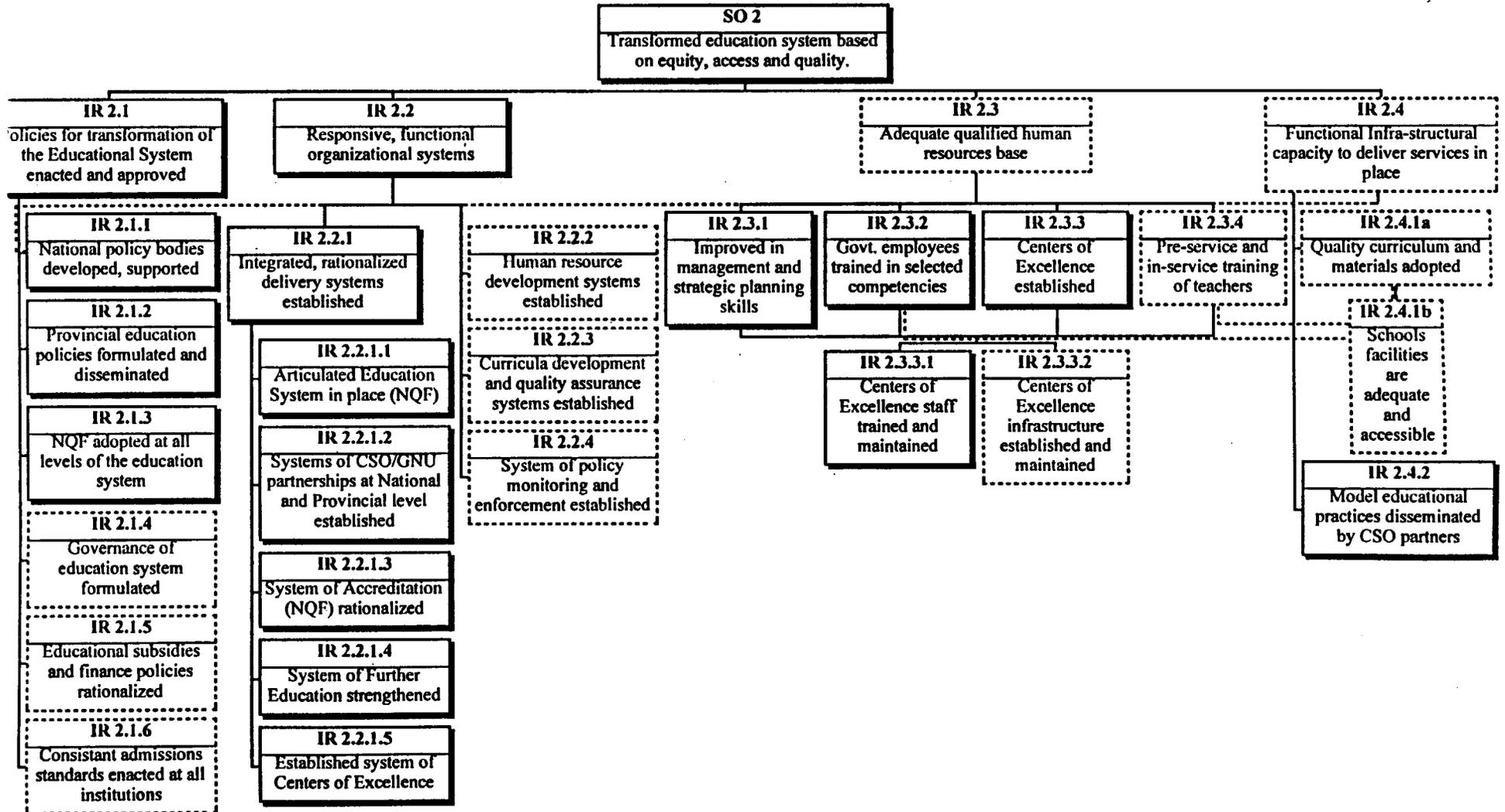
significantly curtailed, with a loss of their particular function in adding and accelerating qualitative changes, and reducing their role as sentinels, brokers and arbiters for the public will. The failure to support the adoption of proven and tested NGO models would limit USAID's impact to one of limited systemic change at the policy level and thereby restrict demonstrated qualitative change at the classroom level in the near term. Without support at the provincial level which demonstrates both the efficacy and efficiency of new curriculum, testing and assessment models, it is possible that a considerable amount of time may be lost before the provincial education structures are able to focus on the incorporation of such models as change agents in the reform process. Furthermore, there remains a substantial risk that many of the NGOs previously supported by USAID who have been stellar performers and produced exceptionally valuable alternative models may not survive in the near term and USAID's investment to date of tens of millions of dollars may be lost. Until recently, new provincial structures were not prepared to incorporate the new methodologies and they are only beginning to demonstrate the management capability to focus on reforms that are urgently needed at the community and school level. Earlier assumptions that USAID's grantees could easily broker their services to the provincial structures after the 1994 election have proven wrong, as the national and provincial structures were preoccupied with more immediate management and restructuring demands and faced limited budgets with which to make demonstrable change. Likewise, the low budget scenario will negatively impact plans for the development and support of system-level partnerships between the GNU and civil society organizations.

Investments in establishing or strengthening centers of excellence would also be seriously affected. Under the high option, education, governance/public policy and economics centers of excellence are planned. The low option would only afford us the opportunity to strengthen specific departments in these sectors, but the notion of centers of excellence would have to be down-graded substantially. In particular, these centers would be unable to accomplish the breadth or depth of expertise and outputs that the country needs. This impact is magnified due to losses suffered in supporting SOs at the low option. Linkages and faculty exchanges envisioned between centers of excellence and U.S. institutions would also be tempered. Finally, the low budget scenario would cause a reduction in broader human resource development, and this would have a negative impact on the long-term prospects in quality of education, governance, and economic growth.

The pace and qualitative nature of the envisioned transformation of the education system would be negatively affected under the low option. In basic education, the number of provinces impacted by planned interventions would, of necessity, have to be reduced from four to two under the low option. Other provinces would also be negatively impacted since policies, systems, and practices which would have been available for replication would be reduced. Synergies as a result of SOTs concentrating their resources in common provinces would also be reduced.

FIGURE 3

STRATEGIC OBJECTIVE 2 RESULTS FRAMEWORK



**STRATEGIC OBJECTIVE 3:
MORE EQUITABLE, UNIFIED AND SUSTAINABLE SYSTEM
DELIVERING INTEGRATED PRIMARY HEALTH CARE
SERVICES TO ALL SOUTH AFRICANS**

I. OVERVIEW

The major health care challenge for the new South Africa is to provide equity in basic health care to all South Africans and, in the process, to rectify the underlying inequities in health services provision brought about and supported by apartheid. **Achieving SO3 will result in a more equitable, unified and sustainable system delivering integrated primary health care (PHC) services to all South Africans.** SO3 will accomplish this both by increasing access to an integrated package of PHC services, and by improving the institutional sustainability of critical PHC management and service delivery systems. SO3 will be achieved through a single, comprehensive project -- the Equity in Integrated Primary Health Care Project -- emphasizing the focused nature of USAID/South Africa's assistance to the GNU in accomplishing the most critical objective of the RDP's strategy for the health sector.

The EQUITY Project was specifically designed to achieve SO3, and is fully consistent with the SO3 results framework. Thus, there is no reason to realign or otherwise amend the EQUITY Project. As discussed in subsection C.2 below, SO3 was developed through intensive consultations with the GNU and other development partners and stakeholders. This summary highlights all important elements of the rationale for SO3, but is necessarily brief. A more expanded version appears in Annex A.3.

II. PROBLEM ANALYSIS

A. The Health System and the Need for Restructuring

South Africa has had a highly fragmented public health system that actually consisted of a three-tier, 14-department (ministry) "system" designed to serve the different population groups separately. Communication among the various tiers and within tiers was generally poor even within the individual population group systems -- rendering the services structurally, functionally, and politically fragmented. In addition, there was no opportunity for community involvement in helping to determine priorities and provide guidance to the system. Resource allocations under apartheid neglected geographical areas with large proportions of black and especially rural populations, and also favored high-technology curative health care for the minority white population which it did serve. All of these factors -- fragmentation, curative focus, and lack of community participation -- resulted in a large, majority population which was deprived of even basic primary health care. In addition to inequity, the previous health care system itself had many weaknesses. Historically, health planning and management were centralized. Information and other management systems were ineffective and fragmented. The same was true for human resource development and other critical elements of the system. The health status outcomes of the inequities and ineffectiveness of the past political and health systems can be seen from a few basic health status indicators (see Annex A.3). Thus, there is a critical need for overall health system strengthening.

B. Potential Approaches for Dealing with the Problem

In considering how USAID/South Africa might best assist the GNU to address the problems of the health sector, the Mission carried out a review of the sector in order to identify critical constraints that would hinder the achievement of sustainable national development that the GNU sought to accomplish through the RDP. The health sector review led to the consideration of the following three approaches for utilizing USAID assistance in achieving sustainable development in the sector:

- Direct delivery of basic health services,
- Support exclusively for the HIV/AIDS program, and
- Systems development to support integrated PHC services.

USAID/South Africa's health sector review reached the following conclusions which support both USAID's involvement in the health sector and specifically the integrated PHC systems development approach:

- The earlier analyses conducted by USAID/South Africa in relation to potential USAID health sector support, taken together with those carried out recently by other organizations and development partners, provide an adequate basis to determine whether and how USAID should become involved in the health sector.
- The magnitude of South Africa's health indicators, especially for the majority African population, warrant the inclusion of a health strategic objective in the Mission's CSP.
- The integrated PHC approach coincides with and supports the priorities and strategies of the GNU, USAID/South Africa, the Africa Bureau, and the Agency.

C. The Resulting SO3 Approach

After carefully considering the three alternative approaches, USAID/South Africa and the GNU have mutually decided that USAID will support the integrated PHC systems development approach. The rationale for supporting the development of an integrated primary health care system rather than the delivery of specific health interventions, such as family planning or HIV/AIDS, is based on more than the fact that the GNU has identified such a system as the cornerstone of its new health system. The rationale is also supported by lessons learned from health and child survival programs elsewhere in Africa. In particular, USAID's child survival strategy of the 1980s, which was based largely on a selective primary health care approach, proved only a qualified success, since such interventions cannot be sustained without reinforcing the support components of integrated health systems.

This choice of SO3 rationale is also strongly supported by the national Department of Health's recently developed vision for the health sector, which reflects the principles of the RDP:

- The health sector must play its part in promoting equity by developing one unified health system.
- The system will focus on districts as the major locus of implementation and will emphasize the primary health care approach.
- Local authorities, NGOs and the private sector will unite with the public sector in promotion of common goals.
- Central, provincial and district levels will play distinct and complementary roles.

- An integrated package of essential PHC services will be available to the entire population.

Bridging Activities

Another unique aspect of SO3 is the use of additive USAID/W field support funds to carry out "bridging activities" -- high-priority activities identified jointly by the GNU and USAID/South Africa that should be initiated quickly in order to lay the foundations for more rapid implementation of the EQUITY Project once the institutional contractor's long-term technical assistance team is in place. These bridging activities are being supported by the Global Bureau's field support funds and will not draw on EQUITY Project funding. Approximately \$3.2 million of Global field support was made available in FY 95. The mutually agreed bridging activities include (1) a nationwide demographic and health survey (DHS); (2) a national-level health system situation analysis (the scope of which is currently being reassessed); (3) development of an in-service training program in integrated primary health care principally for rural nurse clinicians; and (4) development of an in-service management training program for health managers at provincial level and below. All of these bridging activities are being developed and implemented to ensure that they provide continuity with similar activities that will continue under the EQUITY Project.

III. SO3 RESULTS FRAMEWORK

This section will summarize the results framework itself; discuss the involvement and commitment of other development partners and stakeholders; provide some illustrative program approaches, strategies and activities; and indicate how SO3 achievement will be measured.

A. Summary of the Results Framework

As already noted, the RDP presents a broad agenda for improving basic health services and redressing the inequities of service delivery within the current South African health system. USAID/South Africa and the Department of Health (DOH) have jointly identified areas where USAID resources can provide significant impact in assisting South Africa's efforts to bring about an equitable, integrated system of basic health services needed to address the health problems already described. Major emphasis will be on assisting the GNU to develop an effective delivery system for providing these services. The major intermediate results that will be achieved and reflect success are summarized in the sub-sections below.

The RDP principles have recently (November 1995) been transformed into the goals of the national health system (NHS), as follows:

In achieving SO3 through a single, well-focused project, USAID/South Africa's implementation and management will be much more streamlined, cost-effective and management-efficient.

- Unify fragmented health services at all levels into a comprehensive and integrated NHS.
- Promote equity, accessibility and utilization of health services. Extend the availability and ensure the appropriateness of health services.
- Develop health promotion activities.
- Develop the human resources available to the health sector.
- Foster community participation across the health sector.
- Improve planning of the health sector and monitoring of health status and health services.

As noted, USAID/South Africa has decided to achieve SO3 through the implementation of a single, comprehensive project -- the EQUITY Project -- the grant agreement for which was signed with the GNU in September 1995.

Implementation of SO3 will take a capacity-building and systems development approach. It will assist the GNU to change and strengthen its health service delivery system so that quality, essential services can be made available to all South Africans, especially those currently underserved. It will do this by concentrating support initially during Phase 1 (Years 1-4) principally in a single province, the Eastern Cape, in order to have sufficient resources available to develop the new system and make it fully operational. The Eastern Cape Province was selected jointly by the national DOH and the nine provinces, based on criteria which were mutually agreed upon with USAID. The national scope of the project will be achieved by continually interacting with health personnel of other provinces and sharing the lessons learned in Eastern Cape with these other provinces so that replication and implementation of workable systems can proceed rapidly throughout the country -- principally during Phase 2 (Years 5-7). These linkages with the other provinces not only will help ensure coordination among the national DOH and all nine provinces in deciding on the nature and content of the Eastern Cape systems development, but also will help focus on lessons learned in the other eight provinces that will be of benefit in the Eastern Cape. Given the systems development approach, the project will not support the actual delivery of services except as part of research or pilot activities to determine more effective ways to deliver services.

As indicated in the overview statement, achieving SO3 will result in a more equitable, unified, and sustainable system delivering integrated PHC services to all South Africans. In order to achieve this strategic objective, implementation through the focused EQUITY Project will work to achieve the following six intermediate results. Our sector analysis, as well as intensive GNU consultations, have revealed that these six IRs are necessary components of achieving SO3. One can see that there is a strong congruence between these SO3 results and the national health system goals stated above.

- IR 3.1 Access to integrated package of PHC services increased.
- IR 3.2 Effective health care referral system operating.
- IR 3.3 PHC managers at provincial level and below effectively utilizing enhanced management skills.
- IR 3.4 Efficiency and effectiveness of PHC service delivery increased.
- IR 3.5 PHC training program strengthened and institutionalized at provincial level.
- IR 3.6 Information systems at provincial level and below being used effectively for program development, management and monitoring.

These six intermediate results are summarized in Figure 4. This figure highlights the six intermediate results (IRs); includes the principal lower-level results/indicators that will measure the achievement of each respective result; and indicates a number of results that must be accomplished by other development partners in order for the respective intermediate result to be accomplished. Note that all results apply both to the Eastern Cape Province and to the other eight provinces. The detailed results framework in Annex A.3 provides specific performance indicators for each result; generally higher targets have been set for the Eastern Cape Province, since the levels of achievement in the other eight provinces during Phase 2 are expected to be somewhat lower. As discussed in more detail in subsection 3.D below, at least some of these indicators and targets are likely to change from time to time, either because of a change in the situation and/or the desire to have SO3 indicators and DOH indicators be identical where feasible.

In addition to the importance of these other-partner results in achieving SO3, there are several critical assumptions that underlie its achievement, as follows:

- Overall health sector resources from the GNU and other development partners will continue to be available at anticipated levels.

- Intersectoral collaboration will be successful in achieving a positive impact on health from other sectors (e.g., improvements in access roads, water supply, sanitation).
- The existing positive health policy environment, both at parliamentary and Ministry of Health levels, will continue to support needed health system reforms.

B. Involvement and Commitment of Other Development Partners and Stakeholders

Collaboration in the Design of SO3

Collaboration in the design of the EQUITY Project itself began with the development of the project concept in May-June 1994. USAID/South Africa and REDSO/ESA representatives met not only with the Honorable Minister of Health and key DOH officials, but also with key South African health sector organizations and individuals. Together, this group provided both a source of ideas about what the project should accomplish, and a sounding board as the overall project concept was developed. The same high level of consultation and collaboration has continued through the design of the EQUITY Project to the present time (see Annex A.3).

Coordination with Other Development Partners

USAID/South Africa has invested considerable time and effort with other relevant bilateral and multilateral development partners in the health sector to ensure that resources are effectively coordinated. USAID/South Africa's initiative with these key donors -- especially the European Union (EU), the British Overseas Development Administration (ODA), the World Bank and UNICEF -- has been instrumental in achieving this objective. Collaboration has included not only the more usual donor-with-donor and donor-with-government meetings, but also coordinated short-term TA visits to develop plans for linked activities. This continuing close working relationship among donors in the health sector will have a major impact on the effective use of all development partner resources.

Involvement of Other Stakeholders

In addition to the involvement of many stakeholders as described in subsection 3.a above, USAID/South Africa included consultation with SO3's intended beneficiaries as an integral part of the Social and Gender Analysis for the EQUITY Project. The purpose of the analysis was to examine the potential impact of SO3 on the different social groups who are the intended beneficiaries. Thus, this analysis will help USAID/South Africa ensure that SO3's intermediate results will benefit the communities and people it is designed to serve. The results of the analysis (see Annex A.3) have been extremely useful and will continue to be so as full SO3 implementation begins.

C. Illustrative SO3 Program Strategies and Activities

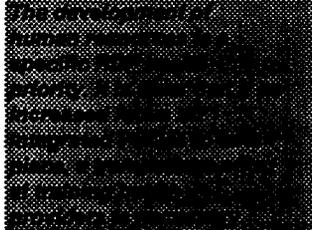
The following summary illustrates how SO3 will achieve each of its intermediate results, and in turn, how these results will lead to achieving SO3 itself. It is important to relate these illustrative activities not only to the respective intermediate result, but also to the indicators that will demonstrate the achievement of each result (as shown in Figure 4). All six intermediate results and their respective indicators apply both to the Eastern Cape Province and to the other eight provinces. [These illustrative activities are described more fully in Annex A.3]

1. IR 3.1 *Access to Integrated Package of PHC Services Increased*

Increased access to PHC services is perhaps the most critical intermediate result that will lead to accomplishment of SO3. Without increased access for the majority population, the health system will not be equitable. The most important illustrative activities that will contribute to increased access are as follows: (1) restructuring the health care system (consolidating the fragmented health system, redistributing services in an equitable manner, and drastically changing priorities to ensure that effective PHC services will be

delivered); (2) increasing the number of health care points (HCPs); (3) expanding the range of services available at each HCP; (4) involving communities and stakeholders in health care, especially in underserved areas; and (5) improving health workers' attitude and motivation, and in turn the level of client satisfaction. Youth is a key target group for increased access to both health services and health information.

2. IR 3.2 *Effective Health Care Referral System Operating*



Unless the health care referral system is operating well, people are not likely to receive the services they need. Similarly, if clients seek services at the wrong level, scarce resources will be wasted and the system will become less efficient. Achieving an effective referral system will require the development of a variety of mechanisms to help ensure that clients initially seek care at the appropriate level. This will likely include incentives to encourage the use of appropriate HCPs as entry points for care; these may in fact be "negative incentives," such as a surcharge for going to the wrong source of care. Community-level mechanisms, including education and awareness, will be necessary so that people can judge where to go for care. Taken together, such mechanisms should increase the percentage of clients using an appropriate HCP as their entry point to the health system -- the principal indicator for this result.

3. IR 3.3 *PHC Managers at Provincial Level and Below Effectively Utilizing Enhanced Management Skills*

As noted above, one goal of the national health system is for the districts to be the focal point for the delivery of health care services. However, there is widespread realization that the current level of managerial skills at provincial level and below is currently inadequate to reach that goal -- to deal fully and effectively with the planned organizational changes, the integration and devolution of services, the greater emphasis on the PHC approach, and the emphasis on increased efficiency and equity. SO3 will provide needed support to increase the knowledge and effective use of management skills. Note that this result deals essentially with management capacity-building, while the following result focuses largely on management systems improvement.

4. IR 3.4 *Efficiency and Effectiveness of PHC Service Delivery Increased*

Due to its history of fragmentation and multiple health authorities at different levels, South Africa's health care system suffers from many inefficiencies. Unless overall system efficiency can be improved, the system will be too expensive to operate, leading to inequities that are likely to affect the majority population negatively. As already noted, many of the national-level constraints and opportunities are being addressed by the GNU as it reforms the health system and delineates and clarifies authorities and responsibilities. However, other opportunities to improve efficiency and effectiveness exist at the provincial level and below. These opportunities can be summarized in four areas: (1) greater integration of PHC services, (2) better resource reallocation between curative and preventive services, (3) management systems improvement, and (4) improvements in cost-effectiveness. SO3 will assist the DOH and the provinces to explore the range of feasible interventions among these four categories, and to implement the selected interventions to increase efficiency and effectiveness of PHC services.

5. IR 3.5 *PHC Training Program Strengthened and Institutionalized at Provincial Level*

The education of medical, nursing and other health professions is currently based largely on the curative model. For example, there is little in the existing medical curriculum that stresses demography, epidemiology, planning, community involvement, management, and other important elements of the PHC system. Consequently, pre-service as well as in-service training curricula and materials for all health workers have to be rationalized and modified, so that cadres from medical doctors to community health workers become knowledgeable about, skilled in, and committed to the PHC goals of the RDP.

SO3 resources are expected to achieve the sustainability of an overall PHC training program by helping to implement the provincial training action plans developed by each of the provinces.

6. IR 3.6 *Information Systems at Provincial Level and Below Being Used Effectively for Program Development, Management and Monitoring*

Due to the fragmented nature of the previous health care system, there have been no uniform reporting requirements and no integrated national health information system. Without an effective information system, it will not be possible to identify, analyze, and overcome service delivery problems that will limit the system's impact on improved health. Until a comprehensive national health information system is operational, both the DOH and the provinces will continue to have difficulty in a number of key areas: (1) monitoring the health status of all South Africans, particularly those currently underserved; (2) assessing existing health services and the relative effectiveness of interventions; (3) setting national health goals and objectives, and determining health priorities based on the needs of the people; and (4) developing realistic policies and plans. The principal goal of the recently established Committee on the National Health Information System for South Africa (NHIS/SA) is to develop a comprehensive NHIS that includes the public and private sectors at local, district, provincial and national levels. SO3 will contribute to the development and institutionalization of the NHIS/SA principally at the provincial level.

D. Measuring SO3 Achievement

The principal results to be achieved by SO3 have just been summarized, together with their respective indicators. However, there are corresponding baseline figures and measurable targets for each indicator. All of these taken together comprise the results framework, which is summarized in graphical form in Annex A.3. Results, indicators and targets are provided for all relevant levels -- CSP goal, sub-goal, and SO3 itself. Attainment of these results will indicate full SO3 achievement.

As with any indicators and targets that are developed in advance of the program that will achieve the results, the DOH and USAID/South Africa anticipate that at least some of the indicators and targets will be revised from time to time to reflect changes in the situation. One reason is that until baselines are established for all indicators, the proposed targets will be estimates. In addition, USAID/South Africa and the DOH will work to ensure that to the extent possible, their programmatic indicators will be identical. Doing so will avoid duplication, including the measurement of the indicators themselves. Common indicators and targets will have the advantage both of reinforcing the mutual commitment to achieve them, and of reducing the magnitude and cost of data collection and analysis required to produce them. Revisions required for these and other reasons will be reflected in the EQUITY Project annual action plans, as well as in the annual SO3 results review and resource request (R4) (See Annex I, Monitoring and Evaluation Plan).

IV. SO 3 CAUSAL RELATIONSHIPS AND LINKAGES

A. Causal relationships within SO3

The causal relationships within SO3 itself have been described in the previous section. In general, the narrative has generally attempted to demonstrate that if all of the results/indicators of a given intermediate result are achieved, then the result itself will be achieved. Similarly, if all six intermediate results are accomplished, then SO3 will also be achieved.

B. Relationship of SO3 to CSP Sub-Goal

The CSP sub-goal is "the political, economic and social empowerment of the historically disadvantaged population." SO3's specific contribution to this sub-goal is "improved health status;" this result will be fully achieved if the reductions in infant and child mortality rates, maternal mortality rate, and fertility rate are achieved (as indicated by the magnitude of the respective targets). At the same time, SO3 has clear cause and

effect linkages with all three of the empowerment elements of this sub-goal -- political, economic, and social (see Annex A.3).

C. Synergy with Results and Resources of Other SOs

There are a number of possible linkages between SO3 and other SOs that would have a synergistic effect on SO3. Four linkages identified thus far are: (1) the positive impact on health resulting from improved urban/periurban services (electricity, water supply and sanitation), through a link with SO6; (2) using the existing, community-based facilities of SO2's pre-school education program as the focal point for expanding integrated PHC services in areas where they aren't available; (3) using SO2's experience with the concept of "open learning" (often referred to as distance teaching) in connection with SO3's efforts both to improve management skills (result 4.3) and to strengthen and institutionalize PHC training at the provincial level (result 4.5); and (4) strengthening the role of civil society by empowering communities to have a role in planning and monitoring their health services.

V. SO3'S CONTRIBUTION TO THE PROGRAMMATIC FOCUS OF THE CSP

In accordance with current Agency guidance for strategic planning, USAID/South Africa's CSP must select its programmatic focus -- the limited number of strategic (and special) objectives which encompass all program resources to be managed by the Mission. The following subsections describe how SO3 meets the proscribed factors that must be considered and haven't been presented elsewhere.

A. Contribution to Agency's Mission of Sustainable Development

There are five Agency goals through which the Agency's mission of sustainable development will be achieved. SO3 is fully supportive of the overall Agency strategic goal of "world's population stabilized and human health protected in a sustainable fashion" because of its focus on:

- Emphasizing the development of an integrated approach to the delivery of family planning and other services that enhance women's health and children's well-being and survival;
- Enhancing the capacity of local institutions, communities and individuals to identify and solve their health and family planning problems; and
- Addressing the technical and managerial aspects of health and family planning program sustainability.

SO3 also supports all four of the Agency's strategic objectives under the strategic goal just stated, namely (1) sustainable reduction in unintended pregnancies; (2) sustainable reduction in child mortality; (3) sustainable reduction in maternal mortality; and (4) sustainable reduction in STD/HIV transmissions among key populations. The USAID/South Africa program will support these objectives by focusing on improving the availability of, access to, and utilization of key health interventions through development and improvement of support and delivery systems.

USAID/South Africa's program also will directly support the Africa Bureau's Child Survival Strategy, which in turn is designed to support and implement the overall USAID Child Survival Strategy, with emphasis on the particular challenges facing Africa. The Africa Bureau's Child Survival Strategy clearly states that "where effective health systems are put in place to support child survival initiatives, these systems provide the basis for a package of essential health care and family planning services which benefits the entire population -- a package of services which is a highly cost-effective means of improving health care, particularly for rural and poor populations."

B. Meeting the Needs and Interests of the GNU

As described above, there is essentially a one-to-one correspondence between the intermediate results of SO3 and the goals of the national health system as presented in the GNU's November 1995 policy development document as discussed above. Through extensive dialogue between the DOH and USAID/South Africa during the last year, it was possible to identify those areas of highest priority to the GNU which also coincide with USAID priorities and predominant capabilities. As a consequence, it was decided that the EQUITY Project should support those priority areas which focus on (a) the GNU's efforts to restructure and unify its national and provincial health programs and administrations; and (b) the development and implementation of an integrated primary health care program which incorporates those interventions considered of highest priority by USAID. The project also places emphasis on strengthening inter-sectoral linkages between the health system and areas such as water, sanitation, housing, transportation and education -- all of which are RDP objectives and directly impact on the effectiveness of the health delivery system.

C. Potential for Significant, Sustained Impact

SO3 has been intentionally designed as a single, comprehensive intervention that will both meet one of the major RDP objectives -- access to basic health services for all South Africans -- and will do so in a way that will ensure sustainability in the long-term future. The fact that the GNU has committed itself, through the EQUITY Project grant agreement, to provide at least 36 percent of total EQUITY Project funding is further evidence of the GNU's commitment to achieving sustained impact in the most important element of the RDP's health care reform. Perhaps the most important point about SO3 is that it has been designed to achieve its impact within the likely minimum length of USAID/South Africa's phase-out strategic plan; that is, by the year 2002. Viewed another way, SO3 will not only achieve the Mission's strategic goal of sustainable transformation, but actually will achieve sustainable development in the broad health sector.

Since the SO3 strategy is systems development, not service delivery, achieving the intermediate results will strengthen the overall PHC delivery system. As described, the outcome of these system improvements will be increased use of PHC services. Since widespread increased use of PHC services may not occur until late in the project life, USAID/South Africa does not expect major health status improvements by the project completion date. Nonetheless, the eventual outcome of that increased use will be improvement in health status -- lower infant, child and maternal mortality, reduced fertility -- which are the health indicators of the CSP sub-goal. With time, of course, these health status improvements will lead to increased life expectancy, which is the health indicator of the CSP goal itself.

VI. RESOURCE REQUIREMENTS FOR SO3

A. High and Low Funding Scenarios

The designed funding level for the EQUITY Project was \$50 million, and has been carefully budgeted to ensure that all six intermediate results under SO3 will be achieved. Mission management has allocated \$50 million to SO3 in the high funding scenario, and has reduced SO3 funding under the low scenario to \$48 million. SO3 has received an additional increment of \$3.24 million in USAID/Washington field support funds for the bridging activities described above. The GNU's commitment of more than R97 million (\$28.5 million) for direct support of the EQUITY Project is the other essential resource component. This combination of GNU and USAID resources will be required to meet the specific SO3 intermediate results described earlier, and the specific targets for each indicator have been established with these resources in mind.

B. Consequences of USAID's Low Funding Scenario on SO3

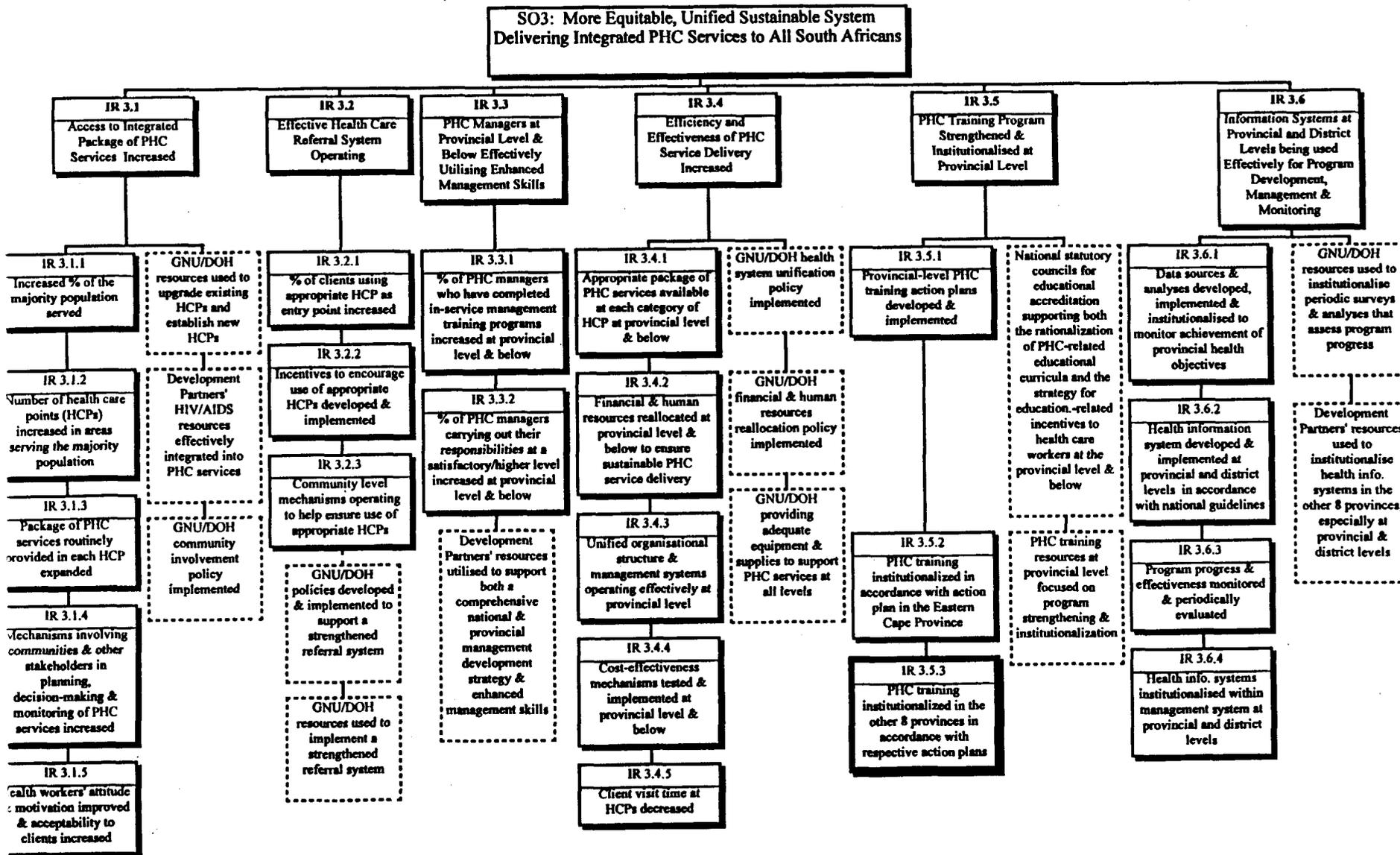
As this overall rationale for SO3 has shown, SO3 will be implemented through a single, comprehensive project in order to achieve the six interrelated intermediate results. Since SO3 focuses on systems development and all of the components of the PHC delivery system are closely linked, full funding is critical to the integrity of SO3 and the ability to achieve it. Fortunately, the low funding scenario reduces SO3 funding by only \$2 million.

In order not to destroy the synergistic interrelationships among the six intermediate results, the impact of the low-scenario funding will be concentrated on the intermediate result that is intended to institutionalize PHC training at the provincial level. Thus, the consequence of the \$2 million reduction is that PHC training will likely be institutionalized only in the Eastern Cape Province, and not in the other eight provinces. While this will make a difference in the degree of institutionalization achieved by SO3, it is hoped that other development partner resources can be found so that institutionalization of PHC training can eventually occur in the other eight provinces.

FIGURE 4

STRATEGIC OBJECTIVE 3 RESULTS FRAMEWORK

- Notes:
1. The solid boxes represent intermediate results (IRs) that will be accomplished directly through the resources of the SO itself. The dotted boxes represent results that need to be achieved by other development partners in order for the SO to be achieved.
 2. The heavily shaded box (in IR 3.5) represents an SO result that will not be achieved if the Mission's low-budget scenario is in effect.



**STRATEGIC OBJECTIVE 4:
IMPROVED CAPACITY OF KEY GOVERNMENT AND NON-
GOVERNMENT ENTITIES TO FORMULATE, EVALUATE AND
IMPLEMENT ECONOMIC POLICIES TO PROMOTE ECONOMIC
GROWTH AND EQUITY.**

I. INTRODUCTION

As explained in the analysis portion of Annex A.4, an improved economic policy environment is critical to achieving the economic empowerment of South Africa's historically disadvantaged population. Strategic objective four contributes to addressing, but does not directly address, that need. The Mission believes that SO4, as articulated, is the most ambitious objective in the economic sector that it can achieve with the limited resources available. The accompanying Figure outlines the basic structure, logic and partnerships of this strategic objective

II. STATEMENT OF THE STRATEGIC OBJECTIVE

USAID/South Africa's fourth strategic objective focuses on the capacity of organizations within and outside government to effectively deal with economic policy issues. Specifically, Strategic Objective Four is as follows:

SO4: Improved capacity of key government and non-government entities to formulate, evaluate and implement economic policies to promote economic growth and equity.

III. RESULTS FRAMEWORK

A. Problem Analysis, Causal Relationships and Rationale for Selecting this Strategic Objective

As discussed above, the major challenge for South Africa is to generate increased broad-based sustainable economic growth, employment opportunities, and improved equity for the historically disadvantaged population who compose the vast majority of the roughly 35 percent of the labour force currently unemployed. For this to happen a wide range of factors and problems need to be addressed. One of the key elements (necessary, but not sufficient) is a growth-promoting economic policy environment. Such an environment will also have positive feedback effects on other factors required to increase economic growth.

The achievement of a growth promoting policy environment will require at least three items: (1) a government willing and able to change growth-inhibiting elements of the economic policy framework, even in the face of entrenched interests; (2) other stakeholders willing to accept changes in policies, even if it means short-term "losses" must be incurred to achieve longer-term benefits; and (3) a strengthened capacity within the governmental and the non-governmental sectors to engage in economic policy formulation, evaluation and implementation. Of special concern is the ability to participate, both in the sense of opportunity and technical ability, by those previously excluded from such processes. If the issues of economic growth and equity are to be addressed adequately, it is necessary to respond to the constraints on the ability and opportunities of the majority population to participate in economic policy decisions. In this context, the role of strengthened non-governmental organizations will be crucial.

Dealing with the first two of these items is problematic since the entrenched interests and positively and negatively affected stakeholders will generally differ for each set of policies considered. Thus, the process of effective policy change will require a major effort in applying "variable geometry" to form different

coalitions to support such change. Strengthened capacity of critical governmental and non-governmental organizations to engage in the economic policy process is required not only to directly support the efforts for policy change, but also to help influence different groups and to help identify and form winning coalitions for reform and change. These issues are first and foremost a question of political will and ensuring that change-facilitating processes are used. The utilization of fora such as the National Economic Development and Labour Advisory Committee (NEDLAC) and related groups for the discussion of policy issues provide appropriate change-facilitating processes. However, the participants in NEDLAC (¼ representing government, business, labour and civil society ¾) must all be “economically literate” and able to engage effectively in NEDLAC and similar fora. The existence and use of analytical capacity both within and outside the government should help to persuade groups to modify their positions on issues if/when a clear case for policy change is made.

IV. PARTNERS

A. Consultative Process

There is a clear, distinct and active group of partners already working on this problem. First and foremost is the Government of National Unity which recognizes the need for sustainable growth and employment creation. Second, there is an active set of non-governmental organizations (NGOs), universities and other groups who are also interested in the promotion and support of economic growth and equity. Finally, other donors also share this vision. These different sets of partners will play active cooperative roles in achieving this strategic objective.

These partners have been involved in the development of this strategic objective. This process began with the preparation of a series of analytical papers on South Africa’s economy, economic performance and economic problems.¹⁰ These papers continue to be widely distributed to interested and relevant individuals within South Africa’s University, NGO, Donor and Government communities. They also served as the basis for discussions with these individuals and groups concerning the country’s economic problems and issues, as well as, what might be needed to address these problems.

Over the course of these discussions, it became clear that a “non-project assistance approach” of leveraging policy change would not work in South Africa due to the small size of the USAID program relative to the economy.

Based upon these discussions, the basic outline and content of what has become SO4 was developed. These ideas were then discussed with the people and organizations who were instrumental in formulating it, plus a wider range of government officials and others. This process of wide ranging discussions has resulted in some modifications of what had initially been proposed and the validation of the basic structure and content of what is currently being proposed under strategic objective 4.

The design process for the “Support for Economic Growth and Analysis/Mandela Economics Scholars Program” activity, which will serve as the primary implementation mechanism for this strategic objective, is using the same broad consultative process. A planned Activity Steering Committee, composed of key government, non-governmental, and USAID/South Africa representatives, will serve as a continuing consultative body for this strategic objective. In addition, the Expanded Strategic Objective Management Team will also serve this role.

¹⁰These papers form the basis of Annex F of the CSP.

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B. Government

The Reconstruction and Development Programme (RDP) is the central guiding policy document of the Government of National Unity. It recognizes the need to restructure the economy, increase economic growth, and increase employment growth. It also states that these objectives “will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society.”

The basic objectives of the RDP are “to create a strong, dynamic and balanced economy which will:

- “ eliminate the poverty, low wages and extreme inequalities in wages and wealth generated by the apartheid system, meet basic needs, and thus ensure that every South African has a decent living standard and economic security;
- “address economic imbalances and structural problems in industry, trade, commerce, mining, agriculture, finance and labour markets;
- “create productive employment opportunities at a living wage for all South Africans; and
- “integrate into the world economy in a manner that sustains a viable and efficient domestic manufacturing capacity and increases our potential to export manufactured products.
- “It is only by addressing the above that our economy will be capable of sustained growth.”¹¹

This strategic objective and the activities planned for its implementation have been formulated in close consultation and coordination with a steering committee of economists and administrators from key government departments and ministries. This same group will form the core elements of the government portion of the Expanded Strategic Objective Management Team and will continue to provide guidance throughout the implementation of this objective.

C. NGOs, University Organizations and Other Groups

There are several NGOs working on economic issues and economic capacity building. The primary ones with whom USAID/South Africa is already working include: the African Institute for Policy Analysis and Economic Integration (AIPA) and the National Institute for Economic Policy (NIEP). These two NGOs work on a wide range of issues and topics relevant to the strategic objective, including policy research and advocacy and training activities or other programs for economists from the historically disadvantaged population.

Other groups also work on these and related issues. For example, there are generally research units or groups at the wide variety of South African universities. Examples include: South African Labour and Development Research Unit (SALDRU) at the University of Cape Town (UCT); Development Policy Research Unit at UCT; Economic Research Unit (ERU) at the University of Natal, Durban; the Institute for Social and Economic Research (ISER) at the University of Durban-Westville; and the economics departments at all the South African Universities and Tecnikons. There is currently an effort underway to form the South African Network of Economic Research (SANER) which will function much like the National Bureau of Economic Research (NBER) in the U.S., supporting, reviewing and promoting high quality, policy relevant economic research.

Many of the major businesses and business groups, e.g., the South African Chamber of Business (SACOB), have their own economists and economics departments. These groups' capacity to function as effective policy

¹¹Selected items from Sections 4.2.1 and 4.2.2 of the Reconstruction and Development Programme.

advocacy groups are being supported under the Mission's fifth strategic objective. In addition, there are NGOs which support business with research and facilitating activities, e.g., the Centre for Development and Enterprise (CDE). A wide range of NGOs exist which work on sector-specific policy issues.

While the sustainability of these organizations differ, it is clear that each organization is committed to trying to advance issues related in one way or another with this strategic objective. All these groups have their own links to various elements of government and other stakeholders. As a result, they will be able to assist in the achievement of this strategic objective. A selection of these groups have been involved in the development and formulation of this strategic objective and will be involved in its implementation.

D. Other Donors

There are a number of donors which have worked or continue to work in the various areas related to this strategic objective. Annex A.4 and its attachment summarizes the broad areas of their involvement. A key issue will be the continued coordination with the other involved donors to ensure that we avoid duplication and ensure the broadest coverage of our efforts.

V. INTERMEDIATE RESULTS

Associated with this strategic objective are the following four intermediate results which, when taken together, will achieve the strategic objective, i.e., strengthen the capacity of South Africans to formulate, evaluate and implement growth-promoting economic policies:

- IR 4.1. Human resource development in economics and policy analysis for key government entities;
- IR 4.2. Strengthened government departments that deal with economic policy matters;
- IR 4.3. Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers; and
- IR 4.4. Strengthened centers of economics training (Centers of Excellence in Economics), especially within the historically disadvantaged institutions.

These intermediate results represent the key elements for establishing the basic capacity mentioned in the strategic objective statement. The first and second intermediate results focus on strengthening the capacity and the participation of the majority population within government on economic policy issues. The first intermediate result focuses on helping to create a new cadre of U.S. trained economists from the majority population to work on these issues, while the second intermediate result works with government departments to strengthen the "work units" where such individuals will apply their training. Taken together, along with an assumption of adequate funding for the new or revised "work units," these two intermediate results provide the necessary components for strengthening government capacity for the formulation, evaluation and implementation of growth and equity promoting economic policies.

The third intermediate result addresses the capacity question in the non-governmental sector which will provide an expanded access of the majority population to the broader policy process. Finally, the fourth intermediate result provides a sustainable mechanism for meeting the continuing human resource development requirements in the field of economics. Thus, this intermediate result links back to and sustains the first intermediate result over the long-term.

The first intermediate result will be accomplished primarily through the mechanism of the Mandela Economics Scholars which will finance post-graduate economics training, primarily for the historically disadvantaged population, to improve the capacity of individuals to productively serve in government. This activity is also part of the South Africa-United States Binational Commission (BNC). This activity also supports other strategic objectives, such as education and health, since the BNC agreed that this activity

would train economists for all areas of government. Short-term training will also support intermediate result 4.1. The second and third intermediate results will be achieved through the coordinated provision of technical assistance, short-term training and research support. Finally, the fourth intermediate result under strategic objective four will be promoted through the activities under the Mission's Tertiary Education Linkages Project (TELP) which has as one of its objectives the establishment of a limited number of "Centers of Excellence" in selected disciplines within South Africa's system of historically disadvantaged tertiary education institutions.

VI. INTERMEDIATE RESULTS FROM OTHERS

There are a number of sub-intermediate results (intermediate results of others) associated with the achievement of strategic objective four and its intermediate results. These include:

A. 4.1. Human resource development in economics and policy analysis for key government entities:

The principal lower level results for this intermediate result of strategic objective 4 deal with sustainability. While these are stated as separate, either one would be sufficient to provide the necessary sustainability for this intermediate result.

1. *IR.4.1.1. Private sector and/or government funding for an endowment for a continuing Mandela Economics Scholars Program through a foundation or other structure*

While not absolutely essential to the success of the Mandela Scholars in Economics and the strategic objective, the establishment of such an endowment structure would provide a sustainable basis for the continuation of the program and its impacts in South Africa. The pursuit of such funding, however, would be dependent on the desire of the Government of South Africa to continue the program.

2. *IR.4.1.2. Funding for the Center of Excellence in Economics (see below for further discussion)*

The establishment of such a "Center of Excellence" is an additional or an alternative way that this intermediate result can be sustained over the longer-term. The establishment of such a Center will allow the training being provided in the U.S. under this intermediate result to be transferred to South Africa.

B. 4.2. Strengthened government departments that deal with economic policy matters:

The following items relate to complementary and supporting activities of some of our partners. The primary effect of non-achievement on the strategic objective four intermediate result would be a reduction of impact on the targets which would be achievable by the intermediate result.

1. *IR.4.2.1. Bilateral donor assistance to the government on specific sectoral policy issues*

The fulfilment of this assumption will help ensure that the fullest range of necessary policy areas are addressed.

2. *IR.4.2.2. World Bank funded critical studies on the policy framework*

The World Bank's studies play a crucial role in identifying areas of concern and issues to be addressed. They also provide additional support for research efforts to improve the understanding of South Africa's economy and economic problems. If this work does not continue, additional resources will need to be directed towards filling this need which will necessarily reduce the level of achievement in other areas.

3. *IR.4.2.3. GNU funding and support for the sustainability of the improved government centers of policy and strategic analysis*

This support and funding will be required to ensure that the investments made to strengthen such units or centers will be sustained.

C. 4.3. Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers

The following items again relate to complementary and supporting activities of some of our partners. The primary effect of non-achievement on the strategic objective four intermediate result would be a reduction of impact or the targets which would be achievable by the intermediate result.

1. *IR.4.3.1. Other donor assistance to "think tanks" in a coordinated fashion*

The continuation and coordination of donor support to these institutions may be even more critical than in the case of support to government due to the issues of limited funding for these organizations and their sometimes limited management capacity.

2. *IR.4.3.2. World Bank funded critical studies on the policy framework*

The World Bank's studies play a crucial role in identifying areas of concern and issues to be addressed. They also provide additional support for research efforts to improve the understanding of South Africa's economy and economic problems. If this work does not continue, additional resources will need to be directed towards filling this need which will necessarily reduce the level of achievement in other areas.

3. *IR.4.3.3. Sustainable funding or endowments to support the longer-term requirements of the "think tanks."*

A concerted effort in the area of establishing the sustainability of these organizations. While such "think tanks" can meet part of their requirements from specific contract work, some form of continued external funding or endowment mechanism will be required to ensure their financial sustainability.

D. 4.4. Strengthened centers of economics training (Centers of Excellence in Economics), especially within the historically disadvantaged institutions

In this case, the sub-intermediate results for this strategic objective four intermediate result involves not only external partners, but also the actions and support of another USAID/South Africa strategic objective. In this case, the absence of these sub-intermediate results would prohibit the achievement of this intermediate result.

1. *IR.4.4.1. Funding for the Center of Excellence in Economics*

As indicated above, the planned funding for the establishment of the "Center(s) of Excellence in Economics" is coming from the Tertiary Education Linkages Project (TELP) (primarily so under the high-budget scenario and exclusively so from the low-budget scenario). Thus, if strategic objective two is unable to provide this funding, it would be impossible to achieve this intermediate result.

2. *IR.4.4.2. Government and the historically disadvantaged tertiary institutions support for the "Centers of Excellence" financially and in other ways*

Just as the support of TELP will be critical to the establishment of such "Centers of Excellence," the continued support of the government and the historically disadvantaged tertiary institutions will be critical for the sustainability of these "Centers."

VII. ILLUSTRATIVE ACTIVITIES

The achievement of these intermediate results will be accomplished through the provision of short- and medium-term technical assistance, research support, and short- and long-term training. This assistance will be provided to support the strengthening of a variety of government departments and non-governmental organizations involved in the formulation, evaluation and implementation of economic policies. This assistance will be provided through three basic activities. The primary vehicle for supporting the first three intermediate results will be the Support for Economic Growth and Analysis (SEGA) Activity, the results package for which will be developed in FY96. This activity will include the Mandela Economics Scholars Program as a specific sub-component to address the first of the above intermediate results.

The Africa Bureau's Equity and Growth through Economic Research (EAGER) project, with its involvement in South Africa, will contribute to the third of the above intermediate results through its support of research efforts in collaboration with various "think tanks." It will also indirectly contribute to the second intermediate result by helping to demonstrate how effective policy analysis and research can be structured and used to influence the policy formulation process. Finally, it could also support the fourth intermediate result, if the center(s) is established soon enough, through collaborative research with the center(s) on policy issues.

Finally, the primary vehicle for achieving the fourth of the above intermediate results will be through collaboration with strategic objective two and the Tertiary Education Linkages Project (TELP).

VIII. SUSTAINABILITY

The sustainability of the above results is a key concern and is addressed extensively above in the critical assumptions section. The design and selection of activities to achieve these results will be done with a major focus on ensuring sustainability of the results. The actual structure of the intermediate results also help to contribute to their mutual sustainability, especially in the area of training. For example, if the effort to establish a "Center of Excellence in Economics" is successful, the need for the continuation of the Mandela Scholars in Economics will be reduced since there will be a sustainable, in-country source for such future training.

IX. PERFORMANCE MONITORING

The Economic Growth and Equity Strategic Objective's results will be judged by a set of quantitative and qualitative criteria. These indicators include a number of items which when considered together are expected to provide a clear picture of success or failure for the intermediate results. The indicators focus both on immediate results and items and issues which will be critical to the sustainability of these results.

The specific indicators are presented in Annex A.4 as well as in the Mission's Monitoring and Evaluation Plan, Annex I. While these indicators are defined at this point, the identification of quantified targets will only be achieved as the Mission moves further into the design and implementation of the activities under the Results Package(s) for strategic objective four. The Results Package(s) will include mechanisms and procedures for tracking progress.

X. IMPLICATIONS OF BUDGETARY SCENARIOS

The “high option” budget scenario for this strategic objective provides \$30 million over seven years, while the “low option” budget scenario provides \$25 million over five years.

In terms of prioritizing funding from this strategic objective for the intermediate results outlined above, the rank ordering of the intermediate results from highest priority to lowest priority is as follows:

1. IR 4.1. Human resource development in economics and policy analysis for key government entities;
2. IR 4.3. Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers;
3. IR 4.2. Strengthened government departments that deal with economic policy matters; and
4. IR 4.4. Strengthened centers of economics training (Centers of Excellence in Economics), especially within the historically disadvantaged institutions.

In addition, funds from the strategic objective will be used to support staffing, evaluation, monitoring, and the participation of expanded team members representing both partners and customers in general meetings for the review of strategic objective four, its activities, and progress.

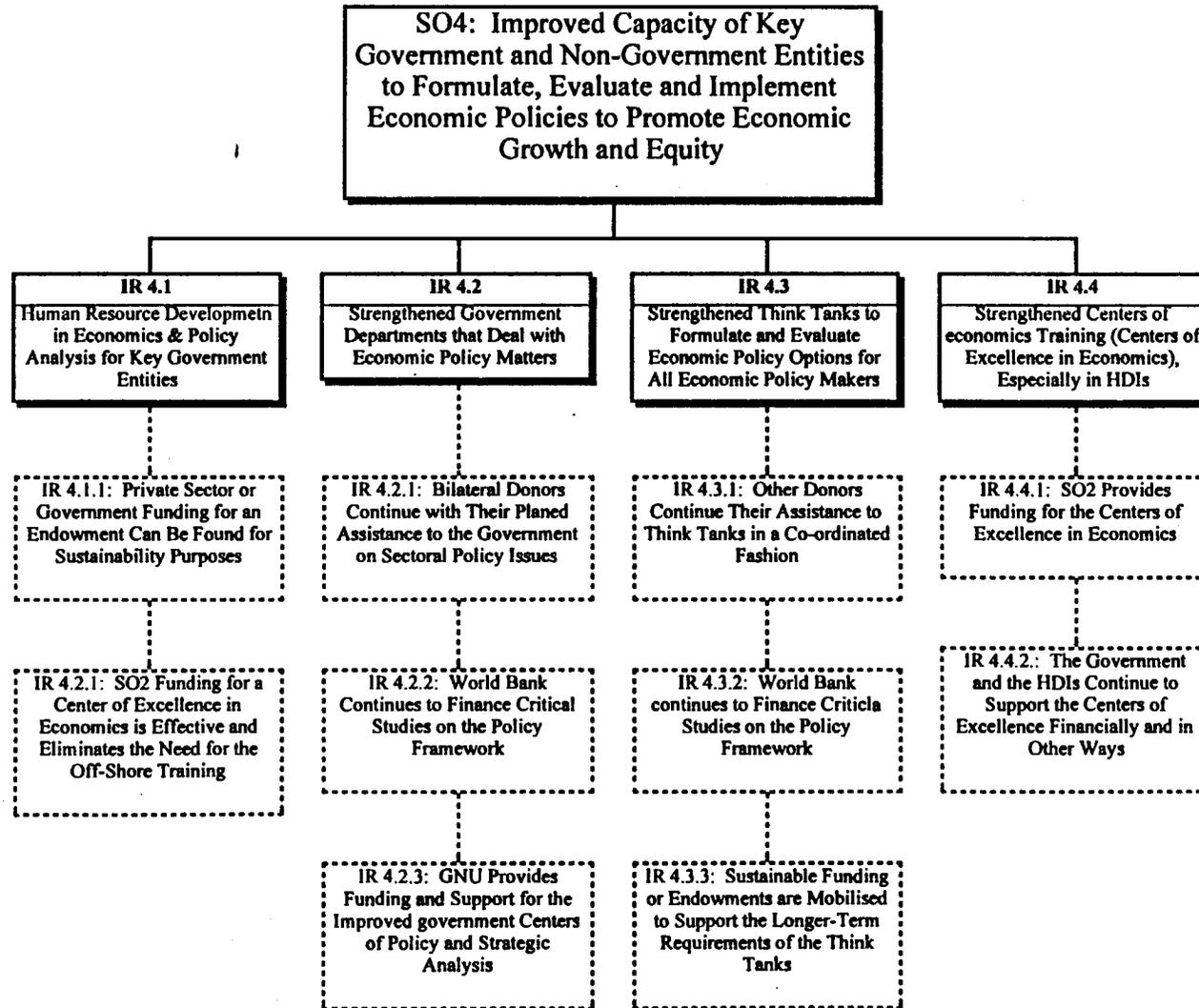
The proposed funding reduction moving from the high to the low option does not “compromise” the basic integrity of the strategic objective, but does reduce the level of achievement of part of the intermediate results and increases the dependence of the strategic objective on resources under other strategic objectives. The specific implications of moving from the “high option” to the “low option” are as follows:

- A contribution from the high option funding for strategic objective four towards the “Center of Excellence” in Economics to complement the expected investment from strategic objective two is eliminated;
- Funding for both governmental and non-governmental capacity strengthening is reduced proportionately; and
- Due to the reduction in the expected length of the program and its activities, program funding for Mission staffing, evaluation and monitoring requirements, including expanded team meetings, is slightly reduced.

If further reductions for funding of this strategic objective were to be necessary, the first \$5.0 million would be drawn from the planned funding for strengthening government capacity. Cuts beyond that point would require that intermediate result 4.2 be dropped. At this point, the strategic objective would need to be restructured since we would not be meeting the requirements for its achievement. Further cuts of up to an additional \$6.0 million could then be sustained before it would be necessary to drop intermediate result 4.3. At this point, it would be recommended that the remaining funding above that required for the Mandela Economics Scholars Program be removed.

FIGURE 5

STRATEGIC OBJECTIVE 4 RESULTS FRAMEWORK



STRATEGIC OBJECTIVE 5: INCREASED ACCESS TO FINANCIAL MARKETS FOR THE HISTORICALLY DISADVANTAGED POPULATION

I. BACKGROUND

References to first world and third world economies in South Africa are euphemisms for the degrees of inequity in social, political and economic arenas. While political participation has been greatly enhanced with the establishment of a majority government in South Africa, social and economic disparities along racial lines are still very evident. Measures of economic equality or economic participation, including employment, managerial employment, business ownership and other forms of asset ownership, are in large part, products of inequities in the social, political and economic arena.

Measures of economic empowerment repeatedly confirm the degree of inequity among racial groups. Blacks dominate the ranks of the unemployed with 41 percent of economically active blacks unemployed, representing 87 percent of the total unemployed in South Africa. With more than 50% of the black population 20 years or younger, and prospects bleak for future employment, unemployment becomes a youth problem. Not unexpectedly, blacks dominate the informal sector, occupying 69 percent of the informal positions, both as survivalists and micro entrepreneurs. While this sector has been responsible for generating 13.4 percent of the jobs among the economically active population, or a quarter of the jobs generated by the formal sector, it contributes nominally to the economy as a whole, only 6.7 percent according to the October Household Survey. Therefore, in order to provide overall economic growth, entry of blacks into the formal sector is critical.

With regard to ownership, blacks are concentrated in those sectors in which barriers to entry are lowest -- wholesale and retail trade (especially in the informal sector), catering and accommodation, community social and personal services (especially in the informal sector), construction, transport, storage and communications. They are vastly under-represented in finance, insurance and business services, among the fastest growing sectors of the economy. Self-employment represents 6.1 percent of the blacks in the formal sector, and 89.5 percent (1,010,000) of the blacks working in the informal economy. According to the Project for Statistics on Living Standards and Development Survey, of those household members from disadvantaged groups involved in Small, Medium and Micro Enterprises (SMME), 59.1 percent were involved in survivalist activities, 38.5 percent were involved in micro enterprises and only 2.3 percent were involved in small enterprises. Women dominated in the survivalist category, with incomes below the minimum income level.

These statistics confirm that the legacy of the apartheid system remains a serious barrier toward the inclusion of the majority population into the economic mainstream. The chief binding constraint to greater participation by the historically disadvantaged population in the mainstream economy is access to financial markets, an area where USAID's comparative advantage can be brought to bear with measurable impact.

II. STATEMENT OF THE STRATEGIC OBJECTIVE

USAID/South Africa's fifth strategic objective focuses on improving the policy environment to facilitate access to capital for historically disadvantaged enterprises, improving the capacity of the financial sector to service the historically disadvantaged and improving the capacity of the historically disadvantaged to respond to financial market requirements. The interventions to be pursued are divided in their focus on either informal and micro enterprises or the "informal, third world economy" or on small, medium and large enterprises comprising the "formal, first world economy."

III. RESULTS FRAMEWORK

A. Problem Analysis, Causal Relationships and Rationale for Selecting this Strategic Objective

One area on which the United States can bring its comparative advantage to bear is in the area of capital markets development. The problem in South Africa is not lack of capital, *per se*, but facilitating access throughout the economy. Not only does the United States have sophisticated capital markets, but has utilized financial engineering techniques, including securitization (creating financial instruments tradable on a securities market which represent an underlying asset), to ensure that assets are available and broadly owned throughout the economy. In addition, techniques for increasing access to ownership opportunities and the chances for new business success have been effectively employed in the United States, including franchising and affirmative procurement. Other techniques to facilitate broader asset ownership, including employee stock ownership plans and profit sharing schemes, have been used to great effect to disperse ownership widely.

Reflecting on U.S. comparative advantage, and the limited duration of the USAID program in South Africa, Strategic Objective Team 5 (SOT5) has embraced one element of the Mission's sub-goal, economic empowerment, as a key contributor to the Mission's program goal of sustainable transformation in South Africa. This sub-goal reflects the dual objectives of improved equity and economic growth as ingredients for the sustainable transformation of the economy from its apartheid legacy of exclusion. The selection of particular interventions to be supported and facilitated by USAID were screened using the Porter paradigm and John Page's recent report for the World Bank, "The East Asian Miracle." and refined for the South African context through a consultative process with partners in the GNU and the private sector.

In the Porter paradigm, four necessary ingredients are identified to attract investment and stimulate economic growth -- capital; infrastructure; policy/regulatory environment; and human/technical resources. We then looked at each of these factors to identify which interventions would result in improved equity of access for historically disadvantaged South Africans.

Access to capital has repeatedly been cited as the number one binding constraint to ownership and private sector economic empowerment by our customers, the historically disadvantaged population. This is an area where USAID has been involved since 1987 through its work with South African micro enterprise finance organizations, and one where USAID's worldwide comparative advantage in capital markets development can be brought to bear. Given the finite resources of USAID, and capital resource availability in South Africa, our focus will be on increasing access to South African private sector capital resources, using innovative financial engineering techniques and leveraging USAID funds to the greatest extent possible, including use of guaranties, equity and quasi-equity instruments. Hence, the selection of our strategic objective "**increased access to financial markets for the historically disadvantaged population.**" This is part of the achievement of a more equitable access to resources for the historically disadvantaged population, which along with increased productive capacity, a better educated and healthier workforce and political stability and good governance, can result in increased economic growth and equity. This in turn equates with economic empowerment, a key component of USAID/South Africa's sub-goal of political, social and economic empowerment.

The area of infrastructure was not designated as an area of focus for USAID private sector initiatives for several reasons:

- the physical infrastructure of South Africa on the whole is very sound. Substandard service delivery in the townships is being addressed as part of the RDP;
- the costs and duration of infrastructure development are beyond the transitional scope of the USAID program; and

- other facilities are available to finance infrastructure development, including through the Development Bank of Southern Africa (DBSA) and World Bank.

The area of policy and regulatory reform is a key area for USAID intervention. Policy interventions can be short-term and high impact in nature. Many of the barriers to economic growth and equality of access in South Africa are policy-based. The key determinants of rapid growth among the High Performing Asian Economies during the 1965-1990 period were high levels of savings and investment (primarily private sector), high investment in education and human capital, productivity growth from high, internal competition, a positive enabling environment, and the sharing of benefits of growth.

Levels of savings and private sector investment are largely policy-based, as is productivity growth from high, internal competition and openness to foreign technology. Government policies, be they fiscal, monetary or bureaucratic, can create a competitive environment conducive to foreign and domestic investment and economic growth. Accordingly, SO5 works closely with and supports the activities under "improved capacity of key government and non-government entities to formulate, evaluate and implement economic policies."

The area of human and technical resources is undoubtedly a critical area for attention in South Africa. The depth of the damage caused by the exclusionary policies of apartheid have created great disparities between the majority population and minority population. The challenge of equalizing basic and tertiary educational opportunities among the races is being pursued by SO2. The need for strengthening human and technical resources will focus on strengthening the capability of historically disadvantaged South Africans to lead policy work relating to economic growth and ownership. It will also be pursued as part of institutional strengthening that facilitates the extension of credit necessary for asset ownership by historically disadvantaged South Africans. Strengthening institutional capacity to facilitate expansion of business ownership among historically disadvantaged South Africans is an acknowledgement of the limited duration of our program and our desire to build on the already significant institutional structure in South Africa to ensure program sustainability beyond a period of intensive donor support.

B. Partners and Consultative Process

Government Policies and Priorities

The Reconstruction and Development Program (RDP) acknowledges the structural problems in the economy and lays out a plan to address those problems and regenerate economic growth and a more equitable distribution of the benefits of such growth. Employment creation is the central priority with attention focused on reversing the low levels of investment and saving and the capital outflow to improve the environment for productive investment. In order to attract investment, the RDP hopes to create transparent and consistent policies and national treatment for foreign investors with access to foreign exchange to enable them to remit after-tax profits, service debt, purchase inputs and repatriate proceeds on the sale of assets. Trade policy embraces the gradual trade liberalization in all sectors of the economy, with assistance in capacity-building, retraining of workers and better utilization of technology to assist firms as tariff protection is gradually removed. With regard to competition policy, the GNU plans to introduce anti-trust legislation to discourage over-concentration of economic power and interlocking directorships, and practices that effectively abuse market power and exploit consumers.

Small, Medium and Micro Enterprise Sector

The growth and development of SMMEs has been accorded significant importance within the economic growth and development strategy of the Government of National Unity's RDP. According to the Ministry of Trade and Industry, "the importance of small enterprise development lies in its ability to instil an entrepreneurial culture, provide a viable alternative for youths looking in vain for blue or white collar jobs, generate new job opportunities, spread development to the regions, create an environment for innovation and

spread industrial skills and know-how among a broad spectrum of the population"¹². In order to implement its SMME strategy, an 18 person Chief Directorate in the Department of Trade and Industry has been created.

While the Small Business Chief Directorate will be responsible for small business promotion, the Ntsika Enterprise Promotion Agency (NEPA) and the National Small Business Council (NSBC) will serve as the links between government and the SMME sector. The NEPA will function as a quasi-government SMME policy, coordination, facilitation and implementation agency for the Department of Trade and Industry. The NSBC, by contrast, will serve as a voice for small business through the participation by representatives of provincial small business "desks," themselves small business entrepreneurs.

A wholesale finance institution would improve SMMEs' access to capital and provide seed capital to NGOs for institutional development. A redesigned credit guaranty scheme will also be administered by the wholesale finance facility. Both the wholesale finance facility and SMME credit guaranty scheme will be initially funded by Government.

Larger Scale Enterprise Sector

While the GNU has inherited tremendous economic and socio-economic challenges, it has accepted its priority of extending public services and social infrastructure to those who had unequal access in the past. Concurrently, it is attempting to instil confidence in local and foreign investors that South Africa will become and remain an attractive environment for safe and profitable investment. One very critical development during the past year was South Africa's signing of the GATT agreement, with full consent of all parties for membership in the World Trade Organization (WTO). This will contribute to turning South Africa from a largely inward-looking to a more competitive, outward-looking economy. The economy, however, must grow rapidly enough to generate sufficient tax revenue to fund the government's social-economic agenda. The GNU has tried to engage the private sector in the policy debate through the creation of the National Economic Forum, replaced by the National Economic Development and Labour Council (NEDLAC), a tripartite body of government, labor and business.

President Mandela, and importantly, the development partner of SO5, the Minister of Trade and Industry, have adopted an approach which strongly supports the growth and development of a strong private sector and a gradual removal of government regulations and subsidies as the economy adjusts to a free market environment. One important policy measure implemented in February 1995 was the elimination of the dual exchange rate system. This was lauded by the business community as the first step in exchange control liberalization, which along with privatization, tariff and tax reform, are requisites to attracting foreign direct investment. Other important policy issues are being addressed including promoting affirmative hiring and tendering programs for blacks; tying productivity to wage increases; exploring privatization; and developing a comprehensive industrial policy. There is growing consensus among South Africans that in order to reintegrate South Africa into the global economy, it must look to means to transform itself from a primary products exporter and capital goods importer to an exporter of value-added products. The protected existence of monopolistic parastatals and the oligopolistic industrial sector have stifled technological innovation and, in turn, competitiveness. The GNU is beginning to look at such critical issues as the abuse of market power through the current Competition Board and through anti-trust legislation being considered. The private sector, for its part, is moving proactively to anticipate the changes implied under a new economic order and can potentially play a very positive catalytic role in the creation of a more dynamic, more competitive and more outward-looking industrial sector in South Africa.

¹² Ministry of Trade and Industry, Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro Enterprises in South Africa: A Discussion Paper, (Cape Town, South Africa, Ministry of Trade and Industry, 1994), p.5.

Other Donors

USAID is the largest bilateral grant donor in the area of private sector development. Until 1995, due to the Comprehensive Anti-Apartheid Act of 1986, USAID's funds were channelled outside of government, largely through the NGO community. USAID's predominant focus was on black economic empowerment, largely targeting the micro and small enterprise end of the sector. This is also the focus of most bilateral donors.

The World Bank and IMF have representative offices in South Africa but, to date, have not provided any loan facilities to the South African government. The UNDP has a small office in Pretoria, but has not assumed the prominent role in donor coordination often evidenced in other countries. In the private sector arena, USAID assumed a leadership role in initiating and leading a donor discussion group (previously a donor coordination group). The Chief Directorate in the DTI has assumed leadership of the private sector donor coordination group. Most bilateral donors are in the formulative stage regarding designating appropriate modes of assistance to develop the private sector. Our donor partners in the private enterprise arena include Germany, Britain, the European Union, Denmark, Japan, Norway, France and Canada¹³. GNU representatives have noted that the Government did need donors' access to the best technical assistance available more than donors' money per se. USAID and other donors are currently tailoring assistance to anticipate the needs of government and the private sector, while trying to capitalize on the comparative advantage and experience each respective country can bring to bear on developing South Africa's private sector.

Consultative Process

In selecting SO5, USAID/South Africa engaged in a highly consultative process with our partners and customers. Over the past year and a half, USAID/South Africa met extensively with partners in the Government, donor community, financial sector, NGO community, and with business chambers and CSOs. There were also meetings with ultimate customers, the historically disadvantaged entrepreneurs, to identify an appropriate area of focus where USAID comparative advantage could best serve the local community. USAID/South Africa discussed not only strategy, but potential interventions, through on-going implementation meetings, through a series of special focus groups organized by partners and through topic-specific forums held with technical counterparts. Importantly, USAID/South Africa was an active participant in the consultative process led by the Department of Trade and Industry in developing its small business strategy. The result was the production of a detailed Private Sector Strategy for USAID/South Africa and the development of a set of tactics using the Manual for Action in the Private Sector (MAPS) methodology, both reflecting the outputs of a highly consultative process.

C. Intermediate Results

USAID's selected interventions focus on the use of the private sector to increase access to financial markets for the historically disadvantaged population. Summarizing the discussion above and the rationale cited throughout this strategy, the following strategic objectives and intermediate results have been identified.

Intermediate Results Focused on Informal and Micro Enterprise Organizations

IR 5.1 - Improved policy environment for facilitating access to capital for historically disadvantaged informal and micro enterprises.

Indicative interventions:

- Increase responsiveness of Government policies to address the needs of historically disadvantaged informal and micro entrepreneurs regarding access to capital (technical assistance, training).

¹³ More details on the activities of specific donors is provided in the Annex A.5.

- Strengthen the capacity of government to analyze, design and implement policies to stimulate the development of SMMEs in South Africa (technical assistance, training).
- Strengthen the capacity of industrial chambers and other business fora to increase businesses' access to financial markets through policy formulation relating to affirmative procurement and export promotion (technical assistance, training).
- Strengthen the ability of business organizations (South African and American) to represent their constituent interests, especially in identifying barriers to entry and developing policy interventions to address these constraints (technical assistance).
- Strengthen the ability of business organizations (national and regional) to lobby for more facilitative regulatory environment (technical assistance).

IR 5.2 - Improved capacity of the financial sector to service historically disadvantaged informal and micro enterprises.

Interventions:

- Increase capacity of NGOs to provide finance to informal and micro entrepreneurs through improved access to commercial credit (technical assistance, training).
- Increase access to capital by micro enterprises utilizing the USAID loan guaranty program and training of bankers in cash flow lending techniques (loan guaranty, training).
- Strengthen the capacity of banks to lend to the historically disadvantaged micro entrepreneur (technical assistance, training).

IR 5.3 - Improved capacity of historically disadvantaged informal and micro enterprises to respond to financial market requirements.

Interventions:

- Increase capacity of micro entrepreneurs to source credit (technical assistance, training).

Intermediate Result Focused on Small, Medium and Large Enterprises

IR 5.4 - Improved policy environment for facilitating access to capital for historically disadvantaged small, medium and large enterprises.

Interventions:

- Strengthen the ability of business organizations (South African and American) to represent their constituent interests, especially in identifying barriers to entry and developing policy interventions to address these constraints (technical assistance).
- Strengthen the ability of business organizations (national and regional) to lobby for more facilitative regulatory environment (technical assistance).
- Strengthen the capacity of government to analyze, design and implement policies to stimulate the development of SMMEs in South Africa (technical assistance).

- Strengthen the capacity of industrial chambers and other business fora to increase businesses' access to financial markets through policy formulation relating to affirmative procurement, export promotion and promoting franchising opportunities (technical assistance, training).

IR 5.5 - Improved capacity of the financial sector to service historically disadvantaged small, medium and large enterprises.

Interventions:

- Increase access to capital by small enterprises utilizing the USAID loan guaranty program and training of bankers in cash flow lending techniques (loan guaranty, training).
- Increase access to capital by small and medium-scale enterprises using risk sharing mechanism of the enhanced credit authority (if authorized), with particular application in franchising, unbundling, privatization and sub-contracting (loan guaranty).
- Increase opportunities for ownership of corporate assets through deal structuring to unbundle corporate assets to benefit the historically disadvantaged, permit employee and management buy-outs, encourage franchising and sub-contracting and privatize government assets with the intent to disperse ownership widely (technical assistance, training).
- Strengthen the capacity of banks to lend to the historically disadvantaged small business operator (technical assistance, training).
- Utilize the USAID loan portfolio guaranty program as a model for new government loan guaranty scheme (technical assistance) and to leverage private sector resources (loan guaranty).
- Utilize unbundling and privatization transactions consummated as models for other transactions (technical assistance).
- Leverage private sector and other donor resources in transactions financed by the Southern Africa Enterprise Development Fund (equity investment).

IR 5.6 - Improved capacity of historically disadvantaged small, medium and large enterprises to respond to financial market requirements.

Interventions:

- Increase access to equity and quasi-equity capital through provision of technical assistance to bring potential investees to the "bankable" stage and to ensure their profitability after receiving equity injections (technical assistance, equity investment).
- Strengthen the local consulting capacity to structure transactions to access equity capital, unbundle corporate assets and work in privatization, as appropriate (technical assistance, training).

D. Critical Assumptions

In developing an appropriate strategy for USAID/South Africa's private sector activities during the next five years, the following realities must be acknowledged. First, if a political base for market-oriented economic policies is to be nurtured and maintained in South Africa, economic access and participation are absolute requisites. Second, redistribution alone will not address the problem associated with economic inequality in South Africa.

A resumption of higher, sustainable growth is required to address the demands for employment and higher incomes among all South Africans. Many South Africans appear to believe that the current growth rate of approximately 3 percent annually is not sustainable without significant structural reform, and is inadequate to address the unemployment crisis.

The challenge is to build on South Africa's functioning private sector-led economy, excellent physical and financial infrastructure, while expanding access and opportunity to those previously excluded without damaging the forces that have created the strong economic foundation of South Africa today.

In order to advance the our objective of increasing access to financial markets for the historically disadvantaged population, the following critical assumptions is made:

the existence of a public sector enabling environment.

Moreover, the following intermediate results by our partners are necessary conditions for achievement of USAID's strategic objective:

- continued Government priority for small business promotion and the creation of new mechanisms to operationalize that priority;
- the availability of private sector financial resources to be leveraged for the historically disadvantaged population; and
- the existence of CSOs which are proactive in policy formulation and dissemination.

USAID/South Africa's program is responsive to Vice President Gore's New Partnerships Initiative (NPI), notably its focus on empowerment through citizen participation and ownership; the emphasis on the role of local NGOs, universities, foundations, small businesses and decentralized government in sustainable development; and improving the enabling environment for NGOs and small business, with a goal of graduating from U.S. assistance.

This latter point is critical in shaping the our program -- the recognition of the limited duration and declining funding levels available to achieve the our economic empowerment goals. Donor assistance overall plays a minor role in the South African economy, representing less than 1 percent of South Africa's GDP. This highlights the need for U.S. support in putting policies, institutions and participatory mechanisms in place as foundations for future growth, even in the absence of donor assistance. The USAID assistance interventions in the private sector can best be designed as **change agents** to catalyze internal processes and delivery mechanisms to continue in the future, independent of USAID or other donor assistance. USAID's selected interventions will, therefore, focus on the use of the private sector to increase access to financial markets for the historically disadvantaged population to address the immediate need to reverse the legacy of exclusion in South Africa, but also to contribute to longer-term economic growth.

E. Sustainability

Recognizing the tranformational nature of USAID assistance in South Africa, private sector programs will capitalize on U.S. comparative advantage, using techniques to maximize the impact of our assistance. These include:

- Funding for models to be broadly replicated and implemented as appropriate;
- Risk-sharing or the leveraging of USAID/South Africa resources with other local and international sources of funding to enhance sustainability;
- Increasing access to the best of U.S. and local expertise;

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- Incorporating training where the lack of skills is the binding constraint to private sector development; and

Jointly identifying and disseminating lessons learned most importantly with our South African partners in development.

IV. ILLUSTRATIVE ACTIVITIES AND JUDGING ACHIEVEMENT

Below is a summary of the currently planned activities to be undertaken to increase access to financial markets for the historically disadvantaged population. Results will be measured by both qualitative and quantitative means as each activity contributes to the intermediate results described earlier. Data will be disaggregated by gender and geographic reach of the program will be reported on.

TABLE 5: CURRENTLY PLANNED SO5 ACTIVITIES

ACTIVITY	GENERAL DESCRIPTION
NGO Support Facility	<p>Channel grants to NGOs serving SMME sector through intermediary organization</p> <p>Sector: micro and small</p>
DTI Technical Support Facility	<p>Grant to DTI to develop and implement SMME program and address trade and investment policies</p> <p>Sector: all with particular emphasis on SMMEs</p>
Equity Access Systems (EASY)	<p>Technical assistance to improve access to equity capital</p> <p>Sector: small, medium and large</p>
Rapid Assistance for National Development (RAND)	<p>Structure transactions to unbundle corporate and state assets, promote management and employee buy-outs, build-operate-maintain schemes</p> <p>Sector: medium and large</p>
Business Linkages for Under-Utilized Enterprises (BLUE)	<p>Strengthen capacity of business membership organizations to transfer technical knowledge to their memberships (affirmative procurement) and serve in a policy/advocacy role</p> <p>Sector: small and medium</p>
International Foundation for Education and Self-Help II (IFESH II)	<p>Increase opportunities for disadvantaged South Africans to enter the managerial ranks in banking through management and technical skills training</p> <p>Sector: small and medium</p>
Southern Africa Enterprise Development Fund (SAEDF)	<p>Provide source of equity capital for promising business ventures</p> <p>Sector: small, medium and large</p>
<p>Other Tools:</p> <p>Micro and Small Enterprise Development (MSED) Loan Guaranty Program</p>	<p>Risk sharing arrangement with private sector financial resources to increase commercial access to credit</p> <p>Sector: micro and small</p>

V. RESOURCE REQUIREMENTS

Under the high option, a total of \$26.8 million will be provided between FY96 and FY98 to implement strategic objective 5. This is in addition to \$30.0 million provided between FY97 and FY2000 for the Southern Africa Enterprise Development Fund. Under this scenario, \$12.0 million would be available to support transactions that could disperse ownership of restructured public and private assets. Another \$1 million will be available in FY97 and FY98 for the funding of activities such as bankers' training under the IFESH activity.

Under the low option, \$21.6 million will be available over the FY96-FY97 period. This is in addition to \$20.0 million provided between FY97 and FY2000 for the Southern Africa Enterprise Development Fund. Under this scenario, less than \$8.0 million would be available to support restructuring transactions. Less than \$1.0 million will be available for other activities. Therefore, USAID's role in facilitating transactions to disperse ownership to the majority population will be limited and any additional micro enterprise activities after FY96 will be precluded.

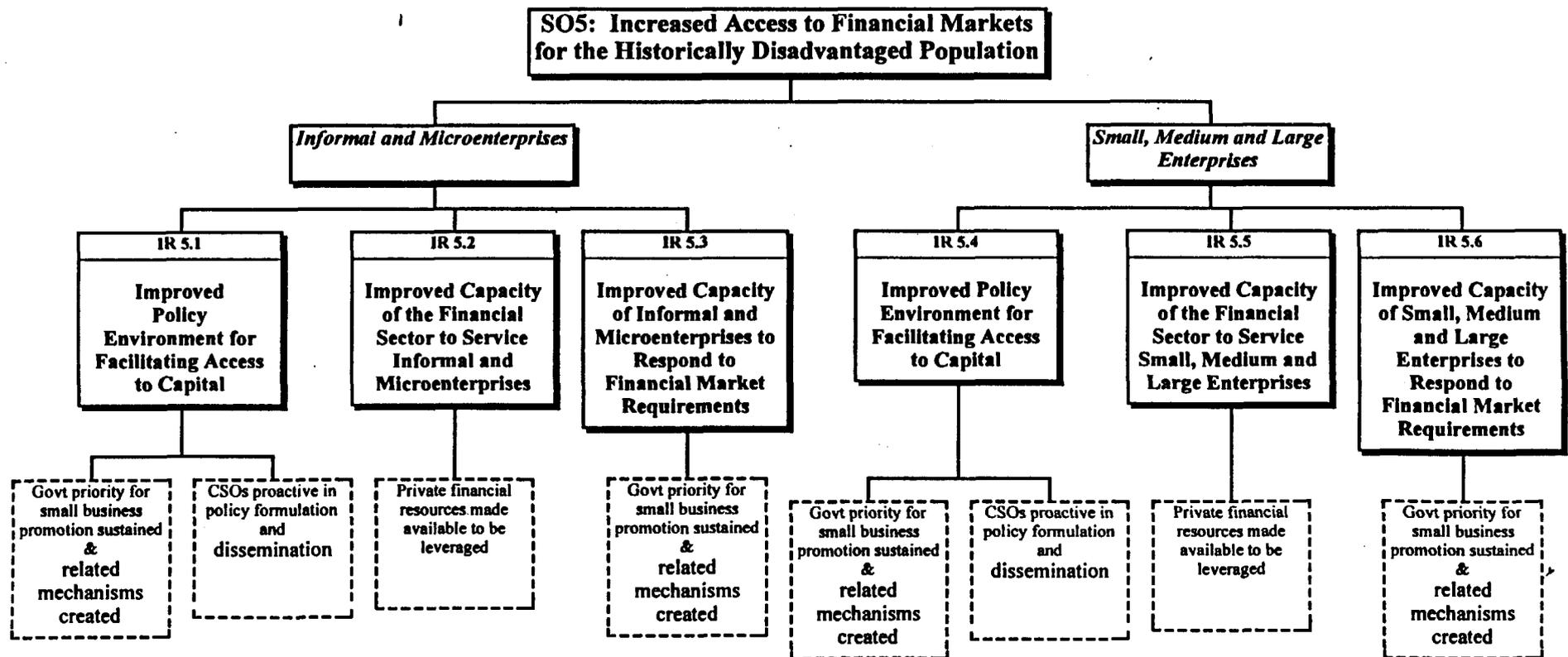
Should the low option prevail, a tremendous opportunity would be lost in accelerating the pace of private sector corporate "unbundlings" or spin-offs. Industrial concentration in South is a potential deterrent to both domestic and foreign investors. Approximately 75% of the equity traded on the Johannesburg Stock Exchange is controlled by the major South African economic houses through pyramid structures and interlocking corporate boards. Not only have these pyramids, along with state-owned corporations, resulted in a relatively inefficient economy, but have restricted market entry, especially among potential black entrepreneurs. Carefully targeted USAID technical assistance could be utilized to accelerate the pace and financing of these transactions whereby black emergent entrepreneurs could be the principal beneficiaries.

VI. GEOGRAPHIC FOCUS

All of the elements of the planned programs are intended to be national in scope. SO5 is cognizant of the need to increasingly target assistance outside of the Johannesburg/Pretoria - Durban - Capetown triangle. Accordingly, each of our interventions seeks to reach across South Africa geographically. For example, with the loan guaranty program funded through the Global Bureau, USAID/South Africa is increasingly reaching out to regional offices of national banks and regional institutions as intermediaries for small business loan guarantees. Similarly, in the NGO Support Facility, sub-grants to NGOs are selected with geographic diversity in mind, and the Equity Access Project is structured to award three contracts for three geographically distinct and inclusive clusters. USAID/South Africa will continue to endeavor to broaden the reach of our interventions to customers throughout the country.

FIGURE 6

STRATEGIC OBJECTIVE 5 RESULTS FRAMEWORK



**STRATEGIC OBJECTIVE 6:
INCREASED ECONOMIC INTEGRATION OF LOW-INCOME
HOUSEHOLDS THROUGH IMPROVED ACCESS TO
ENVIRONMENTALLY SUSTAINABLE SHELTER AND URBAN
SERVICES.**

I. STATEMENT OF THE STRATEGIC OBJECTIVE

South Africa's urban landscape is currently dominated by sprawling slums and squatter settlements. They stand in vivid contrast to the communities where the privileged few reside. They serve as a constant reminder of the gap between the economically empowered and the economically deprived and underline the need for access to shelter and basic urban services for the historically disadvantaged majority. USAID's sixth Strategic Objectives (SOs) is, therefore, the following:

SO6: Improved access to environmentally sustainable shelter and urban services for the historically disadvantaged population (HDP).

**II. PROBLEM ANALYSIS, CAUSAL RELATIONSHIPS AND RATIONALE FOR
SELECTING THIS STRATEGIC OBJECTIVE**

A. Problem Analysis

For historically disadvantaged South Africans, lack of economic empowerment has been manifested by the inability to participate in, and ultimately benefit from, the country's economy in an equitable manner. Perhaps the most glaring mark of economic disempowerment has been lack of access to shelter and basic urban services.¹⁴

A cornerstone of the apartheid system was legislation which specifically prohibited HDP ownership of key economic goods (i.e., houses and businesses) and restricted access to vital socio-economic services (i.e., water and electricity). Apartheid also fostered a system of enforced residential segregation which created spatially segregated, massively overcrowded, underserved, black and colored townships -- almost all of which lacked a viable economic base and associated local government revenues. Deficiencies in the apartheid urban planning process and the eventual repeal of apartheid legislation in the late 1980s culminated in the development of large squatter settlements around formal towns and cities where employment was located and has seriously exacerbated shelter conditions in the urban areas. Today, an estimated one million historically disadvantaged households live in squatter settlements in appalling conditions and current urbanization rates indicate that the black urban population will double by the year 2000.

Housing is currently identified by the Government of National Unity, and by disadvantaged communities, as one of the nation's top three priorities. Related urban environmental services such as water, electricity and sanitation all fall within the top ten needs. At the same time, the assessed shelter-related deficit and the associated costs of providing historically disadvantaged communities with basic levels of housing and services is enormous. Current estimates call for the construction of 300,000 housing units per annum over the next ten years and an associated 70 billion rand in urban infrastructure to bring the majority of HDP households up to the minimum acceptable standards.

¹⁴ Annex A.6 of this document presents further detail on the Urban Sector Situation

The Government of National Unity's (GNU) desire to furnish the historically disadvantaged population with adequate shelter is constrained by a number of factors. First, despite the spectacular progress that has been made in formulating and promulgating shelter sector policies since the establishment of the GNU, there still remains a need for further negotiations and refinement of some of the basic concepts that have been adopted. Of primary concern is that of "incremental housing" which calls for providing a graduated, one-time grant (locally referred to as a subsidy) to low income families sufficient to provide a serviced home-site and a small, one or two-room starter unit which families can expand as resources and circumstances permit. More than one year after the adoption of the principle of incremental housing, there remains an influential constituency that rejects the concept while maintaining that every family should be given sufficient funds to construct a complete four-room house.

The concept of a "social compact" defined as an official agreement between a development agent or agency and a target community about the terms and process of housing or service delivery, has also engendered difficulties. South Africans have emerged from the struggle against apartheid with a powerful commitment to the precept of public participation in the decision-making process to ensure transparency and accountability. Participation, as represented by the social compact, is also seen as an essential element in ensuring long-term developmental sustainability since it ensures beneficiary inputs on such critical issues as affordability, preferred service levels, site selection, environmental impacts and other related factors. The issue is ultimately one of structuring participation in such a manner that it protects the rights of beneficiaries without undermining the efficient delivery of the goods and services they desperately need. Finally, a number of shelter policies formulated by the government (e.g., the Mortgage Indemnity Scheme to insure against the political risk of mortgage bonds and rent boycotts and the Builders Warranty Program which guarantees the quality of housing construction) have not yet been fully implemented. Yet their implementation is essential for the production of shelter on the massive scale currently required.

Financial constraints also abound. The abysmal poverty of the HDP presents a formidable barrier to the provision of shelter and urban services. Over 80 percent of black urban households earn monthly incomes below the national median monthly income of 1,500 rand and 40 percent earn below 800 rand per month. Such low income levels effectively prohibit the average HDP household from obtaining adequate shelter from its own resources. More importantly, the private financial sector has traditionally been unwilling to provide the vast majority of HDP households and firms with loans for housing construction and/or improvements. Reasons include the high costs of administering numerous tiny loans and the uncertainty of repayment linked to a history of bond boycotts. In a similar vein, financing has also been unavailable to the private and public-sector entities, such as firms and municipalities, that furnish urban services to historically disadvantaged communities. Non-payment for service provision is, again, a principal cause. At the same time, there is no question that the provision of financial resources to shelter and service providers and end-users is a critical factor in meeting the nation's shelter needs.

The GNU has inherited a policy and institutional framework that was designed in the apartheid era and is totally unsuited to meeting the special needs of the urban poor. To furnish the HDP with shelter and urban services at the requisite rate necessitates a total transformation of the existing shelter and service delivery system including an emphasis on outreach strategies. This has been the primary task of the government since its inception. At the same time, the scale and complexity of the different policy and administrative reforms have, at times, made it difficult to ascertain which entities should be doing what for whom, with what resources and in what timeframes.

A final constraint on housing and service delivery is that of land tenure. At the close of the apartheid era, land tenure systems reflected the mosaic of administrative systems that covered the national territory. The resultant confusion concerning land tenure rights and the origin of said rights frequently presents a hurdle to entities requiring clear land title as a prelude to infrastructure and shelter investments. At the same time, despite the negative impact of lack of clear title on housing and shelter, USAID will not focus upon land tenure at this time. The principal reason for this is primarily a rural issue, linked to the distribution of the nation's agricultural land between large-scale white farmers and dispossessed majority population farm workers, whereas SO6 is an urban-based program.

B. Causal Relationships and Critical Assumptions

The attainment of SO6 is predicated upon a number of macro-level assumptions that are beyond its direct sphere of control. The first is the assumption of sustained economic growth with equity and competent economic management over the next five-year period. Without this, shelter and urban service provision on the scale indicated above cannot take place. Another important assumption is that government (which will fashion the policy and regulatory environment in which shelter and service provision will take place) and the private financial sector (which controls the lion's share of the necessary financial resources) will remain committed to their urban sector goals. A third assumption is that the massive, nation-wide, public education campaigns that are aimed at convincing citizens to pay for the goods and services they consume will eventually have some degree of success. For, if consumers do not pay for what they utilize and borrowers do not feel constrained to repay their debts, then the basic premise underlying the provision of credit for HDP shelter and services (i.e., that debts will be reimbursed as per agreed upon terms) will be seriously undermined. A number of other lower-level, critical assumptions are also linked to specific intermediate results and associated indicators and these are detailed in Figure 7 and in Annex I.

Other Mission SOs are addressing a number of issues that are also closely linked to the attainment of SO6. These include: SO4 which will improve the capacity of South Africans to ensure the level of economic growth that has been identified as a prerequisite to the development of shelter and infrastructure markets and to enterprise creation; SO1 which will strengthen national and provincial-level public-sector institutions and Civil Society Organizations (CSOs) to help ensure that the new political compact will endure; SO5 will strengthen access to finance for HDP-owned enterprises, including the construction industry which is expected to build as much as 90% of the required housing and services; and SO2 will enable the provision of education and training that is expected to have positive repercussions on the development of critical management skills.

C. Rationale for Selecting SO6

Shelter and urban service provision is ranked as a high priority by the GNU and by ordinary South Africans, and consultations with the GNU have confirmed that this is a sector where USAID intervention would be highly desirable. The decision to include shelter in USAID's strategy has also been supported by the knowledge that it is integral to the achievement of the Mission's economic empowerment sub-goal and by the notable strategic advantage possessed by USAID in this area. This advantage is primarily based upon USAID's close relationships with the full gamut of urban-sector stakeholder. These relationships have been developed over a three year period through a series of activities funded under the Shelter and Urban Development Support (SUDS) Project which began in 1992.

The magnitude of the shelter and urban infrastructure problem in South Africa dictates the form of USAID's strategy. Given the size of the shelter deficit, little will be achieved by USAID if its limited funds are invested exclusively, or even predominantly, in the actual production of housing and urban services. To make an appreciable impact with its resources, USAID must focus upon *access* to shelter for the HDP as opposed to the actual *production* of shelter *per se*.

Policy formulation is an area of intervention in which USAID currently has a major strategic advantage. Over the last two years, the Mission has provided technical assistance inputs, through grants and bilateral agreements, to all of the major public and private-sector stake holders involved in the policy development process and has made direct, identifiable contributions to the creation of the new shelter policy framework. Interventions aimed at the refinement and implementation of these policies are, therefore, a logical undertaking for this CSP period.

Improving access to credit for shelter and urban services is also an area where USAID has successfully intervened and can continue to intervene on several fronts. The dual nature of USAID's urban sector resources, which are composed of both Housing Guaranty loan funds and Development Assistance grant funds, provides USAID with the necessary strategic edge vis-à-vis enhancing HDP access to credit. Under

the proposed strategy, loan funds, which are provided to the South African private financial sector, are used to demonstrate the feasibility and desirability of: (1) issuing mortgage bonds or small shelter loans to previously unserved low-income households or (2) giving (or guaranteeing) loans to municipalities for the purpose of providing low-income communities with urban services. They also serve to leverage additional funds from the borrowing entities for the purpose of housing and urban service loans. Grant funds are utilized to reinforce and complement the credit program. They provide training and technical assistance to the potential borrowers and, to a lesser extent, the lenders. They also are used to help frame the complex policy environment within which the credit programs operate.

USAID/South Africa's ultimate customers are urban households earning below median national monthly income. The vast majority of this group does not now, and will not, in the near future, have access to credit. To have an impact on this group, our interventions must address non-credit issues of access to shelter. Consequently, institutional arrangements which deal with housing and service provision for this group (i.e., public-sector mechanisms for interacting with disadvantaged communities, community support organizations (CSO) interventions within and on behalf of communities) need USAID's support. USAID's relationship with over three dozen of the major urban sector CSOs provides it with the knowledge and perspective required to act effectively in this area. More importantly, USAID's grantees and contractors have worked with dozens of community groups and possess an understanding of the special needs of the urban poor with its elevated proportion of female headed households (see Annex D Section II).

USAID will also address sustainability issues (i.e., environmental, affordability and participatory criteria) under the rubric of non-credit assistance. The GNU has become fully cognizant of the enormous costs and consequences of unsustainable urban development, above all those relating to the degradation of the physical environment— the "brown" environmental issues. It is now incorporating sustainability criteria into all of its urban policies and programs. At the same time, the implementation of these policies are hindered by the institutional shortcomings described above in the problem analysis section. USAID, which is committed to the concept of sustainable development, will support these initiatives by working with both the public and private sector organizations to increase their capacity to identify and address these problems.

USAID possesses an arsenal of tools that are particularly well-suited to the implementation of its chosen strategy. Available tools include: (1) grants and cooperative agreements; (2) technical assistance and training for institutions that are recipients, providers and facilitators of credit and non-credit assistance to the HDP; (3) bilateral agreements with national, provincial and local-level policy developing entities; and (4) loans under the Housing Guaranty (HG) program. Activities undertaken under SO6 will be carried out under the aegis of the three existing USAID/South Africa urban sector projects, where appropriate, and through new results packages specifically developed to facilitate implementation of the new portfolio.

III. INTERMEDIATE RESULTS AND ILLUSTRATIVE ACTIVITIES

Strategic Objective 6: "improved access to shelter and urban services for the historically disadvantaged population" has three associated intermediate results. The three results are described below along with the related illustrative activities and tools (i.e., technical assistance, training, grants, loans etc.) that will be utilized to carry out the activities..

A. 6.1 Improved environment for the development and implementation of a policy agenda for increasing access to shelter and urban services for the HDP

Achievement of the first intermediate result is critical for the achievement of SO6. The creation of a policy framework that affirmatively makes provisions for HDP access to housing and services by removing existing policy and legislative barriers is the foundation on which subsequent results will be erected. Admittedly, new policies, in and of themselves, will not bring about changes in the status quo, but they are the essential first step in the transformation process. Specific activities under Intermediate Result 6.1 include:

- strengthening the capacity (managerial, networking, professional, etc.) of entities (forums, work groups, NGOs, GNU departments) involved in policy formulation with an emphasis on assisting those entities that embrace sustainability and represent the interests of the HDP;
- increasing the body of information available to policy-making entities in order to enlarge the pool of available policy options or cite alternative successful policy arrangements vis-à-vis shelter and urban service provision issues. Note that issues of gender equity, participation, affordability and environmental soundness are considered an integral part of the shelter policy framework; and
- assisting with the setting up of structures for implementing particular policy mechanisms.

Policy development and implementation will be accomplished primarily through technical assistance interventions. These will be provided through grants or cooperative agreements with shelter sector NGOs (or other legally constituted entities) and through multi-year bilateral agreements with GNU national and provincial-level departments (specifically departments of housing and provincial affairs). Interventions under this intermediate result will also feature (a) services from expert consultants with international experience ensure a better informed policy formulation process and (b) support for research and studies to provide base-line information

B. 6.2 *Previously-ineligible households, developers, builders, and municipal service providers obtain access to credit for shelter and urban services.*

The second intermediate result will focus upon reducing the numerous impediments to the procurement of credit for HDP housing and services from the private financial sector. It is intended to assist that portion of the HDP which has the potential to obtain credit yet is not currently being serviced. Concerned stakeholder are unanimous in their agreement that without private sector participation in HDP shelter programs, GNU sector goals (as well as those of USAID) stand absolutely no chance of being attained. Activities under this intermediate result will aim at strengthening the capacities of both the borrowers and, on occasion, lenders of shelter credit. They will also provide incentives to lenders that will encourage them to develop new HDP lending products. To attain the desired results, USAID will furnish grants, technical assistance and training to entities that require or utilize credit for the provision of shelter and urban services. Eligible entities include, developers/ builders, firms, municipalities (or associations of these entities). Assistance will also be given to intermediary organization such as CSOs or public-sector out-reach units that can provide targeted organizations with assistance. Interventions will aim at:

- enhancing the capacity of these entities to understand and comply with the rules governing the provision of credit by the private sector via training and technical assistance; and
- improving the ability of these entities to create networks and to work in concert to augment their chances of obtaining credit.

Intermediate Result 6.2 will also utilize the Housing Guaranty Loan Program to make available funds for the provision of loans to the private sector. These funds are earmarked for use in financing the construction of housing and urban infrastructure destined for low-income communities. Note that specified proportions of housing guaranty funds are targeted to female-headed households. Limited amounts of grant funds will also be employed to provide credit to the targeted groups through special programs that feature some unusual, but interesting credit provision mechanisms. Activities under 6.2 will also assist in:

- enlarging the pool of available credit to be utilized for shelter and urban services for the HDP through leveraging. Specifically, HG loans to private and public-sector financial institutions will leverage rand at ratios of two or three rand per dollar; and
- financing the establishment and implementation of mechanisms/models for providing credit to the target groups.

C. 6.3 Increased non-credit forms of assistance made available by participating institutions to HDPs for obtaining access to shelter and urban services.

- The third intermediate result concerns the provision of non-credit forms of assistance to the HDP. It addresses the special needs of the majority of the HDP who have no prospect of obtaining credit. Since credit is not an option, alternative forms of support, tailored to their specific circumstances, are the preferred mode of intervention. These interventions are simultaneously wider in scope and more varied in form as befits the greater complexity of the barriers facing the very poor. Again, the principal vehicle for furnishing this assistance will be grants and cooperative agreements along with technical assistance. The focus of the various interventions will be upon CSOs and firms that are active in the shelter sector as well as on public sector service providers-- including municipalities. These interventions will:
 - strengthen the managerial and organizational capacity of shelter sector entities; and
 - enhance the capacity of public and private sector service providers to work in partnership with HDP entities on issues related to sustainability including: gender equity, environmental soundness, participation, affordability, etc.

IV. PERFORMANCE MONITORING

A. Monitoring Framework

Strategic Objective 6's intermediate and objective-level results will be monitored by a combination of qualitative and quantitative criteria; however, quantitative criteria will predominate. The indicators shown in Annex I, Monitoring and Evaluation, are expected to be liberally supplemented by sets of lower-level indicators linked to individual results packages as they are developed. USAID/South Africa is also in the process of creating a comprehensive research, monitoring and evaluation program for the entire Mission. SO6 will participate in this program through a multi-year buy-in. Because of the multiplicity of critical assumptions at all levels, and because of the high degree of volatility within the South African socio-economic and political environment, monitoring takes on added significance vis-à-vis the continuing validity of the strategy. The SO6 team will therefore make explicit arrangements for obtaining, processing and disseminating information among team members and concerned partners on an ongoing basis. It will also make provisions for examining and reconsidering critical assumptions and planned results in response to the changing environment. on a periodic basis.

B. Partners

USAID's principal public-sector partners in the quest for improved shelter and urban environmental conditions are, at the national level, the Ministry of Housing (MOH), the Urban Programs Office of the Reconstruction and Development Programme (RDP), and the Ministry of Constitutional Development and Provincial Affairs (CDPA). At the provincial level, USAID works with the Departments of Housing, Local Government and the RDP. At the local level, USAID's partners are the specific municipalities, local-level NGOs and communities in which project activities are located.

In general, national and provincial-level counterparts (most of whom took office following the 1994 elections) possess a high degree of competence and are highly committed to providing the HDP with shelter and services. USAID has been able to confirm this commitment because it has worked in concert with central-level ministries (primarily through bilateral agreements and technical assistance contracts) to support the formulation of virtually every major policy initiative in the shelter area including the National Housing Policy, the Mortgage Indemnity Scheme, the Builder Warranty Program, the National Housing Finance Corporation, and the Municipal Infrastructure Investment Framework. Commitment and competence at the local level is less assured given that municipalities are now amalgamated entities that combine white towns with large black and colored townships and settlements. These consolidated local authorities will be hard-pressed to obtain consensus on costs and levels of service provision, to recruit required personnel, to retain

the loyalty and cooperation of entrenched civil services, to orient newly elected officials to their roles and functions, and to gain the trust of local communities with a history of antagonism vis-à-vis local authorities. On the other hand, USAID will only work with those municipalities that have effectively demonstrated their intention of servicing their historically disadvantaged constituents in a collaborative and sustainable manner.

USAID also works extensively with over forty urban sector CSOs, primarily through grants. While all are committed to assisting the historically disadvantaged communities, they possess differing degrees of management capacity. Over the last year, USAID has made efforts to decrease the number of grantees, and associated management units, by (1) focusing upon "umbrella" type organizations that group grantees within the sector and (b) assisting grantees to function as independent entities that are less reliant on USAID assistance. Finally, USAID works closely with the private financial sector in the design and administration of Housing Guaranty (HG) Loans through which credit is provided to HDP households and firms for the purchase, construction and upgrading of shelter. To date, neither capacity nor commitment is an issue with these entities.

C. Consultations

USAID undertook a ten-week-long consultative process with its partners which culminated in the urban sector strategy presented here. The process began with the development of a draft document that was widely disseminated among the full range of partners listed above. The draft was accompanied by requests for review and comments on specific aspects of the strategy, as well as calls for more general unstructured inputs. Almost all of the major stakeholder provided detailed written responses or communicated their comments at one-to-one meetings or via phone calls. Over a six-week period, the document underwent a series of transformations that reflected these inputs as well as those of the USAID-based, SO6 team members. The final vetting took place at a partners meeting attended by 34 individuals including 26 partners from CSOs, financial institutions, the public sector, and research institutions as well as 8 USAID participants. Based upon the outcome of the meeting, the strategy was ratified in its present form. Specific partner inputs that have had a major impact upon the strategy include the following:

- An increased focus upon non-credit forms of support for the HDP as opposed to a more exclusive focus on credit-related forms of assistance;
- The specific inclusion of participatory processes as an indicator to be tracked in the monitoring framework to reinforce the extensive discussion of participatory issues in the problem analysis;
- An explicit statement concerning the exclusion of land tenure issues as an area of intervention within the strategy;
- Information concerning the role of research and reviews in updating the strategy, over time, in response to changes in critical assumptions.

V. GEOGRAPHIC FOCUS

SO6 has a somewhat varied geographical focus because, in most instances, the geographic location is a function of the type of activity being undertaken. Both intermediate results 6.1 (policy formulation and implementation) and 6.2 (credit for shelter and service delivery) are nation-wide in scope. Shelter policies, by definition, cover the entire nation, and credit is being issued by financial institutions with national coverage. Intermediate Results 6.2 (increased capacity of HDP households, firms and service providers to obtain credit) and 6.3 (increased non-credit assistance to the HDP for obtaining access to shelter and services) have greater geographical focus and are located in or around towns with high concentrations of low-income settlements. USAID is also making an effort to focus a range of activities in specific provinces or towns where a comparative advantage exists by dint of: the presence of other USAID/South Africa programs; previous work with grantees in the region; or special relationships with decision makers-- many of whom

have left USAID/South Africa funded grantee organizations to work in the public sector. Hence, the Eastern Cape, Kwa-Zulu Natal and Mpumalanga are all proposed focus areas.

VI. SUSTAINABILITY

Sustainability will be ensured by the programs' multi-tiered intervention strategy. USAID will simultaneously undertake activities at the level of: (a) the larger policy and legislative environment; (b) the private and public sector implementing agencies; and, most importantly, (c) the representative organizations of the target populations (CSOs). The aim is to focus in a coordinated manner on issues of great immediacy, without slighting questions of long-term impact. Sustainability is also predicated upon the commitment of USAID/South Africa's public and private sector partners. In South Africa, USAID is in the enviable position of working with a highly-sophisticated and well-motivated group of partners. The motivation to succeed, above all at the national-level, public sector, is propelled by the fact that the GNU came to power as the champion of the historically disadvantaged majority and is publicly committed to ameliorating existing shelter conditions. To date, the GNU has established the policy framework for its programs and is now embarking on an intensive implementation phase. It has also allocated increased percentages of the national budget to providing housing and infrastructure for the HDP, and this trend is expected to continue over the next decade. Currently, USAID is working primarily as a facilitator in the South African shelter sector context and envisions intervening in a somewhat opportunistic mode. In sum, USAID believes that, to increase the probability of the success of the GNU's shelter and service delivery program, USAID should provide its partners with assistance as needed and as requested.

VII. RESOURCE REQUIREMENTS

There are two proposed budget scenarios for SO6. The "high option" provides a total of \$33.1 million over a period of 4 years, while the "low option" provides \$27 million over a 3 year period. The high option represents the ideal funding scenario and permits USAID to intervene at a funding level and over a time period that will ensure maximum impact. The low option (which involves an 18 percent cut) permits the carrying out of the majority of the anticipated activities and the consequent achievement of the associated results; but it significantly limits the scale and duration of USAID's intervention.

From a quantitative point of view, the cut in funding translates into a loss for two of the three anticipated intermediate results: 6.1 (policy) and 6.3 (non-credit assistance). Intermediate Result 6.2 (credit-related assistance) which is closely linked to the HG loan program remains unaffected. The reason for this is that 6.2 is primarily funded out of the Housing Guaranty loan program which will provide \$133-\$150 million in funding for loans to HDP households, builder/developers (and possibly municipalities) by private-sector, South African banks. It should be noted that, although the loan agreements were signed at the end of FY94 and FY95 respectively, only \$3 million has been borrowed to date, with the remaining borrowing expected to take place in \$15 to \$30 million tranches over the next four years. Hence, HG resources are essentially sufficient for the CSP period, and threatened cuts in HG resources should not have an unduly-adverse effect on the program. Conversely, should additional HG funds be forthcoming, they would be utilized to expand and reinforce the loan programs.

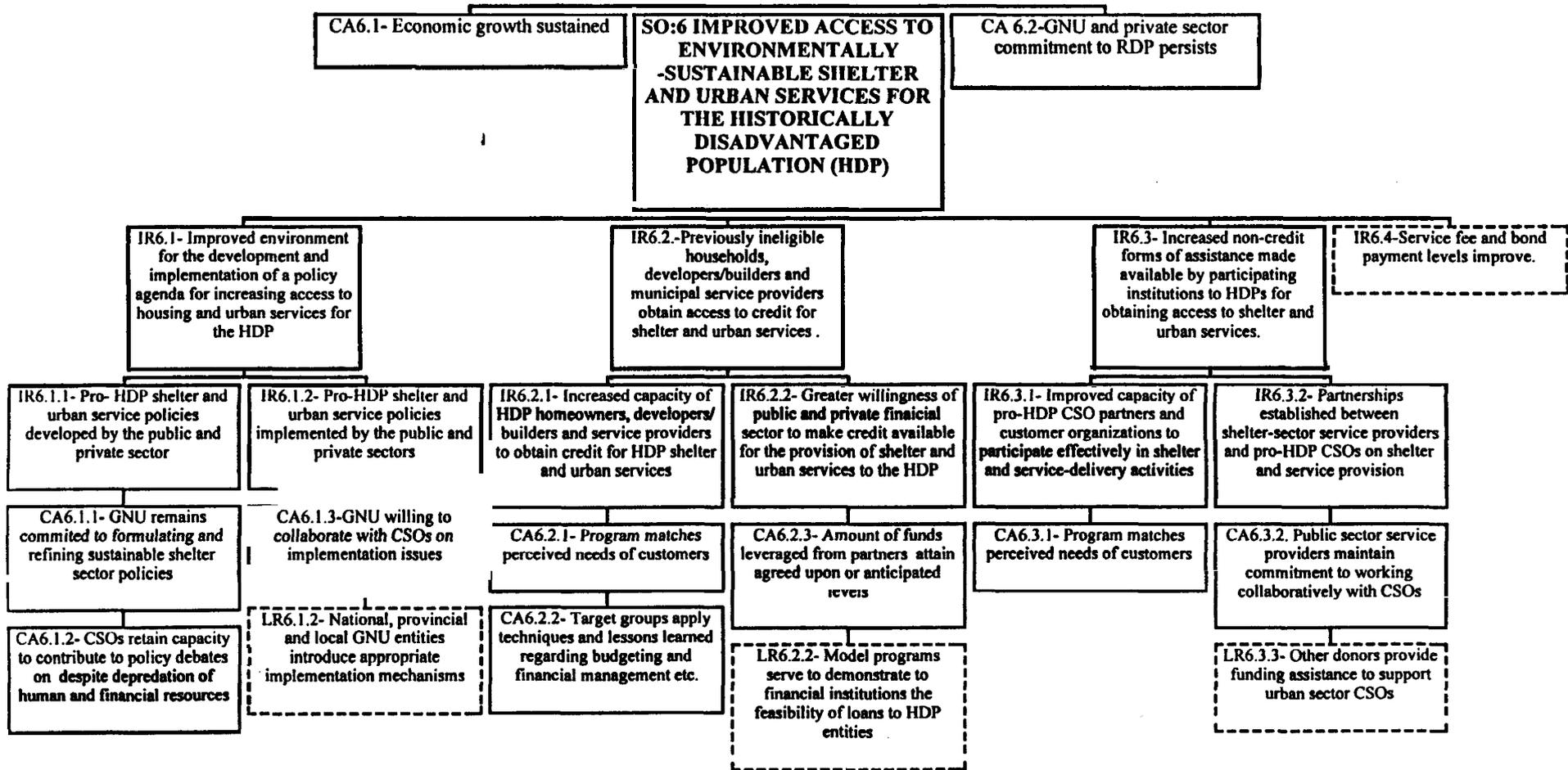
For Intermediate Result 6.1, the low option represents a \$2 million decrease which is manifested by the elimination of funding for two policy implementation activities: (a) environmental training programs and (b) the expansion of the sustainable cities/model cities program from the three metropolitan areas, where they are being established, to other secondary cities. For Intermediate Result 6.3 (non-credit assistance), the low option results in a \$4.1 million cut in funding and an associated thirty percent decrease in the funding of CSOs working with the lowest income groups and the homeless. The real program costs of decreased funding translates into less assurance that some of the more costly, labor-intensive, long-term outreach policies which deal with community-based CSOs and service providers will be fully implemented. Table 5. below provides specific information on the differences between the two options.

TABLE 6: SUMMARY OF EXPECTED FUNDING ALLOCATIONS BY INTERMEDIATE RESULTS AND BY OPTIONS FOR STRATEGIC OBJECTIVE 6

SO6: Improved access to environmentally-sustainable shelter and urban services for the historically disadvantaged population (HDP)		
	\$ millions	
Intermediate Results	High Option	Low Option
6.1 Improved policy environment for facilitating access to housing and urban services for the HDP.	12.1	10.1
6.1.1- Pro-HDP shelter and urban service policies developed by the public and private sector.	4.1	4.1
6.1.2 - Pro-HDP shelter and urban service policies implemented by the public and private sector.	8.0	6.0
6.2- Previously-ineligible households, developers, builders, and municipal service providers obtain access to credit for shelter and urban services.	6.6 <i>(HG=\$150.0)</i>	6.6 <i>(HG=\$133.0)</i>
6.2.1- Increased capacity of HDP households, developer/builders, and urban service providers (e.g., municipalities) to obtain credit for shelter and urban services destined for HDPs.	4.3	4.3
6.2.2- Greater willingness of public and private financial sector to make credit available for the provision of shelter and urban services to the HDP.	2.3	2.3
6.3 Increased non-credit forms of assistance to the HDP for obtaining access to shelter and urban services.	14.4	10.3
6.3.1-Improved capacity of pro-HDP CSO partner and customer organizations to participate effectively in shelter and service delivery activities.	10.3	8.2
6.3.2- Partnerships established between shelter-sector service providers and pro-HDP CSOs on shelter and service provision.	4.1	2.1
TOTAL DFA	33.1	27.0

FIGURE 7

STRATEGIC OBJECTIVE 6 RESULTS FRAMEWORK



PART IV: RESOURCE REQUIREMENTS

I. INTRODUCTION

This section considers the resource requirements in terms of program funding, staff, operating expenses and time, for the strategy presented in Part III. Washington guidance instructs the Mission to present a high and low implementation scenario. Responding to changes in South Africa following the 1994 elections, the Mission's judgement is that a 10-year program is required to achieve its goal of sustainable transformation. An 8 year program is the shortest implementation timeframe possible.

II. PROGRAM RESOURCES

Program resources required for completion of the Mission's strategy are \$435 million over 10 years (8 years funding and 2 years close-out). This will allow the Mission to fully fund its bilateral programs (and their close-out) and to complete funding for the South Africa portion of the Southern Africa Enterprise Development Fund (SAEDF). A low option is also presented at \$321 million over 8 years (6 years funding and 2 years close-out). In this option, time becomes the critical factor. A reduction in time, regardless of funding levels, limits the amount of technical assistance that can be provided, the evolution of policies, and the time to redesign systems to implement that new policies. Both options are discussed below.

Two considerations are worth noting: the magnitude of the difference between options and the timing of the decision of the high vs. the low option for South Africa against the backdrop of significant decreases in resources Agency-wide. Regarding the magnitude of the difference between the high and low options, the Mission presented its original estimates of a high and low budget option in a Concept Paper in June 1995. The original amounts were \$500 million and \$400 million, respectively, over the same programming periods noted above. The Agency's July 1995 review of the Concept Paper concluded in the need to reflect a larger difference between the levels (\$500 million and \$300 million, respectively) in order to clarify the "strategic choices" and reflect the possible need for the Bureau to target substantially lower resource flows to South Africa. Substantial reductions in the Agency's current budget during the strategy development process caused the Mission to re-examine both budget options for South Africa. The result is the above-noted levels. Throughout this re-examination, there was a realization across the Mission that the original high option of \$500 million would be unlikely and required a downward adjustment. Concurrently, careful examination of our strategic objectives and the low option concluded in a need to resist pressures to adjust the low option budget to an even lower level. The Mission considers it imperative that the U.S. maintain a strong presence in South Africa through the 1999 national election and the consolidation of democratic processes immediately following. Between now and the 1999 elections, there remains much to be done to assure that the present course toward sustainable democracy and economic growth continues. At a minimum, USAID's present low option will provide South Africa with the technical assistance, training and resources to help organize for the future. Anything lower than this option would require a completely different strategy -- one that forces a sharp choice among critical sectors; that fails to achieve broad sustainable results through synergies; or that forces a choice between support to government or NGOs.

The Mission is very sensitive to difficulties in reaching agreement on likely assistance levels in out years, particularly given current moods in Congress, implications of election year politics, downward pressures on operating expense budgets, and pressures to scale back the number of missions worldwide. Given that conditions in South Africa demand that implementation of the strategy begin immediately if the USAID/South Africa program is to make a meaningful contribution to helping resolve problems, a timely decision needs to be made on which budget option will be provided. Heavy start-up and close-out costs, in terms of time, initiating procurements, negotiating in-country commitments, avoiding false-starts, risking political good-will, risking not achieving tight synergies among our own SOs, risking more extensive relationships with other donor programs due to a more extensive consultative process, etc., all mean that timing is critical in obtaining a decision on whether USAID/South Africa will be on the high or low Budget Option. In raising this issue, it must be clear that the Mission is not insensitive to budget-decision pressures within the Bureau and across the Agency.

A. Scenario 1: Full Funding Option

Table 7: Full Funding Option (\$ Millions)

SOs	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04-05*	TOTAL 96-05
SO1 (D/G)	23.7	18.6	18.0	17.0	15.6	15.0	10.9	5.0	—	123.8
SO2 (Educ)	44.0	22.0	15.7	13.0	11.6	10.0	9.6	5.5	—	131.3
SO3 (Health)	13.8	9.0	9.0	8.0	2.3	—	—	—	—	42.0
SO4 (Econ)	4.8	4.0	4.0	4.7	3.5	3.0	3.0	3.0	—	30.0
SO5 (Prv.Sec)	14.7	6.1	6.0	—	—	—	—	—	—	26.8
SO6 (Housing)	16.1	8.0	5.0	4.0	—	—	—	—	—	33.1
Self Help	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	—	4.0
Program Support	2.5	1.8	1.8	1.8	1.6	1.5	1.0	1.0	1.0	14.0
Bilateral Total	120.0	70.0	60.0	49.0	35.0	30.0	25.0	15.0	1.0	405.0
SAEDF** (Regional)	0	10.0	10.0	5.0	5.0	—	—	—	—	30.0
TOTAL	120.0	80.0	70.0	54.0	40.0	30.0	25.0	15.0	1.0	435.0
Hsing Guar.****	10.0									
Sm. Busn. Loan Guar.*****	3.0									

* FY 04 and 05 are estimated close-out costs

** The Southern Africa Enterprise Development Fund is a regional program. USAID/South Africa will use bilateral funds to provide South Africa specific funding

**** The Housing Guarantee Program funding for FY 96 is an estimate. Should future year funding become available it will be provided under the Enhanced Credit Program.

***** \$3.0 million in guarantees leverages \$6.0 in loans to small and micro businesses

Table 6 represents a "bottom up" derivation of resource requirements. The Mission has "costed-out" the components of its Development Assistance (DA) program according to the results envisioned in its 6 Strategic Objectives, i.e., what we wish to leave behind upon completion of the program. USAID/South Africa is now much more certain about what will be needed to complete a comprehensive, sustainable development assistance program in South Africa which is limited in duration, rational in cost, and high in impact. To fully carry out its plan of assisting South Africa's transformation, the Mission envisions a program beginning in FY 96, of 10 years duration with funding over 8 years as depicted in Table 6.

This strategy relies on relatively high funding in FYs 96-98, with a significant tapering off of funding thereafter. This is important to allow projects which are now entering full implementation to achieve full impact and to allow relatively new programs in health and trade and investment to get underway. Under this scenario, the Mission will be able to complete the comprehensive program presented in this strategy, leaving behind sustainable, democratic institutions, an integrated educational system, a stronger, more participatory economy, a unified, cost-effective health system, and a shelter sector which has substantially increased stock and improved capabilities to plan in an environmentally sound manner.

B. Scenario 2: Low Funding Option

As noted above, the Mission is cognizant of the extreme budget pressures that USAID as a whole faces, and has worked through a second scenario (Table 8) which applies a reduced time frame and budget. Although we have confidence in the determination of the GNU and the people of South Africa to fulfil their development goals, an early phase-out of USAID assistance in South Africa, as presented in the low funding option, would have adverse effects on South Africa's transformation to sustainable development.

Table 8: Low Funding Option
(\$ Millions)

SOs	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02-03*	TOTAL 96-03
SO 1 (D/G)	23.7	17.2	15.0	12.9	9.0	6.9	--	84.8
SO 2 (Education)	44.0	19.0	10.0	7.0	6.0	3.2	--	89.1
SO 3 (Health)	13.8	9.0	9.0	8.3	--	--	--	40.0
SO 4 (Economic)	4.8	3.5	5.0	4.7	3.5	3.5		25.0
SO 5 (Priv. Sector)	14.7	6.9						21.6
SO 6 (Housing)	16.1	7.0	3.9					27.0
Self Help	0.5	0.5	0.5	0.5	0.5	0.5		3.0
Program Support	2.5	1.8	1.6	1.6	1.0	1.0	1.0	10.5
Bilateral Program	120.0	65.0	45.0	35.0	20.0	15.0	1.0	301.0
SAEDF***	0	5.0	5.0	5.0	5.0			20.0
TOTAL	120.0	70.0	50.0	40.0	25.0	15.0	1.0	321.0
Housing Guarantee****	10.0							
Small Business Loan*****	3.0							

* FY 04 and 05 are estimated close-out costs

** The Southern Africa Enterprise Development Fund is a regional program. USAID/South Africa will use bilateral funds to provide South Africa specific funding

*** The Housing Guarantee Program funding for FY 96 is an estimate. Should future year funding become available it will be provided under the Enhanced Credit Program.

***** \$3.0 million in guarantees leverages \$6.0 in loans to small and micro businesses

1. U.S. Foreign Policy Implications of a Low Funding Option

U.S. foreign policy has been well-served by the USAID/South Africa program. Through the Mission's program U.S. decision-makers have had access to and involvement with GNU leaders since before the transition. U.S. support for the GNU must be carried through the 1999 election period and it must leave behind tangible and enduring evidence of the United States' commitment to the nonracial democracy which it has supported thus far and continues to consider a strong partner. In fact, there is strong rationale for getting well beyond those elections, particularly in the areas of democracy and governance, economic capacity and education. Three years prior to elections we are already seeing political changes which will continue to evolve as elections approach. Those elections will bring into government more new individuals needing training in governance, economic policy, etc. It will also bring about a more constituency based parliament. Funding and time, which stretch beyond 1999 through 2005, can make a critical difference. It is during this timeframe precisely that Centers of Excellence will come to fruition with Centers in Governance and Economics. In addition, post 1999 administrations will have the benefit of returned Mandela Economics Scholars to fill government positions in economic policy.

2. Program Implications of a Low Funding Option

The low funding option described above will have considerable negative effect on the Mission's ability to fully achieve its goal of sustainable transformation. The low option will have a negative impact beyond that of each of the Strategic Objectives: They include:

- First, a sharp reduction in U.S. economic assistance to South Africa could trigger similar reductions by other international donors, in the same manner in which major increases in USAID support following the 1994 election helped to prompt other donors to similarly increase their aid. This likelihood should not be discounted as USAID has, from many perspectives, consistently been a leader in South Africa within the international donor community. As such, its actions are closely observed.
- Second, a sharp decline in donor resources for South Africa will slow down and put at risk the country's ability to meet the pent-up needs and expectations of the majority population. While donor assistance is almost insignificant when compared to the national budget, it does provide significant funding for specific critical development programs. This will continue to be true until South Africa completes the process of restructuring the government budget, and realigning the priorities of the economy.
- Third, a significant decline in USAID and other donor assistance to South Africa will lead to sharper competition between the GNU and the NGO community for donor resources. The substantial expansion in the USAID/South Africa program during the 1994-96 period has allowed continued support for the NGO community while also providing considerable government-to-government assistance. An integral part of the Mission's strategy is to build bridges, where appropriate, between the GNU at the national, provincial and municipal levels, and the NGO community. A sharp decline in USAID funding for South Africa will put at risk this important element of that strategy.
- Fourth, a major decrease in USAID funding for South Africa will practically eliminate flexible, timely response to changing conditions in South Africa. The low funding option will mean concentrating available resources to meet program

mortgages and will limit the Mission's ability to provide catalytic, problem-solving assistance.

- Fifth, across the portfolio, the low funding option, and shorter implementation period, will put at risk the Mission's ability to ensure institutionalization and wide-scale dissemination of positive results. This is very important. In comparison to the total level of U.S. assistance since 1986 (\$697 million), the difference between the two funding scenarios is small, but critical for solidifying the gains achieved by the South Africans.

3. *Strategic Implications of Low Option*

Following is a summary of the anticipated negative impacts the Mission's ability to attain the specific, intermediate results identified under each strategic objective in the low funding option. The Mission made a conscious decision not to eliminate a strategic objective under this scenario for several reasons. First, with the exception of SO4, the Mission is already substantially involved in all strategic areas. It would be irresponsible to walk away from the investments already made without assuring their sustainability. With regard to SO4, this strategic objective was added after the review of our Concept Paper in Washington, recognizing that it was an area in which the U.S. has a strong comparative advantage to address a critical gap in economics policy capacity development. Secondly, the Mission believes that this strategy represents a focused program, which, in a limited period of time, combines the strongest areas of USAID's capabilities to best address South Africa's priority needs. Thus, in making the adjustment from high to low option, the Mission has chosen to make limited cuts in SOs 5 and 6 since they will conclude most quickly, and in SO3 because it is a highly integrated effort already designed at a minimal level, as is SO4. Larger cuts come from SOs 1 and 2, our largest and oldest portfolios which will be forced to limit new areas of involvement.

TABLE 9: HIGH AND LOW OPTION COMPARISON

Strategic Objective	High Option (\$million)	Low Option (\$million)	Difference (\$million)	Percentage Cut
SO1: D/G	123.8	84.7	39.1	31.6%
SO2: Education	131.4	89.2	42.2	32.1%
SO3: Health	42.1	40.1	2.0	4.8%
SO4: Economics	30.0	25.0	5.0	16.7%
SO5: Prv. Sect.	26.8	21.6	5.2	19.4%
SO6: Housing	33.1	27.0	6.1	18.4%

Specific negative impacts of the low funding option upon the Mission's program are presented below by strategic objective.

SO 1. Democracy, Governance, and Capacity for Participatory Development Strengthened

This Strategic Objective continues for the duration of the program, with democratic consolidation completing by 1999-2000 and the other two components of governance and

partnerships for development continuing to the end of the program. As noted earlier, the low option requires major reductions in the results achieved in governance and partnerships for development. In governance, SO1 would only be able to achieve limited results in building public management capacity in the provinces and supporting structural changes in the public service, and it would not be able to support schools of government at all. Remaining support for a "center of excellence" in government under SO2 would provide support for development of new curricula, pedagogy, and limited faculty exchanges which could help the quality of programs at schools of government, but USAID/South Africa's ability to assist expansion of capacity at schools of government under SO1 would be given up. Since this is a field where USAID/South Africa is the lead donor, cutbacks in USAID support would result in schools of government developing at a significantly slower pace, with proportionally less ability to meet the urgent needs of the government for new officials trained in appropriate skills. This would impose some immediate costs, but the main effect would be long term: fewer new, trained people entering the public service and hence slower transformation of the public service in representativity, culture, and skills for participatory development. Because of the special problems South Africa faces in transforming the public service, this would have significant adverse impacts on capacity for sustainable development. The other major loss in results under the low option is in reduction in the number of focus provinces for development of government/CSOs/private sector partnerships from five to three. This would substantially reduce the scope and impact of such partnerships and limit the demonstration effects for other provinces, which means that national-level impact would be significantly reduced. Because of the importance of effective partnerships to making the RDP work, this would again have significant adverse impacts on sustainable development.

SO 2. Transformed Education Strategy Based on Equity, Access, and Quality

A 31 percent reduction in funding for SO2 under the low scenario would imply significant changes in the Mission's strategy which would not only affect SO2. Funding of NGOs would be curtailed, with a loss of their particular function in adding and accelerating qualitative changes, and reducing their role as sentinels, brokers and arbiters for the public will. Investments in establishing or strengthening centers of excellence would also be seriously affected. Presently, centers of excellence in education, governance/public policy, and economics are planned. The low option would afford the Mission to strengthen some departments in these sectors, but the notion of centers of excellence would have to be downgraded accordingly. In particular, these centers would be unable to adopt the role envisioned for them in terms of the breath or depth of expertise and outputs that the country needs. Linkages and faculty exchanges envisioned between centers of excellence and U.S. institutions would also be tempered. Ultimately, the low budget scenario would have a negative impact on the long-term prospects in quality of education, governance, and economic growth. Consequently, the structured and designed synergies among SOs would be greatly reduced. In basic education, the number of provinces impacted by planned interventions would, of necessity, have to be reduced from four to two. Other provinces would also be negatively impacted since policies, systems, and practices which would have been available for replication would be reduced. Finally, the pace and qualitative nature of the envisioned transformation of the education system would be negatively affected.

SO 3. More Equitable, Unified, and Sustainable System Delivering Integrated Primary Health Care to All South Africans

The nature of Strategic Objective 3 is different from the two preceding strategic objectives. It was designed as a focused, integrated intervention and, therefore, cannot readily be compartmentalized in the event of budget cuts. What will suffer from a reduction in funds is the institutionalization of PHC training in all nine provinces. Rather, training will only be institutionalized in the focus province.

SO 4. Improved Capacity of Key Government and NGO Entities to Formulate, Evaluate and Implement Economic Policies to Promote Economic Growth and Equity

Strategic Objective 4 both derives support from and provides support to other Strategic Objectives. The proposed funding reduction from the high to the low option does not "compromise" the basic integrity of the strategic objective, but does reduce the level of achievement of part of the intermediate results and increases the dependence of the strategic objective on resources under other strategic objectives. The specific implications of moving from the high option to the low option are as follows:

- A reduction in the contribution from strategic objective four towards the "Center of Excellence" in Economics to complement the expected investment from strategic objective two; and
- A reduction in funding for both governmental and non-governmental capacity strengthening.

SO 5. Increased Access to Financial Markets for the Historically Disadvantaged Population

Under the low option, USAID/South Africa's role in facilitating transactions to disperse ownership to the majority population will be limited and additional micro enterprise activities after FY 1996 will be precluded. In addition, funding is greatly reduced to support restructuring transactions. Furthermore, a tremendous opportunity would be lost in accelerating the pace of private sector corporate "unbundlings" or spin-offs. Industrial concentration in South Africa is a potential deterrent to both domestic and foreign investors. Approximately 75 percent of the equity traded on the Johannesburg Stock Exchange is controlled by the major South African economic houses through pyramid structures and interlocking corporate boards. Not only have these pyramids, along with state-owned corporations, resulted in a relatively high cost economy, but have restricted market entry, especially among potential black entrepreneurs. Carefully targeted USAID technical assistance could be utilized to accelerate the pace and financing of these transactions whereby black emergent entrepreneurs could be the principal beneficiaries. Funding for SAEDF under the low scenario is also reduced thus limiting access to investment capital for historically disadvantaged South Africans.

SO 6. Improved Access to Environmentally-Sustainable Shelter and Urban Services for the Historically Disadvantaged Population

Although the reduction to SO6 under the low option represents only an 18 percent cut in funding, the impact is widespread affecting the areas of policy, non-credit assistance and credit-related assistance. The scale and duration of USAID's interventions in these areas is significantly limited. In the area of policy, two implementation activities would be eliminated: (a) environmental training programs and (b) the expansion of the sustainable cities/model cities program to other secondary cities. Cuts in the non-credit assistance program would result in a 30 percent decrease in the funding of CSOs working with the lowest income groups and the homeless. The real program costs of decreased funding translates into less assurance that some of the more costly, labor-intensive, long-term, outreach policies which deal with community-based CSOs and service providers, will be fully implemented.

III. SUPPORT RESOURCES

A. Staff Requirements

Staff requirements over the CSP period are derived from Strategic Objective needs over a 10-year period. They attempt to be consistent with USAID guidance (FYs 96-99). Basically, the Mission envisions constant total staff requirements through FY 2000 with a decline of approximately 7 percent annually thereafter. Major drops in workforce will come with the completion of SO5 in 2000, SO6 in 2001, and SO3 in 2003. The other Strategic Objective areas will remain operative until the end of the program although USDH staff levels, in particular, will begin to be minimized as FSN staff can assume implementation burdens.

B. Rationale

USAID/South Africa staff levels have lagged behind the increase in program resources and the Mission never reached the approved staff levels before declining per recent guidance. It is worthwhile noting that USAID/South Africa continues to have one of the highest portfolio values-to-USDH staff ratios in the Agency. The South Africa Mission is critically understaffed across the board. We have compared our total staffing numbers and program size with four other Missions (Bolivia, Indonesia, El Salvador and Uganda). Because of its history, USAID/South Africa's portfolio is by far the most NGO-oriented of this group. With a budget more than triple that of El Salvador, Mission staffing is half the number. While it can not be denied that salary levels drive this difference, the resultant workload issue is critical.

TABLE 10: PROGRAM SIZE VS. STAFFING

Mission	Program Size FY 95	Total Staff (Program and OE)
South Africa	187,000,000	143
Bolivia	88,400,000	214
Indonesia	63,200,000	167
Uganda	49,300,000	154
El Salvador	41,000,000	214

While the FY 95 program size figures are dramatic, they do not take into account the pipeline amounts which indicate how much work is to be done to actually implement our program - which is more labor-intensive than the obligation stage for most of the missions. Due to the large obligations during the Clinton Pledge period and the relatively slow disbursement rate of a NGO-focused program, the USAID/South Africa pipeline will reach \$500 million in FY 97. The South Africa Mission obligated \$187 million in FY 95, the majority of which went to hundreds of NGOs, many of which have unsophisticated budgeting and management capabilities and require Mission input/oversight. Although the Mission has placed greater emphasis on lowering its number of management units, much of the program continues to be outside of bilateral agreements and largely implemented by NGOs, making it very labor-intensive. OE increases have been minimal and this year the Mission has been advised to decrease staff as well. On average, many Mission staff are working sixty or more hours a week and still cannot keep up. This presents concerns for the well-being of employees, not to mention the very real vulnerability and accountability issues which must be addressed. In FY 96 OE-funded workforce levels have already begun to decline. It would be a management disaster to cut total staffing levels at this time given the continuing workload.

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C. Assumptions

A critical assumption to successfully meeting the declining USDH, OE-funded workforce levels is that the Mission will be able to retain its FSN staff. At a time when businesses are flooding into the country and the GNU is heavily recruiting, FSNs have not received a pay raise since May, 1994. At present, the Mission is losing an average of 1 FSN per week to the private sector and government. This heavy turn-over has morale, workload, and cost implications due to loss of efficiency and retraining required. The Mission is working with the Embassy to address this issue but its remedy would be dependent on OE-restrictions.

IV. OPERATING EXPENSES

Operating expense requirements derive entirely from staff requirements discussed above and are premised on a 10-year program. As expected, costs will remain fairly constant through FY 2000 and then begin to decline at an average rate of 2.3 percent per year with inflation effects factored in.

A. Rationale

OE projections have been, as noted above, based upon staff requirements and have considered current Agency concerns. USAID/South Africa has limited the growth of overhead costs, especially OE costs. The Mission has identified creative approaches to fund the support needs that are directly related to attainment of results. Beginning in FY 94, the Mission intensified efforts to determine where program funds could be legitimately used to pay for the overhead support required to achieve our strategic objectives, and to identify further ways to economize on OE resource expenditures. The assumption is that, in the short-term, the total workforce levels cannot be reduced below the FY 95 levels. The Mission will continue to explore ways to replace the USDH positions with program-funded FSN and PSC contractor personnel.

B. Assumptions

Staff levels will remain generally consistent with USAID/W projections. South African inflation will remain at a level of approximately 10 percent per annum for the 10-year period. The US dollar to South African rand exchange rate will remain stable at about R 3.6 = 1 US Dollar throughout the 10-year period.

V. FACTORS BEYOND USAID/SOUTH AFRICA'S CONTROL

Some factors, such as inflation, Congressional appropriation of OE resources, etc. could obviously impact upon the above projections. Others could also arise, such as unforeseen wage increases, which would require adjustments in the Mission's projections.

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TAGS:
SUBJECT: USAID/SOUTH AFRICA CONCEPT PAPER REVIEW: RESULTS
OF DECISION MEETING.

1. INTRODUCTION: THE DECISION MEETING, CHAIRED BY AA/AFR
JOHN HICKS AND HELD ON JULY 18, 1995, WAS THE SECOND AND
FINAL REVIEW OF USAID/SOUTH AFRICA'S CONCEPT PAPER, A
PRELIMINARY LONG-TERM STRATEGY DOCUMENT. BOTH THE
DECISION MEETING AND THE ISSUES MEETING (CONDUCTED ON JULY
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5. 1995) INCLUDED WIDE PARTICIPATION FROM ACROSS USAID/W
AND ALSO REPRESENTATIVES FROM THE DEPARTMENT OF STATE AND
OMB. THESE TWO REVIEW MEETINGS BUILT UPON EXTENSIVE
STRATEGY CONSULTATIONS HELD IN FEBRUARY/MARCH 1995 AND
WERE INTENDED TO PROVIDE THE FINAL GUIDANCE AND DIRECTION
FOR THE COUNTRY PROGRAM STRATEGIC PLAN (CPSP) TO BE
SUBMITTED IN LATE NOVEMBER 1995 AND REVIEWED IN EARLY
JANUARY 1996.

TO THE GREATEST EXTENT POSSIBLE, THIS REVIEW SOUGHT TO
PROVIDE CLEAR GUIDANCE, PARTICULARLY ON THE FOLLOWING
PARAMETERS:

- A. FUNDING LEVELS AND PROGRAM DURATION;
- B. THE AFRICA BUREAU'S VISION AND PROGRAMMATIC PRIORITIES
FOR THE USAID PROGRAM IN SOUTH AFRICA; AND
- C. OPERATING EXPENSE (OE) LEVELS AND RELATED ISSUES.

IN HIS OPENING COMMENTS, AA/AFR JOHN HICKS COMMENDED THE
MISSION FOR THE IMPRESSIVE AND WELL-WRITTEN CONCEPT PAPER
DOCUMENT. HE ALSO EXPRESSED APPRECIATION OF AND SUPPORT
FOR THE WAY IN WHICH THE MISSION IS CONSULTING WIDELY IN
THE PROCESS OF DEVELOPING ITS FIRST CPSP FOR A POST-
APARTHEID SOUTH AFRICA. MISSION DIRECTOR CAP DEAN
CONFIRMED THAT THE CONCEPT PAPER REFLECTED BOTH THE
WRITTEN WORD OF, BUT ALSO LONG DISCUSSIONS WITH THE SOUTH
AFRICAN GOVERNMENT AND SOUTH AFRICAN NON-GOVERNMENTAL
ORGANIZATIONS (NGOS). HE WELCOMED CONTINUED ANALYTICAL
SUPPORT FROM USAID/W IN THE FINAL DEVELOPMENT OF THE CPSP.
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2. KEY ISSUES DISCUSSED AND DECISIONS TAKEN AT THE MEETING
APPEAR BELOW:

ISSUE 1: FUNDING LEVELS AND PROGRAM DURATION

WHAT FUNDING LEVELS AND PROGRAM DURATION SHOULD THE
MISSION USE IN THE FINAL DEVELOPMENT OF ITS CPSP?

DISCUSSION:

THE TWO FUNDING SCENARIOS USED IN THE CONCEPT PAPER ARE CONSISTENT WITH THE OUTCOME OF BROAD AND HIGH-LEVEL DISCUSSIONS HELD IN FEBRUARY/MARCH 1995 AND THE LEVELS PROVIDED TO THE MISSION BY AFR/DP FOR USE IN ITS ACTION PLAN. COGNIZANT OF THE CURRENT BUDGETARY DISCUSSIONS NOW UNDERWAY, THE MISSION WOULD LIKE TO PREPARE ITS CPSP AROUND REALISTIC FUNDING LEVELS. AT THE SAME TIME, THE MISSION DOES HAVE A STRONG PREFERENCE FOR A PROGRAM DURATION THAT INCLUDES EIGHT OBLIGATION YEARS, PLUS TWO MORE YEARS FOR FINAL IMPLEMENTATION.

DECISION:

THE MISSION SHOULD PREPARE THE CPSP USING THE FOLLOWING TWO FUNDING LEVELS AND PROGRAM DURATIONS:

1. DOLS. 500 MILLION TO BE OBLIGATED OVER EIGHT YEARS AND IMPLEMENTED OVER TEN YEARS AND

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2. DOLS. 300 MILLION TO BE OBLIGATED OVER SIX YEARS AND IMPLEMENTED OVER EIGHT YEARS.

ISSUE 2: RATIONALE FOR STRATEGIC CHOICES

WHY HAVE VARIOUS STRATEGIC CHOICES, AMONG SECTORS AND WITHIN SECTORS, BEEN MADE?

DISCUSSION:

QUESTIONS CENTERED ON WHY CERTAIN AREAS, ESPECIALLY ENVIRONMENT, ENERGY, AND POPULATION, HAVE NOT RECEIVED MORE ATTENTION AS WELL AS THE EMPHASIS IN THE FIELD OF EDUCATION (BASIC EDUCATION VERSUS TERTIARY EDUCATION). IN ADDITION, IT HAS BEEN SUGGESTED THAT THE MISSION'S ROLE IN ENCOURAGING ECONOMIC GROWTH APPEARS RATHER MARGINAL IN COMPARISON TO OTHER DONORS AND THE SOUTH AFRICAN PUBLIC AND PRIVATE SECTORS. AN INHERENT TENSION AND DILEMMA RESIDE IN TRYING TO STRIKE THE RIGHT BALANCE BETWEEN RESPONDING TO A VARIETY OF VERY REAL NEEDS AND ACHIEVING AND MEASURING IMPACT.

DECISION:

THE MISSION'S CPSP SHOULD EXPLAIN THE BALANCE IT HAS DECIDED UPON AMONG AND WITHIN VARIOUS SECTORS AS WELL AS THE RATIONALE SUPPORTING THESE STRATEGIC DECISIONS. THE MISSION SHOULD ARTICULATE THE SIGNIFICANCE OF THE RESULTS IT PLANS TO ACHIEVE AND WHAT WILL BE LOST IF USAID ASSISTANCE IS NOT PROVIDED. IN ADDITION, THE MISSION SHOULD DESCRIBE WHAT IS (AND WHAT IS NOT) BEING DONE BY

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OTHER CONTRIBUTORS (E.G., THE SOUTH AFRICAN GOVERNMENT, CORPORATE SECTOR, NGOS, AND OTHER DONORS) TO DEVELOPMENT. IN ITS FINAL DEVELOPMENT OF THE CPSP, THE AFRICA BUREAU ENCOURAGES THE MISSION TO FASHION A PROGRAM THAT IS FOCUSED ON RESULTS AND OPERATES WITHIN BUDGETARY (PROGRAM AND OE) CONSTRAINTS, STAFFING LIMITATIONS, AND EARMARK REQUIREMENTS.

ISSUE 3: THE BINATIONAL COMMISSION FACTOR

WHAT IS THE RELATIONSHIP BETWEEN THE U.S.-SOUTH AFRICA BINATIONAL COMMISSION (BNC) AND THE MISSION'S PROGRAM AND ALLOCATION OF FUNDS?

DISCUSSION:

THE BNC'S FIVE COMMITTEES INCLUDE HUMAN RESOURCES DEVELOPMENT AND EDUCATION; BUSINESS DEVELOPMENT; CONSERVATION AND ENVIRONMENT; SUSTAINABLE ENERGY; AND SCIENCE AND TECHNOLOGY. THE FOUR STRATEGIC OBJECTIVES CONTAINED IN THE PROPOSED STRATEGY CAN READILY ACCOMMODATE

SELECTED BNC ACTIVITIES UNDER THE FIRST TWO COMMITTEES, BUT NOT NECESSARILY THOSE OF THE OTHER THREE. HOWEVER, THERE MAY WELL BE INSTANCES WHEREIN THE MISSION WILL WANT TO SUPPORT ACTIVITIES IN THESE THREE AREAS AS WELL.

DECISION:

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THE BINATIONAL COMMISSION IS AN IMPORTANT INITIATIVE OF
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THE ADMINISTRATION AND THE MISSION SHOULD CREATIVELY
INTEGRATE APPROPRIATE BNC ACTIVITIES INTO THE PROGRAM,
WHEREVER POSSIBLE, KEEPING IN MIND FUNDING, STAFFING AND
WORKLOAD CONSTRAINTS. AFRICA BUREAU MANAGEMENT AND AFRISA
WILL REMAIN IN CLOSE COMMUNICATION WITH THE MISSION ON THE
EVOLUTION OF THE BNC, PARTICULARLY AS WASHINGTON AND
PRETORIA PLAN FOR THE SECOND MEETING (NOW SCHEDULED FOR
DECEMBER 4/5, 1995) OF VICE PRESIDENT GORE AND DEPUTY
PRESIDENT MBEKI UNDER BNC AUSPICES.

ISSUE 4: ENVIRONMENT

SHOULD THE MISSION BE DOING MORE IN THE FIELD OF
ENVIRONMENT?

DISCUSSION:

THE CONCEPT PAPER DOES NOT ADDRESS ENVIRONMENTAL ISSUES,
REFERRING ONLY ONCE, IN PASSING, TO URBAN ENVIRONMENTAL
ISSUES AND SERVICES (P. 37). THE BACKGROUND ANALYSIS OF
THE SOUTH AFRICAN CONTEXT, U.S. INTERESTS, AND FUTURE
USAID SUPPORT MAKES NO MENTION OF THE ENVIRONMENT. THIS
IS PARTICULARLY STRIKING GIVEN THE PAPER'S FOCUS ON
"SUSTAINABILITY," A TERM GENERALLY UNDERSTOOD TO ENCOMPASS
ENVIRONMENTAL GOALS, AS WELL AS ECONOMIC AND SOCIAL ONES.

USAID'S GUIDELINES FOR STRATEGIC PLANS REQUIRES AN
ANALYSIS OF ENVIRONMENTAL CONDITIONS, OPPORTUNITIES, AND
PRIORITIES. THE MISSION HAS DRAFTED SUCH AN ANALYSIS (THE
"SOUTH AFRICA ENVIRONMENTAL SECTOR'1 STUDY) AND SHOULD
INTEGRATE THE CONCLUSIONS INTO ITS STRATEGIC PLAN. THIS
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SHOULD RESULT IN A MORE EXPLICIT STRATEGY TO ADDRESS
PRIORITY ENVIRONMENTAL ISSUES IN OTHER SOS.

DECISION:

THE CPSP SHOULD REFLECT EXPLICITLY THE MISSION'S ONGOING
AND PLANNED ENVIRONMENTAL ACTIVITIES AND THE "SOUTH AFRICA
ENVIRONMENTAL SECTOR" STUDY. THE CPSP SHOULD DESCRIBE THE
ROLE OF THE GOVERNMENT OF NATIONAL UNITY AND THE SOUTH
AFRICAN PRIVATE SECTOR, AND OTHER DONORS IN ENVIRONMENTAL
ISSUES AND IDENTIFY GAPS THAT CAN BE FILLED WITH LOW

MANAGEMENT INTENSITY MECHANISMS, CONSISTENT WITH THE
MISSION'S STRATEGIC OBJECTIVES. THE CPSP ALSO SHOULD
DESCRIBE HOW THE MISSION PLANS TO TAKE ADVANTAGE OF
INITIATIVE FOR SOUTHERN AFRICA (ISA) PROGRAM RESOURCES IN
THIS FIELD. A GRAPHICAL REPRESENTATION THAT ILLUSTRATES
WHERE/HOW ENVIRONMENTAL ACTIVITIES ARE INTEGRATED ACROSS
THE PROGRAM WOULD BE HELPFUL.

ISSUE 5: SOS/POS, RESULTS AND INDICATORS: PROCESS VS.
PRODUCT

THE FOUR STRATEGIC OBJECTIVES (SOS) AND THE 29 PROGRAM
OUTCOMES (POS) RANGED THEREUNDER ARE STATED IN BROAD
"PROCESS" TERMS, E.G. "SUPPORT THE DEVELOPMENT OF..."
"CAPACITY FOR ... INSTITUTIONALIZED," ETC., WITHOUT CLEAR
INDICATIONS OF BASELINE DATA OR BENCHMARKS. FURTHER, THE
SOS AND POS ARE NOT EXPRESSED IN TERMS OF RESULTS,
INCLUDING SOME PEOPLE-LEVEL RESULTS.

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DISCUSSION:

THE BUREAU RECOGNIZES THAT THE CONCEPT PAPER WAS NOT
INTENDED TO ADDRESS ALL CPSP CONCERNS. HOWEVER, WHILE
SOME OF THE POS SUGGEST A VARIETY OF RESULTS, IT IS
UNCLEAR WHAT THESE SPECIFICALLY WILL ADD UP TO AND WHAT
WILL BE THE RESULTS OF THE INVESTMENT OF USAID RESOURCES.
"IMPROVED MANAGEMENT SYSTEMS OPERATING AT ..." MAY BE A
DESIRABLE RESULT, BUT WHAT KINDS OF INDICATORS WILL
DEMONSTRATE THAT THIS RESULT HAS BEEN ACHIEVED? IN
CHOOSING "PROCESS" SOS AND POS, MODELS AND IMPROVED

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SYSTEMS APPEAR TO BE THE END PRODUCT.

DECISION:

USAID/SA SHOULD REVIEW ITS PROPOSED OUTCOMES IN HEALTH, EDUCATION, AND ECONOMIC EMPOWERMENT NOT SOLELY IN PROCESS TERMS BUT ALSO QUANTIFY THESE RESULTS OF IMPROVED STATUS OF THE BENEFICIARIES (MORE YOUNGSTERS GRADUATING/LESS WASTAGE, BETTER HEALTH AND REPRODUCTIVE HEALTH STATUS, INCREASE IN ASSET OWNERSHIP, ETC., AS A DEMONSTRATION EFFECT). ANOTHER OPTION WOULD BE TO ADD A SECOND SUB-GOAL WHICH PERMITS ADDITION OF INDICATORS RELATED TO PEOPLE-LEVEL IMPACT ACROSS-THE-BOARD IN THE PROGRAM (I.E., MEASURING/ASSESSING THE STATUS OF EDUCATION, HEALTH, ECONOMIC POLICIES AND PARTICIPATION, AND DEMOCRATIC PARTICIPATION).

THE MISSION SHOULD CONTINUE TO WORK WITH AFR/DP IN REFINING ITS OBJECTIVE TREE AND PERFORMANCE INDICATORS. IN GENERAL, SOS AND POS SHOULD BE STATED IN TERMS OF

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SPECIFIC MEASURABLE RESULTS RATHER THAN ACTION TERMS. IT IS UNDERSTOOD THAT RESULTS AT THE SO LEVEL ARE ACHIEVED IN PARTNERSHIP WITH SOUTH AFRICANS AND OTHER DONORS SO IT IS NOT NECESSARY TO INCLUDE PHRASES SUCH AS "TO SUPPORT ..." OR "TO CONTRIBUTE TO..." INDICATORS SHOULD BE DIRECT MEASURES OF THE SO AND PO AS STATED AND NOT RESULTS OF THE OF THE SO AND PO. IN ADDITION, PERFORMANCE TARGETS SHOULD BE IDENTIFIED FOR EACH YEAR IN WHICH THE MISSION EXPECTS TO HAVE ACTUAL DATA. LASTLY, THE MISSION SHOULD DESCRIBE THE MONITORING AND EVALUATION SYSTEM THAT WILL CAPTURE AND REPORT IMPACT ON THE FREQUENT BASIS THAT IS REQUIRED OF THIS HIGH PROFILE PROGRAM.

ISSUE 6: RATIONALE FOR FUNDING REDUCTION CHOICES AMONG SOS

IN THE SECOND (LOWER RESOURCES) SCENARIO, THE RATIONALE FOR "CUTTING" VERSUS "KEEPING" IS LACKING. IT IS HARD TO FIND THE CORRELATION BETWEEN THE FUNDING TABLE AND CUTS IN PROGRAM OUTCOMES.

DISCUSSION:

IN THE LOWER RESOURCES SCENARIO, PROPOSED 1997 OUTLAYS ON D/G ARE ONLY NOMINALLY REDUCED OVER THOSE IN 1996, WHILE HEALTH IS NOT CUT AT ALL. IN ORDER TO SUSTAIN D/G AND HEALTH, SUBSTANTIAL CUT-BACKS ARE PROPOSED IN ECONOMIC EMPOWERMENT AND A SMALLER ONE IN EDUCATION. D/G AND HEALTH ARE IMPORTANT PRIORITIES, BUT IT IS NOT CLEAR WHY THIS IS SO. HOW DOES THE MISSION RATIONALIZE TAKING FUNDS AWAY FROM ECONOMIC EMPOWERMENT WHEN MEDIUM-TO-LONGER-TERM

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IMPROVEMENTS AND EQUITY IN SOCIAL SERVICES ARE CRITICALLY DEPENDENT UPON RESOURCES GENERATED BY INCREASED ECONOMIC GROWTH? WHILE MAINTAINING RESOURCES FOR HEALTH, COULD SOME LOWER PRIORITY DJG ELEMENTS BE REDUCED OR ELIMINATED IN ORDER TO RETAIN ECONOMIC POLICY DIALOGUE?

DECISION:

THE CPSP SHOULD EXPLAIN THE MISSION'S RATIONALE IN PROPOSING CUTS IN CERTAIN SOS, AND THE LONGER-TERM PROGRAM IMPLICATIONS. THE STRATEGIC CHOICES MADE UNDER THE REDUCED SCENARIO SHOULD REFLECT RESULTS LOST UNDER THE RELEVANT SOS, BOTH WITHIN SECTORS AND ACROSS THE PROGRAM.

ISSUE 7: OPERATING EXPENSE

WHILE PROGRAM BUDGETS DECREASE OVER TIME IN ALL SCENARIOS, THE SUPPORT OVERHEAD OF THE MISSION IS STILL GROWING, AND THE MISSION STATES THAT IT "CANNOT RESPONSIBLY BE COMPRESSED," WITHOUT MAJOR STRUCTURAL CHANGES IN ITS

PROGRAM OR WAYS OF DELIVERING ASSISTANCE. THE COSTS TO FUND AND SUPPORT USAID STAFF ARE SAID TO BE INCREASING SIGNIFICANTLY IN 1996 AND 1997. WHY IS THIS SO?

DISCUSSION:

THE USAID/SOUTH AFRICA PROGRAM IS ONE OF THE FEW PROGRAMS THAT IS IN A GROWTH PHASE. WITH PRIOR RECENT YEARS OF HIGH

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FUNDING, THE PORTFOLIO IS JUST REACHING FULL IMPLEMENTATION. THE MISSION WAS DIRECTED TO STRAIGHT-LINE UNCLASSIFIED

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FY 1995 OE LEVELS INTO FYS 1996 AND 1997. IN THE OPERATING EXPENSE AND WORKFORCE REQUIREMENTS SECTION OF ITS 1997 ACTION PLAN, THE MISSION HAS IDENTIFIED A RESULTING SERIOUS SHORTAGE IN OE. IT HAS SUGGESTED ALLEVIATING THIS SHORTAGE IN FY 1996 (NOTE: THESE OPTIONS WILL NOT RELIEVE THE SHORTAGE IN FY 1997) BY TRANSFERRING SOME OE COSTS TO PROGRAM FUNDING.

THIS ASSUMES USAID/W'S APPROVAL FOR THE MISSION TO FUND SOME POSITIONS IN THE PROGRAM AND PROJECT DEVELOPMENT, CONTROLLER AND EXECUTIVE OFFICES WITH PROGRAM FUNDS; THIS GOES AGAINST CURRENT GENERAL PRACTICES. THE MISSION ARGUES, THAT WITHOUT INCREASED OE LEVELS, IT WILL HAVE TO FIND A DIFFERENT WAY OF DOING BUSINESS IN SOUTH AFRICA, INCLUDING REDUCING THE LEVEL OF MISSION OVERSIGHT. IN OTHER WORDS, OE, RATHER THAN PROGRAMMATIC CONSIDERATIONS, MAY BE DRIVING THE SHAPE OF THE MISSION'S PORTFOLIO AND ITS MANAGEMENT IN THE FUTURE.

AT THE DECISION MEETING, THE MISSION SUBMITTED A DOCUMENT, "USAID/SOUTH AFRICA OPERATING EXPENSE ISSUE," WHICH RECOMMENDED SPECIFIC WAYS IN WHICH OE FUNDS COULD BE SAVED.

DECISION:

THE AFRICA BUREAU APPRECIATES THE RECOMMENDATIONS FOUND IN THE MISSION'S OE DISCUSSION DOCUMENT. THE BUREAU INCLUDED THESE RECOMMENDATIONS IN ITS DISCUSSIONS WITH THE MANAGEMENT BUREAU AND PPC STAFF IN ORDER TO DETERMINE IF CURRENT OE FUNDING GUIDELINES CAN BE MADE MORE FLEXIBLE UNCLASSIFIED

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WITH RESPECT TO "PROGRAM" OR "SPLIT-FUNDING" CERTAIN MISSION ACTIVITIES, GIVEN THE EXTRAORDINARY AGENCY-WIDE OE CONSTRAINTS AND THE DIRECT PROGRAM/PROJECT RELATED CONTRIBUTION MADE BY CERTAIN EMPLOYEES. THE BUREAU WAS ADVISED BY THE MANAGEMENT BUREAU THAT TRANSFERRING OE FUNDED POSITIONS TO PROGRAM ACCOUNTS IS NOT A LEGAL OPTION AT THIS TIME. UNLESS THE CONGRESS REVISES LEGISLATIVE LANGUAGE ON THE USE OF PROGRAM AND OE FUNDS, IT IS HIGHLY UNLIKELY THAT THE AGENCY'S LEGAL INTERPRETATION AND STRICT

GUIDELINES WILL BECOME MORE FLEXIBLE IN THE NEAR FUTURE.

AT THE SAME TIME, AA/AFR HICKS REQUESTED THE MISSION TO FIND MORE EFFICIENT, LESS COSTLY WAYS OF OPERATING. THIS IS A MESSAGE THAT THE BUREAU WOULD CONVEY EVEN IF OE FUNDS WERE NOT CONSTRAINED, BUT CERTAINLY IS UNDERSCORED WITH THE REDUCTION OF OE RESOURCES FOR THE AGENCY AND THE STRAIGHT-LINING OF USAID/SOUTH AFRICA OE FUNDS IN FYS 1996 AND 1997. IN DOING BUSINESS DIFFERENTLY, THE BUREAU UNDERSTANDS THAT THE LABOR-INTENSITY OF THE PROGRAM CANNOT CHANGE OVERNIGHT, BUT IT DOES EXPECT DECREASES OVER THE YEARS. THE MISSION DIRECTOR CITED VARIOUS WAYS OF OPERATING THAT WOULD REDUCE OE EXPENSES, INCLUDING ASSIGNING RESPONSIBILITY AND ALLOCATING FUNDS FOR ONE OF ITS STRATEGIC OBJECTIVES TO A SOUTH AFRICAN OR U.S. ORGANIZATION WHOSE COSTS WOULD BE COVERED BY PROGRAM RESOURCES. THE CPSP SHOULD EVALUATE AND PROPOSE SUCH OPTIONS.

ISSUE 8: HOUSING GUARANTIES (HGS)
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WHAT WILL BE THE LIKELY IMPLICATIONS ON THE SUCCESS AND IMPACT OF THE SA PROGRAM BY THE ELIMINATION OF HOUSING GUARANTIES, AS CURRENTLY PROPOSED IN CONGRESSIONAL APPROPRIATION SCENARIOS FOR USAID FUNDING?

DISCUSSION:

ACHIEVEMENT OF THE HOUSING AND URBAN DEVELOPMENT COMPONENT OF SO NUMBER 3 AND MANY OF THE MISSION'S ENVIRONMENTAL ACTIVITIES CRITICALLY DEPEND ON THE CONTINUATION OF HG

RESOURCES. AT THE MOMENT, PENDING LEGISLATION WOULD ELIMINATE THE WORLDWIDE HOUSING GUARANTY PROGRAM. HOWEVER, THERE IS SUPPORT IN BOTH THE SENATE AND THE HOUSE TO MAKE AN EXCEPTION FOR THE HOUSING GUARANTY PROGRAM IN SOUTH AFRICA.

DECISION:

THE AFRICA BUREAU WILL REQUEST LPA TO WORK WITH THE BUREAU, G/ENV, AND CONGRESS TO ENSURE THAT APPROPRIATE LANGUAGE AND FUNDING IS INSERTED IN THE PENDING LEGISLATION TO PERMIT THE CONTINUATION OF A HOUSING GUARANTY PROGRAM IN SOUTH AFRICA.

3. IN SUMMARY, THE AFRICA BUREAU CONGRATULATES THE MISSION ON PREPARING AN EXCELLENT DOCUMENT FOR USAID/W REVIEW AND LOOKS FORWARD TO RECEIVING THE CPSP IN LATE NOVEMBER 1995 AND REVIEWING IT IN EARLY JANUARY 1996. GIVEN CURRENT

BUDGETARY AND STAFFING CONSTRAINTS, THE MISSION FACES A
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CHALLENGING TASK IN DEVELOPING ITS FINAL STRATEGY DOCUMENT. THE BUREAU STANDS PREPARED TO PROVIDE WHATEVER FURTHER SUPPORT/GUIDANCE THAT WOULD BE OF VALUE TO THE MISSION.
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