

PD-ABD-705

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input checked="" type="checkbox"/> A - Add <input type="checkbox"/> C - Change <input type="checkbox"/> D - Delete	75539 Amendment Number N/A	DOCUMENT CODE 3
2. COUNTRY/ENTITY SOUTH AFRICA	3. PROJECT NUMBER 674-0312		
4. BUREAU/OFFICE AFRICA BUREAU	5. PROJECT TITLE (maximum 40 characters) SHELTER AND URBAN DEVELOPMENT SUPPORT		

6. PROJECT ASSISTANCE COMPLETION DATE (FACD) MM DD YY 09/30/95	7. ESTIMATED DATE OF OBLIGATION (Under "2" below, enter 1, 2, 3, or 4) A. Initial FY <u>92</u> B. Quarter <u>4</u> C. Final FY <u>95</u>
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 92			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	\$9,200		\$9,200	30,000		30,000
(Grant)	(\$9,200)	()	(\$9,200)	(30,000)	()	(30,000)
(Loan)	()	()	()	()	()	()
Other 1.						
U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	\$9,200		\$9,200	30,000		30,000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DEA						30,000		30,000	
(2)									
(3)									
(4)									
TOTALS						30,000		30,000	

10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code B. Amount	

13. PROJECT PURPOSE (maximum 400 characters)

The project seeks to support the economic empowerment of the black majority in South Africa and the evolution of the shelter delivery system to better serve that population. The project will finance training, technical assistance, and grants for shelter and urban development assistance.

14. SCHEDULED EVALUATIONS Interim: MM YY MM YY Final: MM YY 06/95	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input type="checkbox"/> 041 <input type="checkbox"/> Local <input checked="" type="checkbox"/> Other (Specify) 935
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page FF Amendment.)

17. APPROVED BY <i>[Signature]</i> Title: Acting Director USAID/South Africa	Date Signed: MM DD YY 15/3/92	18. DATE DOCUMENT RECEIVED BY AID/M, OR FOR AID/M DUMENTS, DATE OF DISTRIBUTION MM DD YY 1/2/92
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PROJECT PAPER

SOUTH AFRICA SHELTER AND URBAN DEVELOPMENT SUPPORT PROGRAM

674-0312

USAID/SOUTH AFRICA
RHUDO/ESA

MAY 13, 1992

2

Table of Contents

South Africa Shelter and Urban
Development Support Program
674-0312

	Page
Project Data Sheet	1
Table of Contents	2
List of Acronyms	4
Action Memorandum for the Director	5
Project Authorization	10
1. <u>Development and Program Context</u>	12
1.1 Overview of Urbanization in South Africa	12
1.2 Emerging Development Priorities	14
1.3 USAID/South Africa Development Strategy	16
1.4 Other Donor Assistance	17
2. <u>Sectoral Constraints and Opportunities</u>	19
2.1 The Existing Housing and Urban Development System	19
2.2 Community Involvement	22
2.3 Finance	23
2.4 Policy and Institutional Framework	25
3. <u>The Program</u>	27
3.1 Program Goal and Purpose	27
3.2 Program Description	27
3.3 Program Outputs	43
4. <u>Cost Estimate and Financial Plan</u>	44
4.1 Program Financing Plan	44
4.2 Training Cost Plan	45

5.	<u>Implementation</u>	45
5.1	USAID Program Management	45
5.2	Implementation Plan	46
5.3	Procurement	46
5.4	Monitoring, Evaluation, and Audit Plan	48
5.5	Implementation Schedule	49
6.	<u>Program Feasibility Analyses Summaries</u>	43
6.1	Technical Analysis	51
6.2	Financial and Economic Analysis	51
6.3	Institutional Analysis	52
6.4	Social Soundness Analysis	53
6.5	Political Analysis	53
	Bibliography	55

Annexes

A.	Project Logical Framework
B.	ECPR PID Review and PP Guidance Cable
C.	Technical Analysis
D.	Financial and Economic Analysis
E.	Institutional Analysis
F.	Social Analysis
G.	Political Analysis
H.	Construction Sector Analysis
I.	Training Program Analysis
J.	Statutory Checklist

4

Acronyms and Abbreviations

A.I.D.	The U.S. Agency for International Development
ANC	African National Congress
AMLSA	Association of Mortgage Lenders of South Africa
AUHFI	African Union of Housing Finance Institutions
BESG	Built Environment Support Group
CAAA	Comprehensive Anti-Apartheid Act
CAST	Civic Association of Southern Transvaal
CBO	Community Based Organization
CDA	Cooperation for Development in Africa
CDIE	Center for Development Information and Evaluation
CIDA	Canadian International Development Agency
CODESA	Convention for a Democratic South Africa
CSIR	Center for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DFR	Durban Functional Region
EC	European Community
ECPR	Executive Committee Project Review
FSN	Foreign Service National
FY	Fiscal Year
HFI	Housing Finance Institution
HG	Housing Guaranty
GAF	Get Ahead Foundation
GCC	Group Credit Company
IDA	International Development Association
IDASA	Inst. for Democratic Alternatives in South Africa
IDT	Independent Development Trust
IQC	Indefinite Quantity Contract
LA	Local Authority
LIT	Land Investment Trust
LOP	Life of Project
NGO	Non-Government Organization
NP	Nationalist Party
ODA	Overseas Development Agency
PID	Project Identification Document
PP	Project Paper
PSC	Personal Services Contract
PWV	Pretoria, Witwatersrand, and Vaal Triangle
RHUDO	Regional Housing and Urban Development Office
RFP	Request for Proposals
RSC	Regional Services Council
SA	South Africa
SAG	South African Government
SIDA	Swedish International Development Agency
TSO	Technical Service Organization
UF	Urban Foundation
USAID	USAID/South Africa
WB	World Bank

Rate of Exchange May 1992: US\$1 - SAR 2.85

5

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/SOUTH AFRICA

FROM: Paul Neifert, PDO ^{PN}
Michael J. Lippe, RHUDO/ESAP ^{PN/v}

SUBJECT: South Africa Shelter and Urban Development Support
(SUDS) Program (674-0312)

I. Problem

Your approval is required to authorize the subject project for a Life of Project (LOP) period of 4 years at a level of \$30,000,000, to be funded under the FAA out of the DFA account.

II. Authority

Pursuant to State 129548, AID/W has delegated authority to the Mission Director, USAID/SA to approve the project at a level not to exceed \$30,000,000. (See Annex B.)

III. Discussion

A. Background

In 1990 more than 7 million urban black* South Africans were living in informal housing under deplorable conditions, including backyard shacks in townships and rapidly growing, unserviced squatter settlements. These figures imply an existing urban housing backlog of nearly 1 million units; up to 3 million additional new units would be required to accommodate the projected increase of 20 million black city dwellers by 2010.

** The term "black" refers to all individuals of African, "colored", or Asian descent who were legally disadvantaged by apartheid. The primary beneficiaries of this program will be members of the majority South African population.

6

Black urbanization is largely based upon the search for employment: in 1990, more than 60% of South Africa's \$100 billion GDP was generated in urban areas. But the country's economy is faltering and actually contracted by 1% in 1990. Unemployment among blacks nationwide is now estimated to be between 40% and 50%. Increasing urbanization and housing problems are a certainty.

Explicit within the political transition negotiations is the desire of the disadvantaged majority to acquire control over both a representative democracy and a healthy economy. Economic empowerment of blacks necessarily entails a more equitable distribution of resources, but in the absence of significant economic growth, redistribution of existing wealth would naturally create political repercussions. Among a variety of proposals being discussed today in South Africa, large scale provision of affordable housing for black South Africans is seen as both politically necessary and as a means to stimulate equitable and sustainable economic growth and, in the process, create new employment opportunities.

USAID began examining the South African housing and urban development sector in late 1989, culminating in the formulation of a sectoral assistance strategy in 1991. This strategy recognizes that, unlike many other countries, South Africa possesses a relatively well developed housing delivery system.

However, if this system is to solve the shelter problems of a "new" South Africa, there are a number of interventions which are critical in order to reorient this delivery system to be able to benefit the disadvantaged majority. The most significant constraints facing such an effort are: a) the lack of capacity of organizations within disadvantaged communities; b) the inaccessibility of both short and long term finance to black South Africans; and, c) the lack of an appropriate policy and institutional framework through which to sustain equitable low cost housing and urban development.

B. Project Description

The Shelter and Urban Development Support Program (SUDS) is a 4 year, \$30 million program, the goal and purpose of which are to promote the economic empowerment of disadvantaged South Africans through support for the improvement, increased production, and greater ownership of affordable shelter within viable urban environments.

Progress toward this goal will be achieved by: a) strengthening black community based organizations; b) assisting communities with the design and provision of appropriate housing and infrastructure; c) increasing the amount of bridging, short, and long term finance available for construction of infrastructure and low cost housing; and, d) encouraging the establishment of institutions and the delineation of a policy framework which will facilitate the emergence of equitable, integrated urban life in South Africa. Rather than a bricks and mortar project to only build houses for a relative small number of people, the program has been designed to emphasize institution building and to promote changes in the current systems in South Africa for the provision of shelter to blacks. Its ultimate success will be measured in terms of the changes in these systems and its ultimate benefits, if successful, will extend far beyond the numbers of houses actually built under the Program.

The specific physical outputs of the program will include the construction of more than 7,500 improved plots and/or new low cost housing units with at least \$35 million in long term and end use finance from existing South African sources mobilized directly for program supported communities over the LOP. In addition, more than 30 community based organizations, including up to 1,000 individuals, will receive training in basic development management and more than 50 professional community development advisors will be trained. In this process, at least 30 construction and building supplies enterprises will be assisted, with the creation of over 1,000 jobs envisaged. Finally, as a result of construction initiated with resources supplied by this program, it is estimated that over 5,000 person years of direct employment will be generated.

The overall achievement of this program will be the development of functional housing delivery systems for black South Africans within a supportive policy and institutional framework.

At the end of the program, the following conditions will exist:

- a. Increased management control of the local shelter development process by black South Africans.

- b. Growth of multiparty, national and regional housing and urban development negotiating fora which play formative roles in determining the appropriate policies and institutional framework for this sector.
- c. A significant and growing group of individuals who have been trained in all aspects of shelter development, along with training institutions which are prepared to continue this process.
- d. Improved design and implementation of low cost housing and community infrastructure development projects.
- e. Increased production of low cost housing and serviced homelots affordable to black South Africans.
- f. Growth of black private enterprises in the construction and building supplies fields.
- g. Growth in employment of black South Africans as a direct result of construction supported by this program.
- h. Improved access to bridging finance for community infrastructure and housing by black communities and entrepreneurs.
- i. Increased provision of short term finance for home improvements by blacks.
- j. Increased volume of long term mortgage finance supplied to black home and plot owners by building societies and other South African financial institutions.

C. Summary of A.I.D. Financing

<u>Program Component</u>	<u>US \$'000</u>
I. CBO Capacity Building	6,380
II. Policy and Institutional Development	2,000
III. Finance	18,000
IV. Construction Management Assistance	2,450
V. Program Management	<u>1,170</u>
Total	30,000

9

D. Findings of PP Analyses

The project design recognizes the complexity, unpredictability, and dynamic nature of the current situation in South Africa and the risks to project implementation that they engender. Particular care has been taken to involve persons from all levels of South African society in the design process. Assuming that the political, economic, and social environments remain conducive to project implementation, the project is technically, socially, economically, and institutionally sound, and is implementable.

E. Project Issues

A number of issues were raised by AID/W during the review of the Project Identification Document (PID) and were resolved during the final ECPR Meeting. (A copy of the PID approval and PP guidance cable is attached in Annex B). The major technical assistance contract under this project shall be restricted to "Grey Amendment" entities, in accordance with USAID procurement policies. No legislative action is required to achieve objectives under the project.

IV. Waivers

No waivers are required.

V. Recommendation

That you approve the Shelter and Urban Development Support Program at a four year life-of-project funding level of \$30,000,000 by signing below and on the attached project authorization document.

Janice Weber
Approved
Janice Weber
Acting A.I.D. Director
May 13, 1992
Date

Attachments:

- 1. Project Authorization
- 2. Project Paper

Drafted: MLippe: 4/13/92
Clearances:
DRathbun, OPMD
JHensley, CONT
MKenyon, RCO (Draft)
DKeene, RLA (Draft)

PROJECT AUTHORIZATION

Name of Country: South Africa
Name of Project: Shelter and Urban Development Support
Number of Project: 674-0312

1. Pursuant to the Foreign Assistance Act of 1961, as amended, and the Comprehensive Anti-Apartheid Act of 1986, as amended, I hereby authorize the Shelter and Urban Development Support (SUDS) Program involving planned obligations of not to exceed thirty million United States dollars (\$30,000,000) in grant funds over a period of four years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the program. The planned life of the program is four years from the date of initial obligation.

2. The program consists of financing training, technical assistance and policy development for shelter and urban development activities. The program seeks to support the economic empowerment of the black majority in South Africa and the evolution of the shelter delivery system to better serve that population.

3. The contracts, grants or cooperative agreements, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to terms and conditions as A.I.D. may deem appropriate.

4. The source and origin of commodities and nationality of services (except ocean shipping) financed by A.I.D. under the Program with DFA funds shall be the United States, South Africa or other countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Program shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States and countries included in A.I.D. Geographic Code 935.



Janice Weber
Acting Director
USAID/South Africa

Date: May 13, 1992

Draft:
Clearances:

MLippe, RHUDO *ML*
PNeifert, PDO *PN*
DRathbun, OPMD *DR*
JHensley, CONTO *JH*
DKeene, RLA (DRAFT) *DK*

1. Development and Program Context

1.1 Overview of Urbanization in South Africa

South Africa is the most industrialized and urbanized country in Africa. With a population approaching 40 million, the country's 1990 GDP exceeded \$100 billion. Approximately 60% of GDP is generated in the economic core of the country, comprising the four major metropolitan areas of Pretoria, Witwatersrand and the Vaal Triangle (PWV), Durban/Pinetown (also known as the Durban Functional Region, or DFR), the Cape Peninsula, and the greater Port Elizabeth/Uitenhage area.

The country's population distribution reflects the concentration of economic production in urban areas - in 1989, 65% of the population was classified as urbanized. The total population is projected to grow to almost 60 million by 2010, of which three fourths will live and work in cities. About 55% of the black South African population was classified as urban in 1985. By 2010, this percentage will rise to almost 70%, or about 33 million people. Of these, it is expected that more than 2/3 will reside in the metropolitan areas noted above.

The economic and social inequalities which characterize South Africa are well known but bear repeating as they impact heavily upon every facet of urban life. In 1988, more than 60% of income accrued to the top 20% of the population, while only 31% accrued to the black majority. Official unemployment estimates for the black population in 1990 exceeded 50%. This situation will not improve unless the economy grows at annual rates in excess of 5% per annum, an unlikely prospect, as about 400,000 new, mainly black job seekers enter the market each year over the next decade.

The character of South African urban life, reinforced by apartheid legislation until 1991, fully reflects these inequalities. Central business districts and white residential areas have services and a quality of life equal to or exceeding any developed country. In the black townships and squatter settlements, on the other hand, services are either overwhelmed by high population densities and inadequate maintenance, or are entirely absent. More than 7 million urban South Africans have no alternative but to live in informal, "shack" housing, implying a housing backlog of at least 1 million units. In the PWV alone, about 850,000 informal, largely unserviced housing units constitute nearly 40% of the existing housing stock. The spatial segregation of black residential areas imposes significant burdens on commuters to central business district workplaces, with more than 10% of household expenditures devoted to transport. This segregation also discourages the location of businesses and industry in the townships, thereby severely limiting local economic development.

The dismantling of apartheid structures, including the rescission of the Group Areas Act in early 1991, opens the door to the social and economic empowerment of South Africa's black majority. All South Africans are now entitled to buy, own and sell land, houses and other fixed assets wherever such commerce is legally authorized. Racial restrictions on employment and the conduct of business have also been formally removed.

Nevertheless, the process of realizing what is now legally permitted will be extremely difficult, both economically and socially. In addition to the natural population growth in the towns themselves, there has been a substantial shift from rural to urban areas over the past 20 years. Much of this migration, composed largely of the black majority, has gone to the major metropolitan areas and some, channeled by the apartheid restrictions, has gone to the homeland urban areas bordering the major cities. Many of the areas into which people have come are sorely lacking in elementary physical infrastructure. At the same time, this massive population growth has helped to solidify the segregated spatial patterns which the laws mandated. Densification and apartheid resulted in the following highly skewed patterns of living space per person in the PWV area in 1989:

Racial Group	Floor area M2 per person
White	33.2
Asian	18.2
Colored	12.0
Black (formal housing)	8.9
Black (backyard shacks)	4.8
Black (squatter settlements)	4.2

The process of negotiating change for a new, representative, democratic base for South African society is now underway through the mechanism of CODESA (Convention for a Democratic South Africa). The March "yes" vote in the all-white referendum has given additional impetus to this process. The South African Government (SAG) has generally acknowledged its obligation to "level the playing field" for all South Africans by redressing past inequities and "distortions" in a variety of ways, and extraparliamentary groups are transforming their structures and functions in order to play a formative role in the emergence of a "new" South Africa. Formal, interim arrangements for a new government may be in place before the end of 1992.

The dominant force in South Africa today is change, and nowhere is this more apparent than in the country's major urban areas. The commitment to and desired direction of this change varies, of course. The SAG and some of its allies are seeking a highly decentralized government structure which will allow broad local decision making powers. Anti-apartheid groups are working out their own positions. Elements of the white business community are attempting to put together strategies which will both protect their businesses and satisfy a new representative government which will undoubtedly emphasize redistribution of wealth through as yet undetermined means. Approaches to the future vary widely throughout the country, reflecting the regional diversity of cultures and traditions.

Within this milieu of socio-political transformation, however, the basic facts remain: a) the majority of the country's people live in its cities; and, b) most of these people are poor and black. These facts are well appreciated by the US government. Both the executive and legislative branches have mandated provision, through USAID, of a housing and urban development assistance program which promotes real economic empowerment of black South Africans within an environment in transition. This PP sets forth such a program.

1.2 Development Priorities

The anti-apartheid organizations which have led the struggle in South Africa are in a process of transformation. A critical ingredient in this transformation is the development of the capacity to manage the country's diverse needs and economy.

As the extraparliamentarians transform themselves, existing SAG policies and structures are being reexamined and, in some cases, discarded and in many areas, ignored. Changes are taking place daily and with increasing speed. As with most other sectors, there are a multitude of policies and programs which are vestiges of the apartheid era and are carried out by existing governmental units, some with substantial state resources to back them up. In the black communities, there is a wealth of activity as residents attempt to improve their living conditions as best they can. Nevertheless, there does not now exist a distinct set of sectoral policies related to housing and urban development. What does exist is a society in flux, characterized by a surprising degree of openness to new ideas and experiences, and the emergence of a number of fora where future policies are being strenuously debated and shaped.

While there is no sectoral policy framework as such, it is possible to summarize relevant development priorities now emerging from these debates and from the various fora.

1.2.1 Community Participation in Development

Clearly, the overriding principle espoused by all representative groups is that the development process in South Africa must become truly participatory. In practice, this means that planning must be decentralized and implementation must involve beneficiary communities to the maximum extent feasible. This type of participation can be cumbersome and may be difficult to sustain on a national level. Nevertheless, assistance programs directed toward urban communities in South Africa must be fully cognizant of the need for close and continuing community consultation and participation.

1.2.2 Regionally Relevant Development

In addition, and as a corollary to the above, there are distinct and important regional differences in the nature of and approaches to problems of urban life throughout the country. Thus, while all assistance programs must seek to promote more equitable development, the means by which assistance is delivered must take into account regional variations in aspirations and priorities.

1.2.3 "Jumpstarting" the Economy

The country's real GDP growth rate has been declining for several years and actually became negative, at -0.9%, in 1990. The idea of "jumpstarting" the economy has been widely discussed in South Africa. Increased foreign investment and major new investments in low cost housing production are the two most commonly mentioned means to accomplish this end. It does not appear likely that foreign investment in South Africa will increase sharply in the immediate future, especially if political instability and widespread violence continue.

1.2.4 The "One City" Ideal

Much is being said and written in South Africa about the need to "re-integrate" urban life. This is something of a misnomer as racial segregation has always been a fact of urban life in the country. However, it is clear that a high priority must be placed upon assisting the development of cities in which low income citizens have the option of choosing to live in a variety of places which are affordable and attractive according to individual desires, and do not depend upon edicts of the state. A critical component of this freedom to choose must be access to affordable urban land as a matter of both policy and practice.

The one city ideal, as it is being currently negotiated in various fora, means that there will be a single resource base for entire areas, previously separated by race. This will mean a shared resource base and a more equitable delivery of services in the area.

1.2.5 Leveling the Playing Field

All major parties, including the Government, agree in principle that redistribution of resources is necessary to create equal opportunities for all South Africans. The means by which this "leveling" is accomplished and the extent of redistribution to be effected are still very much the subject of negotiations. There appears to be agreement that all citizens must have equal access to the same governmental and economic processes, but there remains considerable debate on how improvements in the current living conditions can be made and financed. However this is resolved, it appears that, for the foreseeable future, subsidies to support low cost housing and appropriate urban development will be a part of any new government's policies. It will be important that such subsidies, inevitable as they may be, do the least possible damage to the overall economy.

1.2.6 Building the Capacity of Disadvantaged South Africans

The final major theme which is clearly enunciated by all extraparliamentary groups is the need to build the technical and administrative capacity of disadvantaged South Africans as part and parcel of the development process. There is in the country today a strong desire for information of all types, especially with regard to development models which have succeeded and failed in other parts of the world. Information exchange must be supplemented by training and technical assistance in order to develop the capacity of the disadvantaged majority to plan and manage the country's affairs.

1.3 USAID/South Africa Development Strategy

The A.I.D. program in South Africa is rooted in the Comprehensive Anti-Apartheid Act (CAAA) of 1986 and was initiated to hasten the demise of apartheid and help prepare black South Africans for a leadership role in a democratic, nonracial, post-apartheid South Africa. As the process of negotiations and political change continues, there is an increased emphasis on dealing with the damaging legacies of

apartheid in areas such as education, and housing and urban development. This emphasis was reinforced in President Bush's speech in July 1991 which lifted sanctions, doubled aid to South Africa, and specifically identified housing as a critical area for future USAID involvement in the country.

USAID's program is itself organized to work in three major sectors: 1) political empowerment through promotion of human rights and a civil society; 2) social empowerment through human resource development; and, 3) economic empowerment through private sector mobilization. There is some overlap between sectors, with activities in one sector often reinforcing and supporting those in another.

The housing program described in this PP represents an important element in USAID's broader private sector mobilization initiative. It is clear that sustainable and equitable urban development is vital to the economic viability of South Africa. In addition, considerable opportunities exist for private black contractors and construction businesses to benefit from the rapid and pervasive process of urbanization which typifies South Africa. Finally, assistance in the housing and urban development sector promotes opportunities for the majority population to accumulate equity and gain a greater stake in the South African economy.

There are also important links between the SUDS program and other activities in the USAID portfolio. For example, in the area of human rights and civil society, USAID already directly supports organizations such as civics* which play an important role in community development, including housing. Activities aimed at strengthening local government effectiveness in a new South Africa have been and will continue to be important elements of the portfolio, with obvious implications for housing and urban development. The training initiatives envisaged under the SUDS program will also directly support USAID's broader human resource development goals.

1.4 Related Donor Assistance

As meaningful reforms have been undertaken by the SAG just during the last 26 months and the Group Areas Act was only repealed in April 1991, international donors are still in the

• Civics are loosely affiliated community organizations originally set up to oppose apartheid and provide a voice for local concerns of black South Africans.

process of gathering information and developing their assistance programs in the shelter and urban sector. A summary of ongoing and potential activities follows.

The World Bank has indicated that it will only begin lending operations when "political consensus" has been reached inside the country. In the meantime, the Bank has already had two urban sector missions and serious preparations are underway to establish a resident Bank office. It is expected in the medium term that the Bank will become a substantial lender in the urban sector, with an emphasis on capital projects.

The Netherlands Government has given R25,000 to the Civic Association of Southern Transvaal (CAST) for the development of civic activities. Dutch municipalities are contemplating assistance in urban management training.

The Canadians are sending a mission to South Africa (SA) to investigate the sector, particularly with regard to urban management. The Swedish International Development Agency is also looking at training in urban management and local governance.

The British Overseas Development Agency (ODA) is funding training through local technical assistance groups such as the Built Environment Support Group (BESG) in Natal. ODA gave a R2 million grant to a private sector housing guarantee fund in 1989 and has indicated a willingness to contribute to NGOs offering home improvement loans.

The European Commission (EC) is considering making R25 million (approximately \$9 million) available in the future for training in urban management.

The Kagiso Trust, established by the European Community, has in the past provided extensive funding for local technical assistance groups such as PlanAct, but due to reorganization of Kagiso Trust's priorities, this funding is dwindling.

Within SA, private companies and foundations are making small contributions to the shelter and urban sector, including the provision of office space to civic organizations and sponsorship of small training courses. Private sector support for the redevelopment of District Six in Cape Town is being led by British Petroleum SA. American companies in SA have been reduced considerably in number during the last decade of disinvestment and sanctions. At present 55 are signatories to the Sullivan Code of Conduct which requires them to support community development initiatives as well as maintain affirmative action staff policies. The most notable intervention has been the funding of a commercial high school in Soweto through the American Chamber of Commerce. During 1990, U.S. companies spent R84 million on various community projects. A group of U.S. companies in the Johannesburg region is considering funding a group lending scheme for home improvements.

2. Sectoral Constraints and Opportunities

2.1 The Existing Housing and Urban Development System

Historically, there have only been two suppliers of low cost housing in South Africa: government (including local authorities) and the informal sector. Mile after mile of small houses in Soweto and other black townships attest to the efforts by the SAG to bolster the apartheid system through the provision of segregated housing. The legacy of government sponsored programs remains (and in many ways parallels the experience in Eastern Europe and Russia), along with an attitude on the part of some that a new government, to right the wrongs that have been visited upon the black population, must step in and directly provide better housing.

The apparatus through which the SAG provided housing for blacks was extremely convoluted, involving a multiplicity of central, regional and local government authorities. That system has now virtually collapsed, and little if any government sponsored formal low cost housing is being produced anywhere in the country.

The informal sector, however, continues to produce housing as evidenced by the rapidly growing "shack" towns which encircle most of South Africa's major metropolitan areas. But these unauthorized residential areas are largely without services and entirely without title to land, thereby severely reducing the quality of life of township residents and precluding the acquisition of equity over time. On a more positive note, many NGOs are now turning their attention increasingly to issues of low cost housing and urban development. A number of technical service organizations (TSOs) provide assistance to black communities in negotiating with government authorities and designing improvement projects. Unfortunately, available human resources are wholly inadequate to meet the burgeoning demand for this type of assistance.

The history of local government also was fundamentally shaped by apartheid. White and black local authorities (WLAs and BLAs) have, in theory, the same responsibilities. In fact, however, most WLA have ample resources and full support from their electorate. As a consequence, WLAs provide some of the best and most economical services, including water and electricity, in the world. BLAs, on the other hand, enjoy virtually no support from the black population in many areas, have a very limited resource base, and in many areas are in virtual collapse.

20

As a result of the negotiations now taking place, expectations among the majority are high that the kinds of services being provided to the white population will become commonplace in the townships. The largest WLA have substantial financial reserves and, in line with the one city goal, systems for extending the services now provided in white areas and for extending the good management practices will need to be worked out, if this is in fact to happen.

While the old system for producing black housing has, as stated above, virtually collapsed, there have been some responses to the sweeping socio-political transformation now underway. The SAG has attempted, to reform some of its policies and to provide some resources for the improvement of urban living conditions for black South Africans, but these efforts have lacked a clear sense of direction. While the Group Areas Act has been rescinded and the non-representative black local authorities which controlled townships have generally been discredited or, in some cases, disbanded, a plethora of government agencies including Regional Services Councils (RSCs), Provincial Authorities, several ministries, and several parastatals, continue to have responsibilities and budgetary support for infrastructure improvements and housing in townships and squatter settlements. The future of these institutions under a new representative government is unclear, but it is likely that they will continue to function for at least the immediate future.

One of the more significant, and controversial, SAG initiatives is the Independent Development Trust (IDT) which was established in 1990 with an initial capital contribution from government of R2 billion. In the area of housing, IDT is tasked to support infrastructure improvements in disadvantaged communities, to lend for enterprise development and other purposes, and to provide grants for construction of community educational facilities. The Trust's most significant undertaking is a R750 million capital subsidy program for the servicing of 100,000 existing and new homelots in disadvantaged communities around the country. This program may be expanded this year.

At the policy level, the SAG attempted in 1991 to define new directions through the De Loor Commission. Unfortunately, this commission was established without adequate consultation with and representation from the extraparliamentary groups, and its white paper, when it is finally ready, may simply serve as a background document.

Much more important is that extraparliamentary groups have themselves been meeting over the last year to discuss the establishment of fora for housing and urban development policy formulation and local government. By mid-1992, it is expected that these fora will be able to begin to provide inputs to an interim government, when that is established, as well as to provide overall guidance to its constituent members on the important policy issues of the day.

There has also been significant recent activity in terms of new arrangements for local governance. Following the collapse of the black local authority structures, CBOs in existing townships are negotiating with white local authorities to achieve unified urban areas which would be characterized by the pooling of financial resources and common provision of services. The Metropolitan Chamber in Johannesburg, the Accord reached between Alexandra and the white local authority in Sandton, and the Progressive Development Forum in Cape Town are examples of the processes through which the "one city" ideal, referred to earlier, is being pursued. The recent events in Randburg, a suburb of Johannesburg, concerning the settlement of squatters, shows that the process will need to be well planned.

With regard to the formal private sector, South Africa has a comparatively well developed housing delivery and finance system. The country possesses a relative wealth of technical and financial resources, and there is no apparent shortage of construction capacity, building materials, or developable land. However, the South African formal housing delivery system has always catered almost exclusively to the upper income, largely white, population and is managed by conservative, white businessmen. Thus, there is not a need, as is common in most developing countries, to create major structural components of a housing delivery system. Rather, the existing system requires adaptation and encouragement to serve the needs of the low income market.

The economy of South Africa is built upon a strong and diversified base, although it has been weakened by sanctions in recent years and by the strains imposed upon it by apartheid itself. The constraints which impede fuller participation by urban blacks in the country's economy are no longer primarily legislative in nature. The same is true with respect to housing. The primary constraint in this area is building up the capacity of black South Africans to exploit new opportunities which have hitherto been denied to them by law.

To summarize, the policy and institutional environment relative to housing and urban development in South Africa is in a state of flux. The SAG's direction is unclear, but certainly of major importance in terms of funding in the near term. The recent white referendum gives hope that the process will be smoother than had been feared. Black communities are nevertheless understandably anxious about the future and are extremely willing to organize themselves to begin improving their living conditions. However, substantial assistance is required to support this process. NGOs are very active in a number of areas, but this activity is almost entirely uncoordinated and the NGOs clearly suffer from a lack of capacity. The formal housing system is well developed but caters almost exclusively for whites and therefore needs to be adapted to the coming reality of a majority ruled South

Africa. And, finally, the extraparliamentary groups are beginning to address key policy and program issues but have extremely limited technical and financial resources with which to do so.

2.2 Community Involvement

Section 1.2 highlights the emerging development priorities that are interwoven in the approaches of the parties and groups that are now negotiating the future of the country. Three of the six themes directly concern the importance of community involvement in the decision making process. This should not be surprising, given the top down, white directed development that has taken place in the past. The importance of this factor cannot be over-emphasized. Without the involvement of the black communities themselves, there cannot be a successful shelter program in South Africa.

The involvement of communities in South Africa means the involvement of community based organizations (CBOs). The rise of CBOs, and particularly civics, over the past 15 years, their structures and their weaknesses, are discussed in several annexes to this Paper. A major contributing factor in the rise of civics and CBOs has been the absence of effective local governments over the past 10 years, as communities refused to rely on non-representative black local authorities and as a consequence were forced to rely increasingly upon themselves. As a result of this movement, different communities will have different structures to handle urban development and housing issues. Some will have committees that are part of the local civics. Others will be independent organizations that may report to the civic in a loose consultative hierarchy. Others may be church related or have sprung from church origins. Yet others may be organizations of artisans or small building contractors. The definition is inclusive and wide. As part of this community level structure, there may be NGOs and technical service organizations, which provide support to CBOs in various ways. Increasingly, communities will also have community development trusts (CDTs), which are separate legal entities likely to become significant channels for funds from outside agencies, and which have broad technical as well as community representation.

Without the participation of CBOs, a successful shelter program, i.e. a program which provides improved shelter and at the same time promotes the economic, social, and political empowerment of the black majority, will not succeed. Nevertheless, CBOs, rising as they have under politically charged circumstances, have been much more successful in opposing government programs than in mounting their own. The self-acknowledged fact is that they possess a minimum of knowledge and skills in urban management and housing matters.

Thus, if a program is to succeed and to continue to have CBO participation, efforts need to be made to strengthen the CBOs involved. To accomplish this, a combination of appropriate training, funds for establishment costs, technical assistance to enable communities to correctly analyze and assess alternative shelter proposals, legal assistance at both the community and individual levels, and support for local enterprises will be required.

2.3 Finance

Mobilizing the finance to redress the enormous deficit in housing and to improve the quality of existing shelter will preoccupy South Africa for many years to come. The choices which are to be made over the next few years of how to do this will be crucial on the macroeconomic level. Equally, they will determine whether there is to be an effective and significant improvement in the delivery and ownership of low cost housing.

The World Bank, during its May 1991 mission, described three broad directions that might be taken in addressing housing needs. Indeed, these are based on experience in many countries.

The first would be massive government intervention and funding to overcome the shortfalls, involving substantial government subsidies. A very preliminary estimate by the Bank was that something on the order of over R6 billion per annum, roughly double what is now being invested in housing for all economic levels, would be needed for the foreseeable future. Two factors militate against this kind of intervention, although it is favored by some in South Africa as a matter of "reparations" policy. First, it seems very unlikely, given the massive demands for education and other needs, that this level of funding could be mobilized and sustained by the government. Second, experience elsewhere in the world has demonstrated that government programs do not work very well. Both the WB and A.I.D. strongly oppose this kind of intervention.

The second major direction that might be taken is an enabling strategy by the government which would rely exclusively on the efforts of the private sector to mobilize and channel the required financing to low income beneficiaries. Politically, this appears to be unacceptable to the extraparliamentary groups now negotiating with the SAG within the CODESA framework. In addition, it seems clear that the formal private sector system is not yet capable of directing massive amounts of funds to the very needy.

The third alternative is a combination of the first two, i.e. relying on the efforts of a changing private sector coupled with the provision of carefully targeted subsidies to enable

the very poor to reach an acceptable level of shelter. This appears to be the alternative that most groups are edging toward and one that is being tried to a certain extent now, during this interim period.

Turning more specifically to the South African situation, it was noted earlier that the provision of shelter for blacks in urban areas had largely been the province of the SAG, including local authorities, but had now virtually collapsed. The most significant program to have arisen in its place is the capital subsidy scheme of the IDT, mentioned earlier.

IDT's capital subsidy program will initially be applied in more than 75 projects, selected from over 500 proposals. Basic infrastructure, services and, in a few cases, core housing will be constructed in black townships and squatter settlements. This program has stirred considerable controversy due to a) the opaque manner in which IDT selected beneficiary communities and b) the nature of the subsidy scheme itself. Capital subsidies of R7500 per improved homelot will be delivered to developers of approved projects upon completion of improvements. This arrangement is known as "end user" finance in South Africa. The main drawback of this type of scheme is that it requires access to interim or "bridging" finance to cover construction costs, and bridging finance provided by commercial banks is only available to established construction and development firms with adequate collateral. Thus, in the absence of alternative bridging finance sources, disadvantaged communities which have secured IDT commitments currently have little alternative other than to employ large white planning and construction firms to implement their projects. The program thus becomes developer rather than community driven.

The formal private financial sector has had little involvement with low cost shelter for blacks. However, there have been several efforts initiated over the past several years. Normal mortgage lending reaches only a tiny percentage of black households, because of income limitations and the reluctance of the conservative mortgage institutions to expand into this market because of the perceived risks. In 1989, a mortgage insurance guaranty scheme was launched by the Urban Foundation (UF) which has succeeded in mobilizing over R1 billion in loanable funds. Lending institutions have, however, been reluctant to make use of the scheme because of the continuing uncertainty about the future and a strong aversion to taking any risks. They have used the continuing unrest in black areas and the threat of mortgage boycotts to refuse loans in many areas, although the latter has not materialized to any great extent. Loans to blacks have fallen drastically over the past year. In any event, the scheme does not enable borrowers with incomes below R30,000 per annum, still a small minority of the black population, to participate.

A third program of interest is that of small loans made to groups of people by the Group Credit Company (GCC) for improvements to their houses. This program, which lends at market interest rates for periods of up to 3 years, has proved very successful. As the program operates at market rates, GCC is able to tap the commercial markets for its funds, although only on a limited basis thus far.

In addition to the IDT's capital subsidy scheme, formal financial institution lending (with or without insurance guaranty elements) and the GCC program, there have been efforts by private companies, in conjunction with communities, to initiate housing schemes in various forms. Some of these are of interest because they may provide an opportunity, in an innovative way, to modify the segregated pattern of housing which was reinforced under the apartheid laws.

Given existing housing finance alternatives and the structure of the financial system, the current debate now going on within South Africa on the choices to be made, the likelihood that new systems will take some time to put in place, and the limited funds which A.I.D. has to effect the situation immediately and influence policies for the future, it seems clear that for there to be a successful shelter program, support should be provided along the following lines:

- o Promotion of efforts to enable the formal sector financial system to mobilize and deliver increased long term funding for low cost housing.
- o Support for efforts to mobilize short term funds for lending to improve existing shelter.
- o Support for efforts to mobilize funds for innovative private schemes to end the racially segregated pattern of development in South Africa.
- o Support for efforts to find alternative mechanisms of bridging finance to assist communities, groups, and individuals to begin the process of shelter development in ways which are most beneficial to the black population.

2.4 Policy and Institutional Framework

Previous sections have indicated that policies and institutions in the shelter sector, as in other sectors, are in a state of flux. Dramatic changes will come over the next few years in the structure of government, in the shelter policies being pursued, and perhaps, most importantly, in the people in charge of the process, both within and without government.

A critical link in the process of economic empowerment of

black South Africans is the establishment of a policy and institutional environment which will encourage this process. The transition to majority rule in South Africa presents a unique opportunity in this regard.

Multiparty negotiating fora addressing critical policy issues are now emerging throughout South Africa. An extra-Parliamentary national housing forum including representatives of major political parties and key private sector institutions began its organizational process last September and is expected to be established and operational by June of this year. This national forum has experienced predictable start-up problems related to representation (particularly with regard to the Nationalist Party and SAG), but has persevered in its efforts. Its first task will be the production of a draft national housing policy. Similar efforts are underway, although not as well advanced, with regard to future local government structures and civics/CBOs. Equally important are the emerging regional and metropolitan fora notably in Cape Town, the PWV, and Natal.

There are three areas which are particularly important in this process.

First, a major constraint in this process of formulating new policies, as well as in generally informing the wider audience of participants in the urban and shelter development process, is a lack of knowledge about what is going on in the outside world and a lack of basic information, surprising as it may seem, on what is happening in South Africa. Information and discussion in such areas as urban land inventories and classifications, alternative local government forms, urban planning approaches, public and local government finance, the role of the private sector in shelter and service provision, infrastructure and service standards, urban redevelopment and integration, transport, land management and delivery systems, and urban environmental management, among others, are vitally needed. Emphasis upon documenting and exploring both failures and successes in these areas is especially needed with examples being drawn from developed and developing countries.

The second key area of support required for shelter and urban management policy formulation and institutional development is training. Given the years of neglect by the SAG and the inability by most black South Africans to have any access to educational opportunities, it is not surprising that the need for training is pervasive. A combination of preservice academic training, overseas short term training and observational tours, and in-service training for individuals engaged in the urban development process and, as US legislation allows, local government officials and other relevant bureaucrats and technicians, is needed if the support for the various shelter and urban development fora and policy formulation is to be institutionalized for the longer term.

Finally, a major constraint identified by the extraparliamentary participants in these fora is their lack of resources, both financial and human, to undertake the required tasks.

3. The Program

3.1 Program Goal and Purpose

The program goal and purpose are to promote the economic empowerment of disadvantaged South Africans through support for the improvement, increased production, and greater ownership of affordable shelter within viable urban environments.

Progress toward this goal will be achieved by: a) strengthening black community based organizations; b) assisting communities with the design and provision of appropriate housing and infrastructure; c) increasing the amount of bridging and short and long term finance available for infrastructure development and low cost housing initiatives; and, d) encouraging the establishment of institutions and the delineation of a policy framework which will facilitate the emergence of equitable, integrated urban life in South Africa.

3.2 Program Description

The Shelter and Urban Development Support Program is designed to build upon a number of initiatives that are currently underway in South Africa in response to conditions within the country. In so doing, the program is intended to provide support, during this crucial interim period of South Africa's political transition between an apartheid regime to a democratically government, for policy development and programs which have the potential to form the basis for a sound shelter delivery system in the near future.

This approach explicitly recognizes that, unlike many other countries in Africa, most of the major structural components required for efficient and equitable shelter delivery and urban management systems are already in place in South Africa. USAID's 1991 shelter strategy identified several key factors which will guide this program:

a. The program will be responsive to the rapid changes taking place in the sector and, indeed, in the entire country. This implies a limited time horizon for this initial effort and an ongoing process of evaluation upon which to base future efforts.

b. The program will have immediate impact in supporting the CBOs, NGOs and negotiating fora which are striving, with extremely limited resources, to concretely address the enormous pent up demand for real improvements.

c. The program will build upon these near term activities as a framework of support for policy and institutional development aimed at creating the basis for sustainable, equitable systems over the next 24 to 36 months. As an umbrella program, it will also have the flexibility, subject to U.S. legislative requirements, to work with an interim or new government during the LOP.

d. Finally, the program will capitalize upon USAID's unique position among donors in terms of sectoral expertise and available resources to ensure that the evolutionary process now underway in SA is well informed and clearly focused upon the empowerment of the low income black urban majority population.

The program outlined in this PP, therefore, will be largely implemented over the period FY 93-95 and will focus upon training, technical assistance, and leveraging finance within a supportive policy environment in order to reach the stated goal. The major program components are summarized in the Program Linkages Chart on the following page. This chart demonstrates the interrelationship of key program components which will, during the LOP, provide the substantive basis from which a sustainable system to deliver low cost housing can be developed. The chart is intended to clarify the necessity of providing interlinked assistance in the areas of community capacity building, appropriate design, short and long term finance, and policy development in order to realistically expect to arrive at sustainable systems.

Key to an understanding of the program is the concept that USAID will be working at two levels in virtually each component of the program. The first level will be that of providing specific assistance to specific communities to enable them to improve their shelter within a relatively short period of time. As mentioned earlier, there are already a number of communities which have received an assurance of funding for specific shelter activities from various institutions in the country. These communities will be surveyed and those that are deemed most capable of receiving USAID assistance will be targetted. The second level will be that of providing general assistance which will lay the basis for a general improvement of shelter conditions in the country over a longer time frame. Thus, in the various grants to be made under the program and in the technical assistance to be provided, this dual vision will be at work.

It is also important to understand that the program, while having broad objectives, will concentrate its resources in relatively few urban areas. These areas will benefit from each of the program components in an integrated fashion, thereby generating synergy and serving as examples of what will be possible to achieve in a short period of time.

The success of this assistance will depend in large part on the selection of the communities. This selection will be made by USAID according to criteria such as regional distribution, demonstrated commitment within the communities, the potential for broader economic development, leveraging of other resources for development, and support for innovative solutions. During the crucial start-up period of the program, USAID will begin this process.

In order to insure that the entire design and implementation process stays closely in touch with the realities of a rapidly changing situation, USAID will establish a number of regional, and one national, advisory committees with broad ranging local membership to work closely with it during the project.

Finally, USAID will insure, as part of its capacity building objective that white-led organizations to whom grants are made have an agreed plan for promoting blacks to management positions within the organization.

3.2.1 CBO Capacity Building

In South Africa's black townships and squatter settlements, the reality today is that communities must be extremely self-reliant. As indicated earlier, local governments installed under apartheid have been disbanded or thoroughly discredited. As a result, leaders of local civics and other CBOs find themselves thrust into complex negotiations with white authorities concerning interim arrangements for provision of basic services, financing of infrastructure improvements, and the shaping of future local governments. These same CBOs also find themselves in the position of attempting to improve the shelter conditions of their communities, with pressure from external and internal sources for immediate action programs.

Unfortunately, CBOs currently operate with a minimum of knowledge and skills, not only in the complex areas referred to but also with regard to the basics of office organization and practice. Civic leaders around the country have expressed the urgent need for training, technical, and financial assistance in order that black communities may confidently and fully participate in their own development. This particular component will address these needs through three sub-components.

a. Strengthening of CBO Development Management Capacity

The skills and capacity of CBOs to manage local development will be improved through a combination of direct training, advisory services, and impact grants. In coordination with other elements of USAID's existing program, and pursuant to the dual level concept referred to above, training will be targeted to communities which have secured commitments for end use or long term finance as well as being provided at a more

general level. This targeting will ensure that acquired skills are usefully employed in the near term, while the more generalized support for organizations involved in the actual training will insure that the basis is established for a nationwide program.

A comprehensive training program for CBOs, in order to be successful in today's supercharged political atmosphere, will be required to be sensitive to a number of issues. These include:

Community empowerment: Because of the history of the struggle for liberation, it is extremely important that all training initiatives be thoroughly explained to all parties and that consensus be reached on the content, methods, and reasons for undertaking the program. The process by which this is accomplished will be as important as the content;

Political non-partisanship: For many of the same reasons, it is important to be inclusive and non-partisan, and to insure that the program not be typed as supporting any one particular political party.

Working through existing organizations: In order to overcome the suspicions and divisions that do exist, it will be important to avoid simply bringing in outsiders. Rather, the program should attempt, wherever possible, to work through organizations that have already established good reputations within the communities. This may well be complicated and sometimes cumbersome, since there are distinct regional differences, but it is necessary.

Affirmative action for women: While women have participated strongly in the liberation movement, they remain woefully under-represented in leadership positions

in CBOs. Special efforts will need to be made to insure that training benefits accrue to women.

Training of trainers: Finally, because of the great need for training for so many CBOs, the program must insure that a process of training of trainers is built into it in order that there is a multiplier effect.

Broadly speaking, there are three kinds of training which it is expected CBOs will receive. These are: (1) basic office administration and communications, including personnel management and bookkeeping; (2) negotiation and conflict mediation, researching community problems, the use of outside consultants, and an overview of basic issues in shelter and local administration; and (3) shelter and urban project

management issues, including managing the shelter development process at the local level. USAID's targeted community groups will receive training each year along with training aimed at the wider CBO audience.

To supplement the strengthening of community management capacity, the program will also support the complementary training of a cadre of professional community development advisors (CDAs). The role of the CDAs is critical in providing black communities with impartial advice throughout the complex project identification, planning, and implementation process. At present, CDAs employed by several NGOs are providing invaluable advice to a necessarily limited number of communities; probably no more than 20-25 individuals in the entire country are qualified to play this crucial intermediary role at this time. This program will support a mentoring initiative through which additional CDAs will be provided with the equivalent of an apprenticeship bursary for a period of approximately one year.

Training will be delivered through a variety of mechanisms. The primary contracting vehicle for USAID will be an agreement with an American organization, described more fully in section 3.2.2.a below, which will provide for the sub-contracting with one or more South African organizations for the bulk of the training. It will be essential that the firm with which USAID will contract to provide training are sensitive to the requirements mentioned earlier under section 3.2.1.a with emphasis on community consultation. USAID will pay close attention to this in the selection process for the firm, through the program advisory committee process, and will also endeavor to have already selected several communities through a bottoms-up consultation process before the first team members arrive. Sufficient latitude and funds will be provided to permit the communities and organizations involved to engage in workshops, research, and information exchange within South Africa to facilitate the learning process. Careful attention will also be paid to ensuring that there is close coordination among the various USAID portfolios which already are working with CBOs to avoid duplication of efforts. The initial budget level for this sub-component is \$1.8 million.

b. Impact Grants

Many communities are organizing their local development projects despite an almost total lack of basic resources such as typewriters, telephones, community buildings, funding for operational costs, etc. This program will provide, where necessary and appropriate, strategic grants in targeted communities to alleviate these fundamental constraints. Emphasis will largely be upon those communities that are an integral part of the program's shelter initiatives.

The small grants will be prepared as part of the overall efforts in particular communities. Once a community has been accepted into the program, the technical assistance team (detailed under the next component) will assist the community in preparing a request for assistance to USAID which, if it agrees, will make the grant to an appropriate community trust. The initial budget level of this sub-component is \$1.1 million.

c. Community Legal Services and Home Ownership Education

The process of negotiation of issues involving land and credit requires sustained legal advice, especially in South Africa, at both the community and the individual level. At the community level, assistance for particular communities will be provided through the services of the technical assistance team and through an expansion of existing legal service organizations such as the LRC (Legal Resources Center) and the HAC (Housing Advice Center). At the individual level, because home and/or lot ownership will be an entirely new experience for the great majority of black South Africans, this program will support provision of advisory services, particularly in targetted communities, focusing upon documentary requirements, legal agreements, the obligations of developers, principles of debt management and equity formation, and accreditation of potential service providers. Delivery of these advisory services will be accomplished largely by expanding the infrastructure, staff and staff skills of existing legal advice NGOs which are supported by USAID. This will be done by direct USAID grants to the organizations involved. The initial budget level of this sub-component is \$380,000.

3.2.2 Project Design and Construction Assistance

One of the legacies of apartheid and sanctions is the very limited direct experience within South Africa of the alternative means by which infrastructure and services in slums and informal settlements can be most efficiently improved. At the same time, in order to insure that the fruits of the program remain as much as possible within the black communities, and that the communities are able to retain control of the activities within their jurisdictions, two related sub-components are planned.

a. Assistance in evaluating and implementing appropriate community based development

To bridge the experiential gap, this program will provide resident technical advisors to act as resource persons for both CBOs and NGOs which are active in community based improvement projects. These expert multi-disciplinary advisors will have the broadest possible experience in the planning, implementation and management of appropriate shelter and urban infrastructure projects financed across the

developing world over the last several decades by USAID, the World Bank, and other agencies. Advisory services will be targeted, but not limited, to CBOs receiving training in community planning and management as discussed above. To supplement this technical support, funding will also be provided for an exchange program through which South African community leaders can share experiences with their counterparts in other developing countries.

The mechanism to provide this resident technical assistance will be an institutional contract for a period of 3 years, with the RFP expected to be issued shortly after the approval of this PP. This contract will be used not only to provide technical advice on shelter problems for specific projects, but also to serve as a vehicle to coordinate inputs of training, legal, and construction management assistance to the specified communities and in general to review and package proposals from the various communities for assistance. A regional approach will be adopted with offices located in a number of the major metropolitan areas in order to be able to provide daily assistance and to be able to be fully sensitive to regional differences. Because of the political or ideological drawbacks that many of the local TSOs and other groups have, however, the regional advisors will operate, at least initially, in free standing offices, unlinked to any particular organization. In order to insure that there is strong local feedback built into the process, regional advisory committees will be established, with a membership consisting of local leaders and relevant TSOs and NGOs.

The contractor team will consist of the following:

Shelter upgrading and low cost housing experts to be based in Johannesburg and other metropolitan areas. The Johannesburg person would also serve as chief of party.

Training coordinators to work with the training institutions participating in the program and to provide training advice and input to communities directly participating in the program, to be based in Johannesburg.

CBO/NGO coordinator(s) to work with participating communities and NGOs to formulate and implement impact grant proposals and to coordinate NGO inputs for a wider development agenda.

Appropriate professional and support staff in each of the regional offices including sufficient resources to engage specialist legal, construction management, and other technical advisors as required.

Every effort will be made to secure a balanced U.S./South African team with U.S. or SA black professionals in each of the regional offices. South Africans will only be engaged, subject to rare exceptions, once the main body of the team is in-country and has the experience and opportunity to interview candidates on the ground. The initial budget level of the institutional contract is expected to be \$4.5 million, which includes \$1.4 million for training activities.

b. Development of Black Construction Skills and Enterprises

In order to maximize economic empowerment resulting from the community development process, this program will encourage the growth of black construction and materials supply enterprises through on the job training and technical assistance. Once again, assistance will be targeted, but not limited, to enterprises in those communities which have secured end use finance commitments and are participating in this program's planning and management training and appropriate design assistance components, as described above. A.I.D., through a RHUDO regional IQC, is already supporting similar efforts in Swaziland, Botswana and Zimbabwe. In South Africa, emphasis will be placed upon adapting existing private construction training efforts to assist enterprises to participate, initially, in the development of their own areas and, subsequently, to enter extralocal markets. Again, assistance will be targeted, but not limited to, program assisted communities. Assistance will also be provided to encourage local production of appropriate building materials.

While the situation does vary by region, the system of construction currently being practiced locks the black contractor into a subservient role. Numerous constraints, detailed in Annex H, combine to insure that most larger contracts are won by white contractors who, subsequently, sub-contract much of the work to smaller black companies. There are advantages to both parties to this system, but it effectively keeps the small contractor small.

In summary, the constraints which face small contractors include:

- o poor educational qualifications of most artisans and entrepreneurs.
- o lack of managerial skills.
- o a regulatory and labor law framework that discriminates against small contractors with few capital resources.

- o lack of access to short term construction financing to enable contractors to post bonds and therefore undertake larger jobs.
- o difficulties in competing with larger firms on price due to higher factor costs of materials and transportation.
- o a generally unsettled political situation which has encouraged the fragmentation of the industry and the solidarity of the contractors themselves.

The program sub-component proposed to address the problems observed contains three elements:

The first is to expand the training opportunities of existing programs, which in many ways are quite suitable for the South African situation, to target them to communities which will be participants in the improvement schemes noted in this PP. This will provide jobs for disadvantaged local enterprises.

The second will be to find ways to provide bridge financing to supplement other small credit programs currently operating, again with an emphasis on targeted communities.

Finally, consideration will be given to the provision of assistance to strengthen the various small contractor associations which have grown up. This kind of support is may be needed to help create an environment in which small contractors can grow.

The initial budget level of this sub-component is \$2.45 million. A combination of staff inputs, including RHUDO's regional technical advisor and the training specialists on USAID's contractor team, will be used to direct resources to the various organizations which may be involved. In addition, A.I.D.'s regional IQC for construction management assistance will also be used. Funding will therefore be through a combination of mechanisms: direct USAID grants; training under the auspices of the training program which the technical assistance team will manage; and buy-ins to A.I.D.'s regional IQC for construction management.

3.2.3 Bridging and Short Term Finance

It is critical that residents of well organized, committed communities have access to the finance needed to implement local development projects. In squatter settlements and most secondary townships the immediate need is basic services and infrastructure. Therefore, this program will provide support to leverage bridge financing and to make short term credit available for residents of black communities.

a. Bridging the Gap to End Use Finance

As discussed earlier, the inaccessibility of "bridge" financing for black South Africans is a major constraint upon securing end use and long term financing from housing finance institutions (HFIs), the IDT and other formal sector institutions. At present, construction or bridging finance from South African commercial banks can be accessed only by firms and organizations which have established credit histories and adequate collateral. While this is hardly an uncommon banking practice, the consequence for black communities is that they have little access to this kind of finance. To narrow this significant gap, the program will provide capital support to NGOs which will use these funds to leverage local resources from the South African financial markets and make available bridge financing to community development trusts and enterprises. This financing will be directed largely toward infrastructure improvements. Shelter superstructure improvements will be financed principally through other mechanisms described below.

There are a number of NGOs which USAID has been in discussions with concerning financial intermediation. These include the New South Africa Housing Trust, the National Investment Company, both of them black owned and operated, the Land Investment Trust (LIT) and selected regional development trusts. No decisions have yet been made concerning grantees.

As an example of how this component might function, should support be provided to LIT, it would likely be in the form of a capital grant to an LIT debenture trust, a pool of securities which is used to "gear" (i.e. leverage) borrowings from pension funds and other investors. The debenture trust is independently administered by a reputable financial management firm. Under current conditions, LIT is able to borrow against the debenture trust at a 3:1 ratio (i.e. 35% security against borrowed capital). Clearly, therefore, USAID's investment in the trust, should it happen, will significantly leverage South African funding sources. Again, LIT's bridge financing would be targetted, but not limited, to communities receiving the assistance package to be provided by this program.

Capital support for bridging finance might also be provided to regional development trusts, such as Jump Start in Durban and Headstart in Capetown, under this program. These regional development fora are relatively new creations. In principle, support for these regional representative bodies will be an important and effective way of promoting relevant responses to diverse local development requirements throughout the country. Headstart, for example, is currently engaged in formulating innovative ways to begin the integration of lower cost housing into more expensive areas. Close attention will be paid, in each of these cases, to the social and political situations of the intended improvements, in order to be absolutely certain that there is close community involvement and acceptance of the proposed programs.

Funds for these NGOS would be provided through specific grants which will be negotiated between USAID and the grantees in FY 92 after PP approval and FY 93. The grants will insure that while the capital contribution is used to generally leverage additional funds in the South African financial markets, the organizations will undertake specific support for mutually agreed communities. Before grants are made, the issues noted in the financial and economic analysis (Annex D) will be fully answered for each grantee. In addition, provision may be made for insuring that small contractors participating in other assistance aspects of this program will receive special attention under this component. The initial budget level of funds allocated for the bridging finance intervention is \$9 million.

b. Short Term Home Improvement Finance

Low income black South Africans generally lack access to short (and long) term finance for the same reasons that bridging finance is unavailable to black contractors. In addition to low incomes, South African financial institutions cite lack of credit histories as a major constraint. And, unlike consumer credit for household furniture and other recoverable items, lending for home improvements or construction of new houses was not possible in most black areas under the apartheid legislative structure. All of this combined to create a "Catch-22" situation: without collateral, loans cannot be made; without loans, credit histories do not exist.

During the latter half of the 1980s, attention was given to the situation of low income borrowers, lack of credit history and collateral, and formal sector reluctance to lend. One solution proposed, beginning on a pilot basis in the Cape Town area, was to build upon the existence of informal savings clubs in which members of the group save regularly, with each member receiving a lump sum payout at a certain time. The concept is similar to the tontines of West Africa and the Grameen Bank in Pakistan. Building on this concept, the Urban Foundation established the Group Credit Company (GCC) in 1988, with initial capitalization from the Development Bank of Southern Africa (DBSA) of R1.5 million. Essentially, GCC works as follows:

Borrowers are organized into groups with a geographical or other affinity basis;

Each group deposits a certain amount of money with GCC as collateral for the loan that it receives;

The group receives a loan from GCC as a group and as individuals as well, with the payout of the loan coming over time as progress is made on the shelter improvements or construction of a new house. This also gives GCC an opportunity to deny further funds if repayments are not timely.

Repayments are the responsibility of the group. Terms are geared toward the market: currently the maximum loan in R5,000 per individual in a group of 10 for a period of 3 years at market interest rates.

GCC has been remarkably successful, with arrears of only 0.15% on outstanding group loans of R8 million. It is well managed and conservative in its operations, adopting a step by step approach as it learns what is possible to do in the communities.

GCC is now seeking to expand its operations in five additional regional offices. To support this regionalization, GCC has established a R25 million growth fund; to date about R16 million has been paid into or pledged to the fund. GCC has requested USAID assistance, in the form of a grant and, subject to approval of the PP and negotiation of detailed terms, USAID has indicated that it would be willing to support this worthwhile activity. USAID's capital grant to GCC's growth fund would be specifically for the purpose of enabling GCC to physically expand its operations to other regions. If this is done, the grant will succeed in promoting four distinct achievements: 1) increasing the availability of short term finance for home improvements; 2) increasing the number of black South Africans who are demonstrably creditworthy; 3) training an increased number of community groups in obtaining and managing credit; and, 4) increasing the potential for the provision of mortgage origination and servicing activities at the community level. In addition, technical assistance described in 3.2.2.a will be made available to assist borrowers in maximizing the benefits to be derived from their home improvement loans. Again, lending under this component will be targeted, but not limited, to communities receiving assistance under other components of this program.

The initial budget level of this intervention for the grant to GCC and other organizations will be \$9 million. Again, the issues raised in Annex D concerning each of the grantees will be thoroughly addressed prior to the making of the grant.

3.2.4 Mobilizing Long Term Finance

Although South Africa possesses the largest housing finance system on the continent of Africa, black participation in this system has been severely limited. Not only are incomes low, a direct result of apartheid, but home ownership itself has been a goal long denied to the black community by apartheid. With the abolition of most apartheid legislation in 1991, the stage is now set, legally, for a move toward greater black ownership. In fact, there has always been a certain amount of such ownership and lending by the formal financial institutions to blacks. However, in the current climate of uncertainty, even that small amount of lending, has dwindled. As South Africa begins to find solutions to this political uncertainty, it is imperative that encouragement be given to the private sector to begin to find ways to imaginatively address the need to bring blacks into the formal financial system and to restructure the system itself.

a. Leveraging Finance

During the LOP, significant effort will be devoted to examining opportunities for leveraging existing South African financial resources to increase the availability of long term finance for low income black borrowers. Clear targets of opportunity include the vast financial resources, certainly by African standards, of South African pension and insurance funds. Some major pension funds, particularly those of politically active labor unions, are very interested in the possibility of providing long term mortgage finance both for their member workers and as an investment. The critical impediment to this happening is the need for prudent risk management of these funds to avoid capital loss and to insure that the funds continue to receive a reasonable return.

Given the rent and mortgage strikes which have been utilized as a political tool by opponents to apartheid, and which remain today as a threat, there is a very real issue of risk management in mortgage finance for black South Africans. SA HFIs have sought to manage this risk almost exclusively through the establishment of securitized debentures. Such debentures can be effective tools but only if they are capitalized with grants or comparatively low interest, long term loans which do not add unaffordable margins to mortgage finance. With the prime rate currently at 18% p.a. in South Africa, it is almost impossible to create long term risk management funds, with acceptable cost implications for low and middle income borrowers, on the basis of local investments.

Another way to manage risk in the current South African situation is to create sufficient spreads between the cost of money and the on-lending terms to absorb the short term, higher than average expected rates of default. As a catalyst to induce the mobilization of local resources for this type of development, A.I.D.'s Housing Guaranty Program might provide precisely the kind of comparatively inexpensive, long term money necessary to leverage existing pension and other local funds for on-lending to low income borrowers, without separately capitalized, unacceptably expensive, risk management funds. Given the obvious desirability of mobilizing local financial resources without excessive reliance on limited USAID grant funds, the utility of HG funding in South Africa will be explored during the LOP along with other avenues by which risk management issues can be effectively addressed and formal finance can be mobilized.

b. Facilitating the Entry of Established Financiers into the Low Income Market

Real and perceived risk, high cost of money and limited institutional interest are not the only impediments to increased lending by established banks and HFIs to low income black South Africans. Simply put, these very conservative lending

institutions do not have the experience necessary to successfully manage large volumes of small loans to borrowers whose lifestyles differ markedly from the banks' traditional clientele.

This program will, therefore, work with relevant organizations to provide South African HFIs with management models from and information on successful experiences in mortgage lending to low income borrowers elsewhere in the developed and developing worlds. The types of models and information to be provided will include, among others: 1) community mortgage schemes which have been successfully implemented in Pakistan and the Philippines and are being attempted in Kenya; 2) systems for managing large volumes of small loans now in use by building societies in Zimbabwe; 3) community based mortgage origination and servicing enterprises which play vital roles in numerous countries; 4) payroll deduction schemes for employee housing; 5) targeting of informal earners who have demonstrated their creditworthiness through participation in short term lending programs; and 6) strategies for establishing branch systems in low income communities.

This program will work with private HFIs and their associations in South Africa, through dialogue and exchanges, to find ways and means of increasing long term financing to the black community. Funds to support this dialogue will be incorporated in the institutional contract for urban policy and institutional development and through IQCs.

3.2.5 Policy and Institutional Development

The final and critical link in the economic empowerment of black South Africans through increased production and ownership of homes is the establishment of an enabling policy and institutional environment. The transition to majority rule in South Africa presents a unique opportunity in this regard. The entire state apparatus will be under review during the life of the project, creating the potential for sweeping policy and institutional changes which could, if well informed, benefit greatly from lessons learned around the world in the last 30 years. Support for this critical process will be delivered in three key areas.

a. Shelter and Urban Management Policy Formulation

It is hardly surprising that the political activists who must now come to grips with the restructuring of South Africa's government have had very limited exposure to the broad range of public administration issues which they will face in every sector. This program will provide major support for information exchange, advisory services, and new research in critical areas of shelter and urban management policy formulation and implementation.

The research agenda will be very much demand driven, with the list of topics to be mutually agreed. Examples of potential

areas for investigation have been enumerated earlier. This effort will be carried out through a combination of US-based firms and experts and relevant South African organizations. Initially, this assistance will be primarily targeted to the multiparty fora discussed above.

b. Strengthening Professional Capacities through Training

The second key area of support required for shelter and urban management policy formulation and institutional development is training. The need for training is pervasive, as evidenced by the predominance of this activity in USAID's existing portfolio. Indeed, SUDS and USAID's training projects will cooperate closely. Throughout the LOP, this program will support a combination of pre-service academic training, overseas short term training and observational tours, and in-service training for local government officials and other relevant bureaucrats and technicians insofar as U.S. legislation allows. To the extent possible, training will be undertaken in conjunction with existing South African institutions and organizations.

c. Support for the Policy Formulation Process

Multiparty negotiating fora addressing critical policy issues are now emerging throughout South Africa. The difficulties attendant upon this process were discussed in section 3.4 above. The extra-parliamentary National Housing Forum hopes to produce a first draft housing policy framework by mid-1992. Similar efforts are underway, although not as well advanced, with regard to future local government structures and civics/CBOs. Equally important are the emerging regional and metropolitan fora notably in Cape Town, the PWV and Natal.

A major constraint identified by the extra-parliamentary participants in these fora is their lack of resources, both financial and human. In response, this program will provide a combination of logistical and, where appropriate, financial support to representative national and regional development fora dealing with issues of shelter and urban management. This assistance will be delivered in an apolitical manner. Emphasis must be placed on ensuring that the various fora have both the time and the means to reach considered decisions which do not replicate the errors of the past.

d. Implementation

The type of mechanism to be used to provide the assistance envisaged under this component is an institutional contract with an American firm. Competition for this contract shall be conducted using "full and open" competitive procedures. Design work for this component will be undertaken beginning in July 1992. The team is expected to consist of the following:

An urban development specialist with extensive experience in both the U.S. and the developing world, who will serve as chief of party.

Appropriate professional support, including provision for extensive exchange programs and short term TA, which would include the bringing of urban experts to South Africa on a wide range of issues.

The need for a second expert will be assessed at a later point. Flexibility at this stage is indicated. Potential fields include housing finance, local economic development and local government.

From a project design perspective, the implementation of these components will be influenced by the status of the CAAA and several other considerations discussed below.

o Status of CAAA: At the present time, the CAAA prohibits USAID from working with government structures or institutions receiving SAG funds. This includes universities and local authorities. Direct access to university-based specialists for policy research is therefore constrained; the principal research partners in the interim will be service organizations and other NGO's. Likewise, because USAID funds cannot be used for training local government staff, this potential activity will be deferred.

o Design of the technical assistance: As with the community development support components, the primary vehicle for delivering assistance will be a contracted technical assistance team. Because of the nature of the required assistance and the specific characteristics of the South African context, the TA design will take into account the following, discussed more extensively in annex C, the technical analysis.

1. The technical assistance team will avoid formal affiliation with a South African institution, as also recommended for the community development components.

2. U.S. linkages: Much of the information exchange value of this component will depend on the selection of appropriate short term experts to discuss international and U.S. experiences across a range of urban sector issues. It will also depend on the close integration of the subjects of policy discussions in South Africa with well structured observational tours in the US. Tightly designed and well targeted arrangements will make the visits more productive for the expected high level beneficiaries who are unlikely to be able to afford to spend long amounts of time away from South Africa.

The initial budget level of this component is \$2 million, with the RFP to be issued before the end of FY 1992.

3.3 Program Outputs and Impacts

The general end of project conditions which the Program expects to achieve have been enumerated in earlier parts of this PP and are also described in Annex F. More specific outputs which will lead to these conditions are discussed below.

It is reasonable to project that during the four year life of the program, more than 30 community based organizations (CBOs), including up to 1000 individuals, will receive training in the basic principles of community development management and training. In addition, at least 50 professional community development advisors will be trained through the support provided by this program.

Many of these same communities will also receive technical assistance in designing appropriate housing and infrastructure development projects and will, upon receiving commitments for long term or end use finance from appropriate South African organizations, also receive bridge financing provided through this program. At least 15-20 of these communities will initiate upgrading and infrastructure improvement and/or housing projects during the LOP. Assuming an average project size of 350 units, construction of 5000-7500 improved plots and/or new low cost housing units will be initiated during the LOP.

In the process of supporting community development projects, this program will also encourage the growth of local construction and building materials supply entrepreneurs; again, at least 30 enterprises will be assisted during the LOP and the concomitant creation of more than five hundred jobs would not be an unrealistic target. Impact grants to targeted communities will leverage matching funding from local and international sources to support construction and provisioning of community centers and logistical requirements of CBOs in at least 20 communities benefitting a total population of at least 100,000.

The quantum of local end use and mortgage finance to be mobilized during the LOP as a result of this program can only be generally estimated. Assuming, as above, that 5000-7500 new or improved units are eventually produced at an average principal value of \$5000/unit, then \$25,000,000 to \$37,500,000 in long term and end use finance from existing South African sources could be mobilized directly for program supported communities. Program grants for bridge finance and home improvement loans will revolve on 2 to 5 year cycles and will, therefore, have continuing impact beyond the LOP.

With regard to support for policy formulation and institutional development, technical assistance in the design of appropriate infrastructure and affordable housing will result in a compendium of guidelines which, if codified by the eventual new SAG, could have profound national implications. Support for the operations and research agenda of emerging, multiparty national and regional fora which are focusing upon housing and urban development will help to ensure that the policy formulation process is well informed and potentially responsive to the broad spectrum of needs evident across South Africa.

44

4. Cost Estimate and Financial Plan

4.1 Program Financing Plan

Prior to committing funds for specific program components, USAID will insure that the funding and other assistance allocated is sufficient to achieve the purposes of funding within the life of the project, and that cost estimates for such activities are reasonably firm and supported by appropriate analysis and planning.

Should funds allocated to such activities not be expended during the life of the project, they will be reapportioned to other project components.

The Table below sets forth the initial budget levels and anticipated obligations by fiscal year of the various components in the Program.

<u>Program Component</u>	<u>Fiscal Year (US\$ '000)</u>				<u>Total</u>
	<u>92</u>	<u>93</u>	<u>94</u>	<u>95</u>	
I. CBO Capacity Building					6,380
o TA/Training(*)	2,000	2,700	200	-	
o Impact Grants	100	500	500	-	
o Legal Support	100	280	-	-	
II. Policy and Inst. Development					2,000
o TA	-	2,000	-	-	
o Support Grants(**)	-	-	-	-	
III. Finance					18,000
o Bridging	5,000	2,000	2,000	-	
o Short Term	2,000	4,000	3,000	-	
IV. Construction Mgt. Assistance					2,450
o TA	100	120	140	160	
o Training	-	250	300	380	
o Support Grants	-	1,000	-	-	
V. Program Mgt.					1,170
o PSCs	300	300	150		
o Housing Advisory Committee	-	40	40	40	
o Evaluations	-	-	100	100	

45

o Audits	-	-	50	50	
Total	9,600	13,190	6,480	730	30,000

(*) Training: This item will support the \$400,000 mentoring program and general training costs of about \$1.4 million.

(**) Support Grants: This item, under Institutional Development, will be funded from Mission PD&S.

4.2 Training Cost Plan

Because of the overlap between SUDS training objectives and the existing Mission projects which cater for training, there was considerable discussion concerning a cooperative approach during the course of PP design. Agreement within the Mission was reached on the sharing of training costs between the SUDS Program and the Mission's on-going education project portfolio. A detailed breakdown of this arrangement is set forth in Annex I. The estimated cost of the proposed training program is about \$9 million. Of this, the Mission Education portfolio would fund about \$5.3 million, Mission PD&S would fund about \$900,000, and about \$1 million would be funded incrementally. The balance would be funded under SUDS.

5. Implementation

5.1 USAID Program Management

The program proposed in this PP is, of necessity, broad and interdependent. Considerable effort within USAID will be devoted to the start-up of this program and to its management. Success will depend upon the rapid build-up of relations with CBOs and existing and emerging organizations involved in shelter and urban development. It will be extremely important to insure that these relations, the establishment of the Housing Advisory Committee, the supervision of contractors, the orchestration of policy inputs, the grant process, and the control of expenditures advance in a coherent manner. To manage and direct the implementation process, and the 2 contractor teams that will be involved, USAID and the Office of Housing and Urban Programs have agreed that a housing and urban development unit within, and reporting to, the Mission will be established. The unit will contain 2 direct-hire positions, comprising a senior housing officer and a mid-level housing officer. It will also include a U.S. PSC and a South African PSC as well as appropriate support staff. In addition to the South African program, the unit will also be responsible for housing and urban development activities elsewhere in Southern Africa. The unit will be in place and operational by September 1992 and it is this unit which will provide management of the program and to which the contractor teams will report; the vision and direction of the program will come from the USAID Mission, including its housing and urban development unit. The unit will in turn be an integral part of USAID and, like all other entities within the Mission, will interface closely with all other portfolios and will help to formulate and carry out Mission policies.

46

5.2 Implementation Plan

There are 3 major thrusts in the SUDS Program, which will be managed by the USAID team described in section 5.1 above. They are CBO Capacity Building, Expanding Access to Finance, and Institutional and Policy Development. To assist in the implementation of the various activities under the three major thrusts, it is planned to have two major institutional contracts. These contracts have been described already in some detail in Section 3 and in a number of the annexed analyses. The Mission management team, in addition to carrying out all normal project management responsibilities, will provide close and continuous guidance to the technical assistance teams and training and policy activities. As part of that process, the technical assistance teams will be required to formulate detailed workplans, with Mission assistance, for their activities which will clearly indicate the relationship and sequencing of their activities.

Major grants will be made to a number of organizations in accordance with the guidelines set forth in Section 3 and the analyses in annex. Grants will be made to training institutions, financial institutions, policy formulating fora, legal assistance groups, CBOs, and other organizations in order to achieve the objectives of the Program. Grants will be made by USAID, and will be prepared by both USAID and, as already specified, by the institutional contractors serving in the Program.

5.3 Procurement

Due to the varied nature of the program's activities, a number of obligating and implementing arrangements are envisaged. The chart below is indicative of the range of mechanisms to be used. A guiding principle for the Program will be to minimize the number of contracting actions which USAID is required to perform, transferring these to the extent possible to other entities. The major technical assistance contract under this project shall be restricted to "Grey Amendment" entities, in accordance with USAID procurement policies.

Note: CUSSP: Community and Urban Services Support Program
Institutional Contract
UPID: Urban Policy and Institutional Development
Institutional Contract

<u>Component</u>	<u>Obligation and Implementation Mechanisms</u>
1. <u>CBO Capacity Building</u>	
Technical Advisors	CUSSP
Training Coordinators	CUSSP

CBO/NGO Coordinator
Training by NGOs

CDA Training
Workshops/Exchanges
Legal/Consumer Assistance
Impact Assistance

CUSSP
Procurement under CUSSP
Direct AID Grants
Procurement under CUSSP
Procurement under CUSSP
Direct AID Grants
Direct AID Grants
CUSSP Packaging and mgt.

Activity

Obligation and Implementation
Mechanisms

2. Policy and Institutional Development

Urban Development Advisor
Other Professional Advisor(s)
Assistance to Shelter/Urban Fora

Technical Assistance

Workshops/Exchanges/Support

UPID
UPID
Direct AID Grants
Procurement under UPID
Procurement under UPID
Direct AID Contracts
Procurement under UPID

3. Finance

Mobilization of Bridging Finance
Mobilization of Short Term Finance
Mobilization of Long Term Finance
Technical Assistance

Workshops/Other Support

Direct AID Grants
Direct AID Grants
Direct AID Grants
Direct AID Contracts
Procurement under
CUSSP or UPID
Procurement under
CUSSP or UPID

4. Construction Management Assistance

Construction Management Training

Bridging Finance Assistance
Workshops/Support/Tech. Asst.

Direct AID Grants
Regional IQC
RHUDO PSC
Direct AID Grants
Procurement via CUSSP
Regional IQC

5. USAID Management

USAID Advisors
Strategy Support/Studies

Evaluations
Audits

Direct AID Contracts
Direct AID Grants
Direct AID Contracts
Direct AID Contracts
Direct AID Contracts

5.4 Monitoring, Evaluation and Audit Plan

5.4.1 Monitoring

Monitoring of the expected changes in the shelter situation in South Africa is an integral part of this Program. Because progress toward achievement of the Program Goal will be measured by an increase in numbers of disadvantaged South Africans who are better sheltered, systems for data gathering will be established by all management elements participating in the Program, i.e. USAID, USAID's institutional contractors, and South African NGOs and other organizations who are beneficiaries under the Program. All contracts and grants will contain provisions with this requirement, and USAID itself will establish a monitoring function in the implementation unit responsible for managing the Program. In addition to USAID, the Program Advisory Committee will play a vital role in the monitoring of Program activities and in assisting the Mission to gather relevant data.

Examples of the kinds of data which will be gathered are:

Statistical and other studies produced by universities, foundations, and other organizations which assess the general shelter situation in South Africa.

In-depth baseline data on communities targetted for assistance under the Program, with information to be gathered by the relevant CBOs. Regular updating of this information.

Financial data generated by the housing finance industry concerning lending to disadvantaged South Africans.

Assistance rendered by all NGOs and other organizations in the Program.

Construction enterprises assisted and information concerning the jobs being undertaken and persons being employed.

Regular monitoring through studies or other commissioned papers on progress being made concerning the evolution of new shelter and urban development policies in the national and regional fora for these matters.

5.4.2 Evaluations

The process of political transformation which began with the release of Nelson Mandela and the abolition of much of the apartheid legislation is expected to reach a decisive stage during the implementation of this Program. For that reason it

is fundamental to the success of the project goal that a thorough assessment of progress and an evaluation of a number of key issues be undertaken within a reasonable time after the Program is approved. This approval is expected during the first half of 1992, with obligations of funds for a number of activities expected before the end of FY 92. Real program implementation will begin in the last quarter of CY 1992. It is therefore proposed that a target date of the first half of 1994 be established for the first major Program evaluation.

Key issues and subject areas to be examined are:

Extent to which USAID followed recommended guidelines in the technical, financial and economic, institutional, and social analyses for the assessment of grant activities.

Progress in each program activity.

Performance of participating NGOs.

Assessment of USAID project management and institutional contractors.

Review data collected under monitoring activity and assess progress being made on finance and shelter policy issues identified in PP.

Progress being made on evolving the white oriented shelter system.

Review programs of other donors.

Review progress on gender issues identified in PP.

Recommend mid-course adjustments in Program.

A second evaluation near to the end of the Program should also be undertaken to assist with the decision on future activities in this Sector. Evaluations will be provided via IQCs, with an emphasis on Gray Amendment entities.

5.4.3 Audits

In accordance with A.I.D. policy, project financial audits are incorporated into the design and provisionally programmed for the end of the second year of Program activities and at the conclusion of the Program. A total of \$100,000 has been set aside for audits. It is anticipated that audits will be provided through existing Southern Africa regional IQCs, all of which have correspondent offices in the U.S.

5.5 Implementation Schedule

Project design contemplates a rapid start-up of the SUDS

Program. Following PP approval, it is expected that the first USAID employee directly responsible for the Program, the US PSC, will arrive in South Africa by July 1992, to be followed shortly by the first direct-hire. Before the end of the fiscal year, a number of grant and contracting actions will have been completed, leading to a build-up in activities. It is recognized that for a number of reasons this may well be optimistic. As a result the following illustrative table may be revisited and revised in early 1993.

<u>Event</u>	<u>Date</u>
Project authorized	5/92
RFP for CUSSP issued	5/92
Proposals for CUSSP received	7/92
US PSC arrives South Africa	7/92
First grant(s) made	8/92
USDH arrives South Africa	8/92
Second USDH arrives South Africa	8/92
Housing Advisory Committee established	9/92
Support for policy fora initiated	9/92
Contract for CUSSP signed	9/92
Additional grants made	9/92
RFP for UPID issued	10/92
CUSSP team arrives South Africa	11/92
Proposals for UPID received	12/92
CBO training begins	2/93
Contract for UPID signed	2/93
UPID team arrives South Africa	5/93
First audit and evaluation	2/94
Second audit and evaluation	2/96
PACD	5/96

51

6. Program Feasibility Analyses Summaries

6.1 Technical Analysis

Three principal development themes underlie the search for new solutions in the transition to post apartheid South Africa: the participation of community groups in decision making, the need to provide new stimulus to economic growth to reverse recent stagnation, and the re-alignment of the resources of South African institutions to serve the entire population. USAID's response to the urban crisis, the Shelter and Urban Development Support (SUDS) program, incorporates these themes in its design. The project includes elements to strengthen community development management, increase financial resources for low income housing, and support the formulation of new policies that will promote equitable growth and viable urban centers.

The community development oriented components will bring a variety of forms of training, technical assistance, and financial resources to bear on selected communities. The success of this assistance will depend in large part on the selection of the communities. This selection should be made according to criteria such as regional distribution, demonstrated commitment within the communities, the potential for broader economic development, leveraging of other resources for development, and support for innovative solutions. The technical assistance should include a regional character, be non-partisan in terms of institutional affiliation, include as a matter of course South African counterparts to build local capacity, and make use of a facilitative approach. The success of the components addressing policy issues and institutional development will also require a non-partisan and facilitative approach in addition to effective linkages to the US because of the proposed reliance on short term technical experts and observational visits.

A Housing and Urban Development Advisory Committee will assist USAID in monitoring the progress of the program and its relevance to political and social changes in South Africa. It will also assist in disseminating the lessons learned in the project to policy makers and practitioners.

6.2 Financial and Economic Analysis

The SUDS program is an umbrella development assistance facility under which discreet projects will be funded. Accordingly, the project paper financial and economic analysis does not evaluate the viability of specific potential SUDS interventions, but instead suggests criteria and techniques for the assessment of specific project proposals for SUDS funding which will be presented during the course of SUDS implementation. The analysis also suggests mechanisms for the

subsequent monitoring and evaluation of SUDS-assisted activities. The focus of this analysis is on financing mechanisms for housing and related urban infrastructure, and the emphasis is on striking a balance between the processes and products of SUDS program interventions through the strategic application of relatively limited resources.

Financial viability should be evaluated primarily in terms of: sources and applications of funds; conventional balance sheet, income statement, and cash flow performance measures; loan portfolio composition, quality, turnover, and profitability; beneficiary profiles; and operations monitoring, program evaluation, and internal audit capacity.

Economic viability should be evaluated primarily in terms of: individual and institutional positive and negative incentives; positive and negative externalities; and explicit or implicit economic distortions.

6.3 Institutional Analysis

In designing SUDS, USAID has made a strategic choice to include a variety of interventions and collaborate with many institutions. This is an appropriate choice at this point in time for three reasons. First, the urban sector is a new arena for the Mission and track records with partner institutions have not been established. Second and most important, the transition in South Africa is characterized by the emergence of many new institutions, each with its own specific political and developmental objectives. In this environment it is extremely important for USAID to maintain a non-partisan stance. And third, these institutions have already demonstrated innovative and action oriented programs that deserve support and, at the same time, will avoid a heavy investment of start up assistance.

In reviewing institutional proposals, USAID will conduct management and organizational analyses of each potential benefiting organization. In addition, it will be useful to assess other factors including: the consistency of the organization's objectives with SUDS objectives and with the proposed activities; the design of the proposed activities to ensure that they reflect a clear understanding of the problems and of accepted developmental approaches; the organization's experience in dealing with the proposed beneficiary group, and; internal reporting procedures to ensure that the organization is capable of monitoring the impact of its activities and reporting to USAID in an acceptable form. Recognizing that most relevant South African institutions are young, USAID will also provide guidance and assistance to help build sustainable institutional capacity.

6.4 Social Soundness Analysis

Apartheid has created a society, particularly in the urban areas, that is physically, economically and culturally compartmentalized. Moreover, the physical design of South Africa's cities, as they have developed under apartheid, has denied a sense of community to the black population. A principal focus of SUDS will be to find ways to begin to strengthen community level organizations through training, community facilities and infrastructure development.

The SUDS Program will reduce overcrowding through facilitating access to end-user finance for additional sites for shelter construction. It will also impact on the provision of services such as water, sanitation, electricity and refuse removal, resulting in a reduction of health hazards and an improvement in the quality of life. The SUDS Program identifies approaches which will help to integrate towns and cities through urban infill projects, thus reducing travelling time and contributing to the integration of segregated communities. The Program should be sensitive to the social complexities of low-income communities being established adjacent to white suburbs.

One of the principal causes for the continuing social unrest has been the lack of access of blacks to permanent, affordable housing and adequate urban services. SUDS will address these problems by promoting greater access to finance for home improvement and support to community lending schemes and housing finance institutions.

The majority of heads of households in informal shelter settlements are women, and studies show that social problems related to women in urban areas are increasing due to the pressures associated with hopelessness and overcrowding. The main beneficiaries of the SUDS Program are likely to be women.

6.5 Political Analysis

South Africa is undergoing fundamental political and social reform as profound as that experienced in eastern Europe. Any initiative which impacts on shelter and urban development in the country must be sensitive to factors surrounding this reform. In the wake of the referendum conducted among the white population in March 1992, the country appears committed to reform through negotiation, with the early establishment of an interim government.

In this environment of political flux, the role of NGOs is crucial. They will be key actors in ensuring continued progress and development. Strengthening NGOs, as envisaged in SUDS, should help to ensure that civil society can continue to represent citizens across the political spectrum even after a new constitution and governmental system have been put in place.

54

The political implications of projects that will be undertaken under the SUDS program should be assessed prior to commitment of funds, as successful projects may become the subject of competition among political groupings wishing to claim credit for their success. Likewise, projects may become stalled or disrupted to suit the interests of specific political groups. Recipients of assistance may become targets for political action and struggles may develop to assume control of the process. Although USAID should not evaluate each project, it should ensure that its grantees have systems in place for doing so.

In the early stages of the Program, USAID will have to accept an element of risk in working with fledgling NGOs which may change their form or be replaced under a new constitution or political dynamic. A non-partisan approach should be taken in the selection of projects and counterparts to avoid accusations of political bias. Similarly, a representative geographical spread of projects should be undertaken to accommodate regional interests. Because most of the existing developmental organizations are white led, special attention should be given to working with emerging black NGOs. This may imply a slower track for the Program, with less tangible results in the short term, but it will be valuable in maintaining an acceptable political and social stance during this period of flux.

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ANNEX A

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: _____
From FY _____ to FY _____
Total U. S. Funding: _____
Date Prepared: _____

Project Title & Number

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes</p> <p>Promote the economic empowerment of disadvantaged South Africans.</p>	<p>Measure of Goal Achievement:</p> <p>Increase in numbers of disadvantaged South Africans who are better sheltered.</p>	<p>Monitoring of statistics and analyses produced by Foundations, Universities, NGOs, and other organizations which will demonstrate numbers and quality of shelter solutions as well as progress being made in reducing the numbers of slum dwellers in the major urban areas. In addition, regular evaluations which will assess progress toward achievement of goal.</p>	<p>Assumptions for achieving goal targets</p> <p>a) Continued progress on achieving democratic rule. b) South African economy can grow sufficiently to provide needed resources for all priority sectors. c) Level of violence in urban areas does not prohibit progress being made.</p>
<p>Project Purpose:</p> <p>Support the improvement, production and ownership of affordable shelter within viable urban environments.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>a) Community organizations assume leadership roles in the promotion of local shelter and infrastructure development. b) Community based construction enterprises command increased share of local construction. c) Private sector financial institutions are firmly committed to lending for affordable housing for disadvantaged low income South Africans. c) Urban and shelter institutions and policies emerge which promote equitable post-apartheid urban life.</p>	<p>a) Work with and monitor output of community based organizations and construction enterprises. b) Work with financial institutions to monitor statistics on volume of loans being made to lower income households. c) Work with urban institutions and emerging fora and monitor acceptance and implementation of new policies. d) Regular evaluations which will focus on attainment of EOPS.</p>	<p>Assumptions for achieving purpose:</p> <p>a) Community organizations and enterprises, with assistance, can become viable. b) Land for development is available at affordable prices. c) Formal sector institutions are willing to lend for affordable shelter to disadvantaged households. d) Different groups involved in the democracy process can work together in new institutional settings and evolve new urban policies.</p>
<p>Outputs:</p> <p>a) Strengthened community based organizations b) Viable community based construction sector enterprises c) Greater private sector shelter financing d) Affordable shelter solutions. e) Informed debate on urban and shelter policies.</p>	<p>Measures of Output:</p> <p>a) 7,500 shelter solutions directly resulting from project inputs. b) 50 community based organizations strengthened and more than 1000 persons trained in all aspects of shelter development. c) More than 50 small enterprises assisted. d) More than \$37.5 million equivalent in private sector financing leveraged during LOP for affordable shelter solutions. d) National and regional fora established or consolidated and comprehensive urban policies adopted in new post-apartheid structures.</p>	<p>Regular evaluations, gathering of statistics and keeping of records by technical assistance, Mission and MIUDO staff with regard to each project component, such records to be established as part of project start-up.</p>	<p>Assumptions for achieving outputs:</p> <p>a) Factor inputs, e.g. land and construction capacity, are available in sufficient quantities and locations b) Sufficient numbers of CEOs and small enterprises exist to carry out program. c) Financial institutions are willing to lend and have sufficient funds to do so. d) Organizations are receptive to technical assistance in the formulation of urban and shelter policies.</p>
<p>Inputs:</p> <p>a) Mission grant funds. b) Mission and MIUDO management and monitoring. c) Resident technical assistance teams.</p>	<p>Implementation Target (Type and Quantity)</p> <p>a) \$30,000,000 in Mission grant funds. b) Mission and MIUDO project management c) 2 technical assistance teams totaling up to 36 person-years.</p>	<p>a) Disbursement records. b) AID records and documentation. c) AID documentation and regular report requirements.</p>	<p>Assumptions for providing inputs:</p> <p>a) Approval for this program and availability of funding over LOP. b) Availability of appropriate and experienced TA personnel.</p>

56

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RUEHME/AMEMBASSY MBABANE PRIORITY 3966

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AIDAC - NAIROBI FOR REUDO; MBABANE FOR RCO KENYON

P.O. 12356: N/A

TAGS:
SUBJECT: SOUTH AFRICA SHELTER AND URBAN DEVELOPMENT
SUPPORT PROJECT (674-3312) PID: ECPR DECISION AND GUIDANCE

1. SUMMARY: THE EXECUTIVE COMMITTEE PROJECT REVIEW (ECPR) MEETING, HELD ON 3/4/92 TO CONSIDER THE SUBJECT PROJECT, DECIDED TO (A) APPROVE THE PROJECT IDENTIFICATION DOCUMENT, (B) INSTRUCT THE MISSION TO PROCEED TO THE FINAL DESIGN PHASE, AND (C) RECOMMEND THAT THE AA/APR DELEGATE PROJECT AUTHORIZATION AUTHORITY TO THE USAID/SOUTH AFRICA MISSION DIRECTOR. THE COMMITTEE COMMENDED THE EXCELLENCE OF THE PROJECT DESIGN. MAXIMIZING THE USE OF U.S. GRAY AMENDMENT MINORITY FIRMS WAS ENCOURAGED. END SUMMARY.

2. THE ECPR MET ON 3/4/92 TO CONSIDER THE SUBJECT PID. THE MEETING WAS CHAIRED BY CAP DEAN, DIRECTOR, AFR/SA. AND ATTENDED BY REPRESENTATIVES FROM AFR/DP, AFR/ONI, LEG/CI, GC/AFR, PPI/H, AF/S, USAID/SOUTH AFRICA, REUDO/ESA, AND AFR/SA. USAID/SOUTH AFRICA WAS REPRESENTED BY ASSISTANT DIRECTOR JANICE WEBER AND REUDO/ESA WAS REPRESENTED BY CHIEF MICAEL LIPPE AND ESC HOUSING AND URBAN DEVELOPMENT ADVISOR DAVID DEGROET. THE REVIEW BENEFITTED FROM THEIR CLEAR PRESENTATIONS ON THE MISSION'S ENTRY INTO THIS NEW SECTOR AND THE NATURE OF THE PROJECT.

3. THE FOLLOWING ISSUES WERE DISCUSSED AND RESOLVED:

A. HAS THE SOUTH AFRICAN SOCIETY AND LEGAL/ADMINISTRATIVE SYSTEM OPENED UP ENOUGH TO ALLOW USAID TO MAKE A PRUDENT AND EFFECTIVE DEVELOPMENTAL INTERVENTION IN THE HOUSING AND URBAN DEVELOPMENT FIELD?

THE REPEAL OF THE GROUP AREAS ACT IN EARLY 1991 WAS CITED AS THE KEY CHANGE WHICH AFFECTED THE TIMING OF A I.D.'S INTERVENTION IN THE SHELTER AND URBAN SECTOR. THE MISSION REPRESENTATIVE STATED THAT NOW WAS BOTH THE PRUDENT AND OPPORTUNE TIME TO ENTER THE SECTOR AND DEMONSTRATE THE EFFECTIVENESS OF A PRIVATE SECTOR-NGO RESPONSE TO THE EXISTING HOUSING CRISIS.

B. WHAT FUNCTION WILL COMMUNITY-BASED ORGANIZATIONS

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57

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(CBOs) CARRY OUT IN THE PROGRAM AND WILL ENOUGH ORGANIZATIONS EMERGE TO FULFILL THIS ROLE?

THE PROGRAM WILL ASSIST SELECTED CBOs TO MAKE THE TRANSITION FROM ADVOCACY GROUPS TO COMMUNITY DEVELOPMENT GROUPS. THE PROJECT DESIGN TEAM NOTED THAT SOUTH AFRICA POSSESSED A RICH DIVERSITY OF CBOs AND EXISTING PROGRAMS HAD IDENTIFIED AN INITIAL LIST OF APPROXIMATELY 75 GROUPS THROUGHOUT THE COUNTRY WHICH MET PRELIMINARY PROGRAM CRITERIA.

C. HOW WILL THE PROGRAM LEVERAGE BRIDGING/SHORT-TERM FINANCE?

RHUDO REPRESENTATIVES EXPLAINED HOW PROGRAM FUNDS WOULD (1) SECURITIZE THE GUARANTY BONDS OF EXISTING ORGANIZATIONS (THE LAND INVESTMENT TRUST AND/OR THE GROUP CREDIT COMPANY) WHICH COULD THEN RAISE AFFORDABLE CONSTRUCTION FINANCE FROM THE DOMESTIC SOUTH AFRICAN MARKET; AND (2) IN SELECTED DEMONSTRATION CASES PROVIDE SEED MONEY TO INDUCE PRIVATE INVESTMENT IN URBAN REDEVELOPMENT, SUCH AS DISTRICT 6 IN CAPETOWN AND/OR CONDOMINIUM DEVELOPMENT IN HILLBRO, JOHANNESBURG.

D. IS THE PROJECT DESIGN CONSISTENT WITH THE MANDATES OF THE U.S. COMPREHENSIVE ANTI-APARTHEID LEGISLATION AND OTHER CONGRESSIONAL MANDATES?

THE APPROPRIATE GO AND LEG REPRESENTATIVES STATED THAT THE PROGRAM DESIGN WAS CONSISTENT WITH THE LEGISLATION AND THE INTENT OF CONGRESS.

E. IS THERE COMPLEMENTARITY BETWEEN THIS PROGRAM AND PROPOSED INTERVENTIONS OF THE WORLD BANK?

WHILE NOTING AT THE OUTSET THAT THE WORLD BANK HAD NOT YET COMPLETED ITS FINAL PROGRAM DESIGNS, MISSION REPRESENTATIVES STATED THAT THE BANK'S URBAN MISSIONS TO SOUTH AFRICA TO DATE HAD EMPHASIZED POTENTIAL PROGRAMS OF INVESTMENT IN BULK INFRASTRUCTURE, SUCH AS SEWAGE TREATMENT SYSTEMS, WATER RESERVOIRS AND TRUNK LINES, LARGE DRAINAGE SYSTEMS, ETC. A.I.D.'S SHELTER AND URBAN DEVELOPMENT SUPPORT PROJECT WOULD THUS BE DIRECTLY COMPLEMENTARY THROUGH PROVIDING TECHNICAL ASSISTANCE, TRAINING AND FINANCE AT THE COMMUNITY LEVEL. IN ADDITION, A.I.D. WOULD CONSIDER COLLABORATING WITH THE WORLD BANK ON ITS SECTORAL ANALYSIS AND STUDIES.

ANNEX C

TECHNICAL ANALYSIS

I. Background

The search for new urban solutions in the transition to post apartheid South Africa is underscored by the millions of poor, largely black, urban residents living in backyard shacks or unserviced squatter settlements and a stagnating economy that will, only with difficulty if at all, absorb the 40 to 50% of the black population that is unemployed. Several emerging development themes underlie the search for ways to provide basic services to those previously denied access and for policies that will lead to more equitable development of viable urban areas. They include:

community participation: long denied a voice under apartheid, community groups' participation is now seen as vital in decisions that impact their immediate environment as well as the broader urban system. However, few community organizations, particularly those representing the black population, have the management skills and technical capacity to be effective partners in negotiating the transition;

"jumpstarting" the economy: in light of South Africa's poor economic performance in recent years, South Africans are keenly aware of the need to undertake actions that will provide an economic stimulus. Urban areas generate at least 60% of GNP, so reducing economic distortions and providing infrastructure and services that support economic growth are essential. Housing supply, including to low income segments of the population, is regarded as a prime means to economic renewal. Therefore, policy makers and financial institutions are paying greater attention to reaching the portion of the population that was denied adequate housing under apartheid policies.

institutional realignment: in the past, public and private sector institutions have focused their financial resources and trained manpower to serve the needs of a small part of the population. In the post-apartheid period, the challenge is to put those resources to the service of the entire population and to create new institutions that are responsive to the particular needs of the disadvantaged segments of the population. USAID's response to the current urban crisis, the Shelter and Urban Development Support (SUDS) Program, incorporates these themes in its design. It also recognizes three emerging thrusts of urban development in South Africa: building development management capacity at the community level, increasing the financial resources available for

low-income housing, and formulating new policies that will support equitable urban growth and viable urban centers. The components of SUDS, discussed below, are consistent with the agendas of the extra-parliamentary parties and community leaders negotiating the transition to the post apartheid period, and with emerging views in financial institutions. The project will therefore have the support of the organizations and institutions it is intended to serve. This continuing support will be crucial to the success of the project.

The SUDS approach recognizes that financial support under this type of assistance program is minimal in comparison to the scale of funding needed to improve housing conditions and to the financial resources that can be generated internally in South Africa or by donors such as the World Bank. It also recognizes that the principal constraints on improved housing and urban development are structural rather than simply resource based. Therefore, the project targets strategic intervention points to strengthen key institutions or to leverage policy change.

For discussion purposes, the project components are grouped as 1) community development-oriented, 2) increasing financial support for housing and urban services, and 3) policy and institutional development.

II. Community development-oriented components

The community-oriented components of the project will be provided to selected communities and will include the following.

1. Building the capacity of community-based organizations by:
 - a. Strengthening CBO development management capacity through training for community leaders in topics such as office administration, negotiation and conflict resolution, and technical orientations in subjects such as urban project management and local government. The project will also fund training for community development advisors.
 - b. Impact grants to fund essential facilities and equipment for community groups.
 - c. Community legal services and home ownership education to facilitate the transition from rental housing to ownership.
2. Assistance in project design and construction through:
 - a. Technical assistance in the design and management of upgrading and other community projects.
 - b. Training in construction management skills and technical assistance to black construction enterprises to promote employment opportunities for the local population and to support the expansion of black enterprises.

From a design perspective, the successful implementation of these components will primarily depend on two issues: the selection of the targeted communities and the design of the technical assistance.

A. Selection of targeted communities: By focusing an integrated set of interventions on a limited number of communities, the project should achieve a synergy that will result in greater impact than that of a more diffuse effort. However, investing considerable resources in a limited number of communities carries with it a significant risk that the communities will not respond to the development assistance. The following selection criteria will serve to reduce that risk and still provide valuable lessons to development efforts in South Africa.

1. regional distribution: recognizing distinct regional differences, a sample of communities should be selected from several regions.
2. demonstrated commitment: prior organization around a development initiative, existence of a local community organization and leadership.
3. development potential: a potential for broader economic development in the region surrounding the community.
4. leveraging resources: using the USAID-funded assistance to leverage or ensure commitment of funds from other sources for service upgrading and/or shelter improvements.
5. innovative approaches: funding innovative or pilot solutions to more generalized problems.

B. Design of the technical assistance: A major vehicle for delivering assistance and managing the interventions of South African institutions funded by these components of the project will be the contracted technical assistance team. However, the implementation will pose a unique set of challenges to the team because of the specific characteristics of the South African context. Consideration should be given to the following features of the technical assistance team.

1. Regionalization: In view of regional differences and the need to be close to the communities with which the project is working, assistance teams should be assigned on a regional basis. While a core team of experts may be part of a central office in Johannesburg, regional teams will be required to maintain close contact with the selected communities and to coordinate the range of training activities that will be offered. Because, the complete staffing need not, indeed should not, be

expatriate, the regional offices provide the opportunity to build local expertise in these fields. Field offices in Johannesburg, Durban, Bloemfontein, and Cape Town (also serving the Eastern Cape) are recommended.

2. South African counterparts: To further strengthen existing South African technical capacity and strengthen the cultural and political sensitivity of the team, locally hired counterparts should be used to fill a large number of positions on the team. Special effort could be made to tap the expertise of returned exiles who have obtained specialized technical training overseas.

3. No institutional affiliation: Normally, assistance projects are designed with specific institutional affiliations to foster sustainability, in theory, by transferring the approach and expertise to the local institution. In South Africa, given the highly charged political nature of most institutions and their relative youth, not having a single institutional affiliation will allow the assistance teams to work in a non-partisan way. However, it will be important to maintain a sense of local accountability through the existence of a program advisory committee, discussed below under monitoring arrangements.

4. Facilitative approach: There are great sensitivities to imposed, prescribed solutions among the disadvantaged population in South Africa. The current emphasis on group consultation and "workshopping" evidences this. Therefore it will be particularly important that the technical assistance teams view their task as facilitating problem solving rather than simply imparting their technical expertise. Although difficult to define in terms of reference, evidence of facilitation skills should be required, particularly of expatriate team members.

III. Increasing financial resources for housing and services

The components of the project that seek to increase the availability to financial resources for housing and community services are described briefly below. They will be used in many cases in conjunction with the community development components, above, to ensure that strengthening community organizational capacity is complemented and reinforced by the construction of physical improvements in the community.

1. Improving bridging and short term finance through:

- a. Providing capital grants to financial organizations/institutions that will serve the black majority and NGO's that can provide bridge financing for basic urban service provision and housing projects.
- b. Providing capital grants to institutions that finance home improvement loans.

c: Providing capital grants to increase the supply of construction finance for black enterprises.

2. Increasing the availability of long term housing finance by:

a. Providing capital to reduce the risk in low income borrowers, thereby increasing financing options from conventional lenders.

b. Facilitating the entry of established financiers into the low income market by exchange of information about successful approaches in other countries and other dialogue methods.

Mission project staff will manage these components, with support from short term experts as needed. Because the funding will be made available through a limited number of grants or loans to institutions with established operating procedures, there are few constraints on the technical feasibility of their implementation. The more important issues pertaining to the financial, institutional, and political feasibility of these components are discussed in Annexes D, E and G, respectively.

IV. Policy and institutional development component

Apartheid policies produced widely acknowledged social disruption and economic distortions. In the transition to the post-apartheid period, extra-parliamentary groups are negotiating a new policy framework that will engender more equitable development and viable urban centers. A variety of extra-parliamentary policy research units and fora have recently been established that bring together the major actors (except government at this point in time) in the policy debate. At the national level, the Housing Forum is charged with conducting research and preparing policies on housing finance, land and services, housing delivery, and institutional roles. A Regional and Local Government Forum to research alternative government structures is expected to be established in the near future. The Macro Economic Research Group (MERG), in which many of the democratic forces are participating, is focusing on four principal research areas including housing. At the local and regional levels, fora such as the Metropolitan Chamber in Johannesburg, are discussing alternative structures for resource mobilization and service delivery under the concept of "one city", replacing the fragmented structures created under apartheid. While these fora will have a significant impact on future policies for housing and urban development, they will also be bound by the discussions at CODESA and the constitutional framework which it produces.

Despite significant progress in establishing policy fora, the policy formulation process has been constrained by a lack of policy-related research and a lack of access to a large

64

body of relevant experience from the U.S., and other industrialized and developing countries. In addition, South Africa must begin to address the capacity of those institutions, particularly local authorities, that will be responsible for the implementation of housing and urban service policies in a democratic, non-racial manner.

The policy and institutional development component will address these problems at several levels by:

1. Supporting shelter and policy formulation at the national and local levels through short term expert exchanges in South Africa, policy related research, the development of policy analysis tools, seminars and roundtable discussions, documentation, and observational tours to the US;
2. Supporting in-service and pre-service training for local government officials in South Africa and advanced degree academic training in the US in fields related to housing and urban management;
3. Providing financial and logistical support to extra-parliamentary groups who have difficulty participating because they lack financial resources and full time staff.

From a project design perspective, the implementation of these components will depend primarily on the status of the CAAA and the design of the technical assistance effort.

A. Status of CAAA: At the present time, the CAAA prohibits USAID from working with government structures or institutions receiving SAG funds. This includes universities and local governments. Direct access to university-based specialists for policy research is therefore constrained; the principal research partners in the interim will be service organizations and other NGO's. Likewise, because USAID funds cannot be used for training local government staff, that component will be programmed for the future. The fact that the Program is an umbrella program will permit it to adapt to changes in the legislation.

B. Design of the technical assistance: As with the community development-oriented components, the primary vehicle for delivering assistance will be a contracted technical assistance team. Because of the nature of the required assistance and the specific characteristics of the South African context, consideration should be given to the following features of the TA design.

1. No institutional affiliation: As recommended for the community development components, not having a single institutional affiliation will allow the assistance team to work in a non-partisan way. However, it will be important to maintain accountability through the existence of a project advisory committee, discussed below.

65

2. Facilitative approach: There are great sensitivities to imposed, prescribed solutions among the disadvantaged population in South Africa. Therefore it will be particularly important that the technical assistance teams view their task as facilitating problem solving rather than simply imparting their technical expertise. Although difficult to define in terms of reference, evidence of facilitation skills should be required, particularly of expatriate members.

3. US linkages: Much of the information exchange value of this component will depend on the selection of appropriate short term experts to discuss international and US experiences across a range of urban sector issues. It will also depend on the close integration of the subjects of policy discussions in South Africa with well structured observational tours in the US. Tightly designed and well targeted arrangements will make the visits more productive for participants.

V. Program advisory committee

Just as the current politicization of South African institutions justifies free-floating technical assistance teams, the rapidly changing situation requires that the project have a mechanism for continuously monitoring its approach vis à vis the political, social and economic environment. An advisory committee would assist AID program managers and assistance teams in keeping project components on track and in navigating through changing political waters. The committee would also serve as a valuable mechanism for exchanging project lessons among the AID team and with key South Africans involved in the sector.

Membership on the committee is a key concern. The objective of the committee will be to represent South African technical, social and political concerns in solving urban problems. The desirability of assuring continuity in advising the project would require that there be a stable membership. On the other hand, the project will deal with many different issues and different audiences over time: ranging from expanding formal banking sector lending to local government training and black construction enterprise development. The ability to provide advice on varied subjects over time would argue for a changing membership, reflecting the issues with which the project is dealing as well as changes in the political environment. In reality a combination of these two approaches may be the best: a stable core membership with the flexibility to add membership on a limited term basis in response to technical issues or environmental changes.

The program should set aside resources to allow the advisory committee to meet at least quarterly and receive and comment upon project documents as they are produced.

ANNEX D

FINANCIAL AND ECONOMIC ANALYSIS

I. Scope of Analysis

The South Africa Shelter and Urban Development Support (SUDS) Program is an umbrella development assistance facility under which discreet projects will be funded. Accordingly, the purpose of this analysis is not to assess the financial and economic viability of potential SUDS interventions. This would be both premature and unfair, as the identification and delineation of specific program interventions are intended to be integral and ongoing components of SUDS implementation. Instead, suggested criteria and techniques for the evaluation of anticipated specific project proposals for SUDS funding will be presented, together with mechanisms for the subsequent monitoring and evaluation of SUDS-assisted activities. Furthermore, the focus of this annex will be on the screening of possible shelter and urban development financing mechanisms rather than on institutional support grants. Not only are approximately two-thirds of SUDS program resources earmarked for capital assistance, but this is also the program component most amenable to rigorous financial and economic analysis. The evaluation of other program components is discussed in the project paper's technical, institutional, political, and social analyses.

II. Criteria for Success

Given the magnitude of underutilized current domestic resources and the potential augmentation of these resources with external donor assistance, the primary purpose of most capital assistance to be channeled via the SUDS program will be to leverage and redirect available resources to upgrade urban shelter and services for disadvantaged communities. SUDS capital assistance will therefore be relatively small in terms of volume of resource flows, and thus must be strategically applied in the pursuit of clear policy objectives, or its impact could be negligible or counter-productive.

For example, housing in South Africa constituted only 2.6 percent of Gross Domestic Product (GDP) in 1990, while housing as a share of GDP typically ranges between 4.0 and 7.5 percent in countries with comparable levels of GDP per capita. Furthermore, investment in housing usually comprises 18.0 to 22.0 percent of Gross Fixed Capital Formation (GFCF) in countries with levels of GDP per capita similar to South Africa's current level, but housing in South Africa was only 11.8 percent of GFCF in 1990.

The availability of underutilized or misdirected capital that might be channeled into housing and related urban infrastructure investments which is implicit in these macroeconomic figures has been confirmed by discussions with senior managers of South African financial institutions. For example, Standard Bank executives responsible for both conventional and unconventional housing finance claim that their main constraint to extending mortgages to currently excluded but potentially lucrative markets is risk, not capital. They estimate an annual market of at least 25,000 conventional mortgages in the middle-income black communities alone, if risk could be either reduced or shared with others, with ample capital to expand this market should the opportunity arise.

Thus, the design and funding levels of the SUDS program are best suited to serving as a catalyst for change through the facilitation of innovative approaches to the amelioration of shelter and urban development problems. SUDS capital assistance should be used to promote promising community-based initiatives on a pilot basis and foster policy change for existing misdirected or ineffective programs, by providing seed capital for new ventures and working at the margins to redirect the activities of established institutions. However, it is unlikely that SUDS capital assistance can significantly affect the size or quality of housing stock and bulk urban infrastructure directly.

The implications of this approach to SUDS capital assistance are important both in the selection of program participants and in the evaluation of program results. For example, it may be useful to clarify or prioritize the objectives of SUDS bridging finance assistance from among several possible alternatives:

- o Strengthening non-governmental organizations.
- o Leveraging capital from formal financial institutions.
- o Fostering community development trusts.
- o Promoting small-scale black entrepreneurs.
- o Increasing the supply of serviced land.

Without such elucidation, there may be internal contradictions that would make project evaluation difficult:

- o If capital is leveraged at a high gearing ratio, but is not applied to low cost housing development, is the project a success?
- o If black entrepreneurs acquire a significant share of the land development and housing construction market, but contract performance is poor, is the project a success?
- o If the supply of serviced land and shelter is dramatically increased, but the provision of this urban infrastructure is still channeled primarily through "white enclave" enterprises, is the project a success?

A similar set of questions arise when examining proposed SUDS interventions to develop shortterm home improvement finance and longterm home mortgages:

- o If a sound infrastructure is created for the delivery of shortterm financing for shelter upgrading but this initial investment in the development of institutional capacity results in a negative financial return and limited market coverage, is the project a success?
- o If a credit delivery mechanism is financially viable but lacks political legitimacy, is the project a success?
- o If a well-accepted, community-based financing vehicle is developed, but is neither sustainable in the absence of recurrent subsidies nor amenable to wide-spread replication, is the project a success?

While it is desirable to strike a balance between the means (process) and ends (product) of SUDS program interventions, there is an inherent tension between the need to disburse funds and demonstrate concrete results, as opposed to the requisites of effectively channeling development assistance to intended beneficiaries in a credible and sustainable manner. This tension is exacerbated by the ease at which funds can be disbursed and results quantified at the expense of long-term capacity building, together with the common resistance in practice to synchronization of aid delivery with absorptive capacity, as well as the difficulty in documenting essentially qualitative institutional development.

The following suggested parameters and tools for the financial and economic evaluation of proposed SUDS projects are designed to address these issues explicitly, and to facilitate the resolution of unavoidable tradeoffs among multiple program objectives.

III. Financial Viability

1. For existing institutions, data regarding financial performance to date should be evaluated, especially regarding:
 - o Composition and ownership of the initial capital base.
 - o Sources, amounts, and terms of additional capital contributions.
 - o Application of funds, both for internal institutional development and support (especially training and overhead expenses), and for client-oriented field operations (particularly capital disbursements).

- o Conventional balance sheet, income statement, and cash flow performance measures.
 - o Loan portfolio composition, quality, turnover, and profitability.
 - o Lender and borrower direct and indirect transaction costs.
 - o Beneficiary profile.
 - o The quality, timeliness, accessibility, and utilization of financial, administrative, and performance data to monitor progress and adapt policies and operations accordingly.
 - o Internal audit capacity.
 - o Program evaluation capacity.
2. Again for existing institutions, the potential impact of SUDS capital assistance should be evaluated, in terms of:
- o Magnitude of SUDS assistance relative to non-project resources.
 - o Potential effect on the recipient institution's lending policies and procedures, as well as its capacity to leverage additional external resources.
3. For new or relatively young institutions, the above-noted issues should be examined, as feasible, via:
- o Proposed budgets and action plans.
 - o Pro-forma financial statements.
 - o Experience elsewhere, either in South Africa or abroad, with similar programs in comparable environments.
4. For both existing and new institutions, the following issues should also be examined:
- o Programmatic and financial tradeoffs in directed versus untied lending, especially for short-term shelter upgrading finance - Is it sufficient to channel funds to intended borrowers, or is it essential that such loans be used to finance home improvements? If directed lending is required, administrative costs will rise accordingly.
 - o Limits to policy leverage and institutional control with a financially desirable diversified capital base.
 - o Monitoring and evaluation implications of funds co-mingling.
 - o Explicit or implicit subsidies entailed in SUDS-assisted project activities.
 - o Linkages between political legitimacy, social acceptability, institutional capacity, technical feasibility, and financial risk.

IV. Economic Viability

The economic viability of proposed SUDS project interventions, whether for existing or planned activities, should focus on:

- o Individual and institutional positive and negative incentives entailed in such interventions, and the most likely rational behavioral responses to these incentives. For example, the Independent Development Trust's R7,500 capital subsidy scheme, although well-intentioned, perhaps inadvertently discourages urban densification, shelter upgrading, participation of black contractors, and market-driven efficiencies in production. A voucher system along the lines of the Chilean model might better achieve intended policy objectives by exploiting rather than fighting market forces.
- o Possible effects of SUDS-assisted projects on comparable activities elsewhere in South Africa, particularly in regard to positive and negative externalities. For example, a heavily-subsidized housing finance scheme, even if the subsidies are indirect or implicit, could unintentionally undermine a similar but financially self-sustaining credit program by placing this program at a competitive disadvantage.

V. Financial and Economic Analysis

Both the financial and economic analysis of a project proposal should be a collaborative effort between USAID and the prospective recipient of project assistance, to:

- o Minimize misunderstandings, especially regarding institutional objectives and performance.
- o Enhance the development or refinement of a management information system, as well as a monitoring and evaluation system, based on mutually accepted success criteria and periodic implementation benchmarks.

The project selection process should be one which enhances the likelihood of success through the exchange of information and expertise. It is essentially the first phase of project implementation, the product of which is a negotiated contract, if capital assistance is warranted, comprising mutually acceptable project objectives, timetables, implementation benchmarks, and performance standards. Capital assistance should then be disbursed in tranches, based on the phased fulfillment of this contract by project participants.

ANNEX E

INSTITUTIONAL ANALYSIS

I. Introduction

As an umbrella project, the Shelter and Urban Development Support (SUDS) program intends to support a variety of initiatives to improve the delivery of housing and urban services in collaboration with a wide range of South African institutions. SUDS is USAID's first urban-oriented program and the strategic choice to design a project with a variety of interventions and institutional collaborators was based on many factors.

First, because this is a new arena for USAID and for South Africa, the track records of potential partner institutions have not been established so a certain degree of first step experimentation is necessary. New and innovating institutions must be supported as part of the search for solutions.

Second, and most important, the transition to post apartheid South Africa is characterized by the emergence of a significant number of new institutions each with specific political and developmental objectives. The need to maintain a non-partisan approach dictates that no one institution should be favored at this point in time.

Third, related to the second factor, most of the emerging institutions have demonstrated innovative and action-oriented approaches in the search for South Africa's new order. The existence of many on-going programs that build on local experience and initiative provides USAID the opportunity to support a variety of activities without having to invest in as significant levels of start up assistance and support as may be required in other developing countries.

The objective of this analysis is not to assess the capabilities of any one institution but rather to provide guidelines for such assessments as specific institutional proposals are put forward during the course of the project. In addition, SUDS will include a certain number of activities, most notably training related activities, that cross divisional boundaries within USAID/South Africa. This analysis will also recommend ways to deal with the delivery of those activities.

II. Analysis of South African institutions

Handbook 3 provides guidance for administrative analysis of collaboration, primarily from an organizational and management perspective. Following that guidance will insure that beneficiary institutions have the legal mandate and organizational capacity to carry out the activities they propose. In addition, Annex D, Financial and Economic Analysis, provides further guidance regarding the analyses that should be conducted of institutions receiving capital assistance on a loan or grant basis. Beyond these analyses, it may be useful to consider additional criteria on which to assess the suitability of institutional proposals. They include the following.

1. Institutional objectives: are the institution's objectives consistent with the objectives of the SUDS project and are the proposed activities for which funding is solicited consistent with the institution's objectives?
2. Design of activities: do the activities reflect a clear diagnosis of the problem and an understanding of accepted technical/developmental approaches? Does the institution have the technical capacity to carry out the proposed activities?
3. Beneficiaries/clients: do the beneficiaries or clients of the institution's proposal correspond to the beneficiary profile of the SUDS project? Does the institution have experience in dealing with this beneficiary profile?
4. Internal reporting procedures: does the institution have the capacity to monitor the progress and impact of its proposed activities and to report in a manner that is consistent with USAID requirements?

It is difficult to establish a specific threshold beyond which assigning implementation responsibility carries with it more risk than potential benefit. In evaluating risk, not only institutional capacity should be considered. There may well be other political or developmental concerns that make a higher degree of risk acceptable. In these cases, risk would be counter-balanced by assistance and guidance. Indeed, while these guidelines may be useful in selecting institutions, the goal of SUDS is not simply to have local institutions carry out activities but also to strengthen their capacity to carry out similar activities on a sustained basis. Therefore, where the analysis may indicate institutional weakness, it may be desirable to provide guidance or assistance to the institution so that it may improve its performance. The approach to local institutions should be nurturing and managerial. However, at the same time, USAID must not be afraid to terminate relationships when it appears that institutional performance cannot be improved, thereby jeopardizing the desired impact of assistance.

III. Coordination of training within USAID/SA

Training is a significant element of SUDS and many of the proposed areas for training are related to existing Mission training initiatives. For example, COLD is providing support for civics, TEPS is providing capacity building in public administration fields such as local government and the SA Education program is funding academic training in the US. Therefore, existing USAID funding could be used for much of the SUDS short and long term training. At the same time, it is important to ensure that the appropriate substantive input be provided for these training activities and that their timing be coordinated, when necessary, with other SUDS activities.

ANNEX F

SOCIAL ANALYSIS

I. Background

At present South Africa's population is in the region of 35 million, of which close to 20 million live in urban areas. The apartheid system, and the segregation patterns that existed even before then, created a society that is physically, economically and culturally compartmentalized. In black townships, inadequate housing, overcrowding, lack of access to basic services are coupled with the uncertainty of political change and massive unemployment. Together, they engender enormous social problems. The soaring crime rate, increased drug abuse and outbreaks of violence in which thousands of people have been killed are symptoms of these social problems. Therefore, the SUDS program objectives of improving the conditions under which people are living in urban areas will, if realized, have a significant impact on the social fabric of the country.

II. Analysis

Some of the main apartheid-induced problems in urban areas can be summarized as follows:

1. Overcrowding

The shortage of housing in SA is estimated at one million units. The government policies of the last four decades restricted the movement of all except whites and, from 1968 onwards, curtailed the building of family accommodation for blacks in urban areas. Influx control laws (the so-called "pass laws") prevented the families of contract workers from joining them in the towns and cities and resulted in the establishment of large, overcrowded single-sex hostels in the townships among existing residential areas. The policy in the 1960's of "making the townships as uncomfortable as possible" in order to force Blacks back to the homelands resulted in a severe undersupply of community facilities and serviced land. The shortage of houses caused overcrowding and the erection of unsafe, unhygienic squatter shacks on unserviced land. The lifting of the influx control laws in 1986 brought more people to the towns and cities and increased the number of shacks and the pressure on services. It is now estimated that seven million people are informally housed, living in backyard shacks, overcrowded slums and makeshift settlements. Dependents have come to join migrant workers in hostels and entire families live around single beds in dormitories, with little or no privacy.

2. Inadequate access to services

As discussed elsewhere, much of the violence currently taking place in urban areas is centered around the struggle for scarce resources. Hostel and shack dwellers battle residents of

surrounding neighborhoods for water, building materials, access to schools and other services. This has led in many areas to the establishment of self proclaimed warlords.

3. Mental and physical health problems

Social studies show that violence, family and child abuse, drug and alcohol abuse and family breakdown are on the increase in urban areas, particularly in overcrowded squatter settlements and hostels.

4. Transport problems

Siting segregated townships on the periphery of towns and cities has resulted in an inordinately large proportion of township residents' time and money being allocated to transport to and from work and shopping opportunities. The World Bank estimates that up to 10% of black family income is spent on transport. This is considered high and is especially hard on low income households. Taxis, buses and trains have become symbols of the segregated cities. Taxi wars have erupted, particularly in the Western Cape, and crime has become endemic on trains and buses.

5. Unemployment

Current average unemployment rates of 40% and above in the black community are contributing to violence, poverty, crime, malnutrition and family breakdown. The economy has been stagnant and, of late, formal employment is becoming scarcer. The withdrawal of many multi-national employers, such as the vehicle manufacturers in the Eastern Cape, has left some communities with only 30% of the population in formal employment.

6. Lack of social organization in disadvantaged communities

Because apartheid policies discouraged any normal sense of permanency among township residents, social and community organization has been severely disrupted. Townships lack community facilities that, in ordinary communities, help structure a community. In addition, the lack of legitimate local government has failed to foster a sense of local responsibility and responsiveness that has been developed in other municipalities in South Africa. Civic organizations are the current response to this vacuum.

7. The breakdown of family structures and culture

The migratory labor system, resulting in workers being separated from their families for lengthy periods, and the presence of large, single-sex hostels in suburban areas has led to family

breakdown, prostitution and teenage pregnancy, among other social problems. Lack of adequate and sufficient shelter has stifled the development of sound family units and disrupted cultural patterns.

III. Impact of the Program

The enormity of the social disruption caused by apartheid defies easy description and facile solutions. However, the SUDS Program is properly oriented to make a positive social impact in the following ways.

1. The SUDS Program will enable community based organizations to obtain end-user finance for the provision of basic services, such as potable water, sanitation, drainage and refuse removal in existing and new areas. It will facilitate access to loans for the construction of additional shelter. Support for group lending initiatives and innovative mortgage financing will generate new housing units.

2. SUDS's accent on strengthening the development management capacity of NGOs will provide communities with a greater sense of ownership of the development process. It will help local leadership to speak out for community interests.

3. The provision of additional shelter will reduce overcrowding and relieve many of the associated tensions. In many of the informal housing settlements, physical health problems are now being encountered, such as dysentery, malnutrition and cholera. Increased access to shelter, water, sanitation, and expanded economic activity which will be facilitated by the SUDS Program, will have considerable impact on health.

4. Support in the SUDS Program for policies and development models that promote urban infill will considerably reduce travelling time to employment, resulting in benefits to the family and community.

5. The basic thrust of the SUDS Program is towards the empowerment and stimulation of the private sector through the group, the individual, and small business. Support of technical and entrepreneurial training projects will broaden skills and employment opportunities in the community.

6. Through projects which which will eventually make towns and cities more compact, the SUDS Program will help to begin to integrate communities which have been segregated for generations. Black communities will be assisted to settle on vacant land within urban areas, often adjacent to existing higher income white areas. Recent harsh reaction by white residents of suburbs adjacent to new site and service settlements, and the stated reluctance of housing finance institutions to grant mortgages in those white suburbs,

indicates that USAID will need to be aware of the possible social and emotional responses to urban infill projects.

7. Finally, the SUDS initiatives will have an impact on the national transition process currently underway in SA. It has been argued elsewhere that the role of civic movements, NGOs, development agencies and service organizations is crucial in this period of political uncertainty. It follows that technical and experiential development, as envisaged in the program through hands-on technical assistance and training, will impact beneficially not only in the local community targeted, but on the political and social fabric of the country as a whole.

IV. The Impact of the SUDS Program on Women in Development

The effects of apartheid, as described above, are felt particularly harshly by women of the black communities of South Africa. Until 1986, influx control permitted only men with proof of employment and accommodation to enter the urban areas. Mining and other industries recruited men to work under contract, usually for three years, and to live in single quarters. Women and children were left in the rural areas to fend for themselves.

If men were born in the urban areas, or had lived and worked there continuously for ten years, they were allowed to obtain a rental house and have dependents reside with them. Very few women were allowed to rent houses in their own right. Generally they were evicted from houses if they were widowed or divorced, and returned forcibly to the homeland areas. To avoid eviction, houses were rented in the name of the eldest son, or marriages of convenience were entered into. Evicted women were moved into backyard shacks or illegal squatter settlements. In some instances, domestic servants obtained accommodation on their employers' properties.

Customary marriage and South Africa's legal system maintained the status of black women as minors, thereby denying them access to credit for housing and other purposes.

Because of these circumstances, many women have been forced into shack settlements in urban areas of. Recent studies have shown that between 54% and 72% of heads of households in these shack settlements are women. It follows, therefore, that any program designed to improve the shelter and urban environment in SA will impact substantially on women.

The impacts of the SUDS Program on women are likely to be:

1. Since the repeal of the influx control legislation in 1986, many women have come to the urban areas with their children and other dependents to join their menfolk, some of whom are resident in single-sex hostels. As a result of the shortage of family accommodation in urban areas, families have been forced to continue to live around the hostel beds in exceptionally overcrowded conditions. In the interests of their children, women have had to leave the hostels and build shacks in informal settlements. Projects designed to increase the supply of sites for house construction will benefit them directly.

2. As is the case in many cultures, in South Africa women have the primary responsibility for cooking, care of children, and cleaning. Lack of water, electricity and other services in urban areas has impacted severely on women and female children, who have to collect water and maintain the household. Elements of the SUDS Program which increase the supply of serviced sites and increase the efficiency of water and electricity supply will benefit women more than any other sector of the community.

3. As women have formed strong community and social groups, elements of the SUDS Program which seek to strengthen the technical and negotiating capacity of community organizations should include women. In many instances, women in urban communities avoid strong party political affiliation and working through women could lessen political risk.

Because of the high proportion of women as heads of households in disadvantaged communities, training components of SUDS should be at least 50% composed of women.

4. Projects under the SUDS Program which will give increased access to loans for shelter construction will benefit women. Sixty-eight percent of the borrowers in group lending projects in the Western Cape are women and expansion of this facility to other areas of the country can therefore be expected to assist women in the majority. Stokvels and other group savings clubs are comprised mainly of women.

Projects which aim to encourage mortgage lenders to expand their services to a greater proportion of the disadvantaged population should be aimed at women as well as men. Repayment records of women in existing lending programs have demonstrated that women generally are good credit risks.

5. Elements of the SUDS Program which stimulate entrepreneurial development should be targeted at women, who at present constitute the majority of the informal sector, with brickmaking, furniture manufacturing, sewing, etc. activities.

ANNEX G

POLITICAL ANALYSIS

South Africa is undergoing fundamental political and social reform as profound as that experienced in Eastern Europe. Any initiative to impact upon shelter and urban development in the country must be sensitive to factors surrounding this reform.

The unbanning of political parties and repeal of apartheid legislation during the past 25 months has resulted in a shift from the politics of protest and revolution to the politics of development. Movement towards a new constitution and government is proceeding, albeit slowly and with hitches, not the least of which is violence. The recently unbanned political groups have had to rapidly adjust from being protest movements to becoming fully fledged parties with policies and organization. They are still adjusting to that role. Even with the return of many refugees, the extra-parliamentary groups have a severe shortage of people with skills and experience in running a country.

South Africa's transition is driven by a primary dynamic: the government and its main opponents are irrevocably committed to a process of fundamental change through negotiation. Several major steps have been taken along the transition road, such as the Peace Accord, the Patriotic Front meeting and the formation of the Council for a Democratic South Africa (CODESA). Most importantly, all participants in the transition are driven by a sense of urgency to restore confidence in the economy and to draw up a blueprint for the future economic development of the country. The critical problem that all the players involved in the transition are beginning to face is attempting to match the available development resources with the basic needs of the entire population.

Previously held fears of a swing to the right wing by many whites as a result of increased crime and violence in urban and rural areas, public discussion of nationalization and land reallocation, weaknesses in the ANC and the continued presence of the SA Communist Party have to a large extent been allayed by the strong support for the government's policies demonstrated in the referendum held on March 17, 1992. 68.9% of the white population supported the transition through negotiation process currently being undertaken by the government.

In the wake of the referendum of March 17 and the resultant alleviation of the fear of the conservative lobby in the white community, the most likely scenario for the short term political development of SA is transformation through negotiation. The current vehicle for this is CODESA which consists of five committees or task groups:

- * Creating a climate for free political participation; the role of the international community;
- * Constitutional principles and process;
- * Transitional arrangements;
- * The future of the TBVC states (homelands);
- * Timeframes and the implementing of decisions;

It is possible that a form of interim government could be in place by the middle of 1992, with elections for a constituent assembly taking place not long thereafter.

During this period of political uncertainty, the role of the NGOs, and development agencies becomes crucial, as it is largely only in civil society that progress can continue. If a robust, creative, independent NGO sector can be consolidated within civil society, chances are high that enough pressure can be built up to ensure that resources are made available, by whatever government emerges, to agencies accountable to the communities. Civic organizations (civics) and community based organizations (CBOs) are likely to continue to be a force and to represent citizens across the political spectrum for the foreseeable future, even after a new constitutional and governmental system has been put in place.

It is crucial, therefore, to develop the human resources of community groups and NGOs and to strengthen their capacity to manage projects. With over 60% of the people in urban areas, the future of South Africa will largely depend on the development of the urban areas and the organizational capacity of urban individuals and groups. For several decades, black urban citizens were regarded as 'temporary sojourners' in the white urban areas and were discouraged from participating in meaningful decision making or administration. As a result, black residents gained little experience in the political process. CBOs and civics have been formed as a reaction to weak, non-credible government-imposed urban authorities in black urban areas and now need to progress from protest to meaningful development.

In this environment, five key issues are important for the effective implementation of the SUDS Program:

1. Community organizations should be strengthened, for them to participate meaningfully in managing urban development

At present, civics and CBOs lack the resources to be able to participate effectively in negotiating fora and in many instances rely on whites to represent them. The program proposed in this document will not only result in shelter being provided, but will also assist in the development of a stronger urban civil society, more able to decide upon and influence its own political environment.

The SUDS Program will strengthen the capacity of members of CBOs to understand the technical and policy issues affecting their environments, and to participate meaningfully in negotiation. The Program will also assist in preparing members of CBOs for effective participation in a future, acceptable local government system.

The SUDS Program will provide experiential and theoretical training for these disadvantaged community groups. In certain instances, the Program will also financially assist CBOs and civics, allowing them greater freedom of choice of advisors and consultants and strengthening their negotiating position through information.

2. Improvements in urban conditions are politically significant

Previously ignored, urban dwellers in shacks, hostels and houses are now being viewed by all political groupings as potential voters. USAID needs to be aware that recipients of assistance under the Program may be targets for political action and struggles to assume control of the process. Project interventions under the SUDS Program may become the subject of competition among political groupings who will wish to claim credit for their success. Likewise, it is not impossible that certain political groupings may attempt to disrupt or stall projects to be undertaken under this Program for their individual political ends. A careful assessment of the possible political implications should be undertaken for each project prior to commitment of funds in order to ensure that the project is structured in such a way as to minimize these risks.

Because urban improvements may be politically significant, USAID should not lose sight of the importance of its support for pilot activities as a means to leverage support from South African institutions. Indeed, the greatest benefit of some assistance may not be in the level of financing itself but rather the ability to bring key actors to the table to attempt new approaches to resolving housing and urban management problems.

3. A non-partisan approach should be taken to the identification and implementation of projects

Given the highly charged political environment in SA, the Program should work with a wide range of counterpart organizations and individuals to avoid identification with any one group or political affiliation and to avoid allegations of bias.

Pressure to produce short term results may require USAID to work through some established white-led NGOs for the first year or two of the Program. This approach must be balanced with the

82

selection of a sufficient number of black-led NGOs. This may result in possible slower, less tangible progress, but is essential in order to develop black-led organizations. In addition, USAID should require a plan for training and integration of blacks into white led groups.

Likewise, different political groupings in various regions of the country necessitate equal attention to projects in all major geographic regions.

4. In the light of the rapidly changing political environment, the program should remain flexible and responsive to changing circumstances

The extremely rapid pace of political change will require constant monitoring by USAID of the political environment in which interventions are taking place, in order to be able to impact upon the evolution of new shelter and urban policies through national and regional fora. The Program Advisory Committee, discussed in Annex C, Technical Analysis, will be useful in suggesting program changes to reflect the condition of the political environment.

The political and social climate in South Africa at present is highly conducive to rumor and misconception. USAID, perhaps with the help of the Advisory Committee, should also ensure a reliable and ongoing flow of information and feedback to people involved in the project activities and to the general public.

5. Acceptance of an element of risk

In the absence of popular, credible local authorities in black urban areas, civic organizations and NGOs have sprung up around the country with varying degrees of popular mandate, acceptability and technical capacity. In implementing the SUDS Program USAID will, therefore, in the short term have to assume some risk in working with civics and NGOs which may change their form or be replaced under a new constitution or political dynamic.

Annex H

Construction Sector Analysis

(Note: This analysis has been considerably shortened from a paper entitled "Small Contractors in South Africa", which forms a part of the background documents for this PP.)

C O N T E N T S

Executive Summary	2
1. Introduction	4
2. Background	4
3. Structure of the industry	
3.1 Proportion of small to large firms	5
3.2 Educational and skills background of small contractors	5
3.3 Regulatory Framework	6
3.4 The trade associations	7
4. Constraints	
4.1 Building materials	8
4.2 Finance	8
4.3 The nature of the contracts	9
5. Summary: the present situation	
5.1 The limiting factors	9
5.2 The positive factors	10
6. The training, technical and managerial assistance needs of small contractors	
6.1 Estimating and materials scheduling skills	11
6.2 Programming	11
6.3 Business Methods	11

84

EXECUTIVE SUMMARY

A. Objectives

The study focussed on four aspects of the small contractors:

1. The organization of the building industry and the role played by small contractors within it.
2. The constraints that adversely affect the performance of small contractors.
3. The training and technical/managerial assistance needs of the small contractors as perceived by themselves and those for whom they work.
4. The sources and nature of training available to meet these needs.

B. The organization of the building industry

It was found that there is a very large number of small firms - about 75% of all registered firms employ less than 20 people.

The owners of small contracting firms typically are poorly educated, and some are even illiterate.

There is a complex regulatory system which lays down minimum wages and requires the contractor to make deposits for future wages for his employees in case of bankruptcy or default, and provisions for sick pay, holiday benefits, etc. Due to these stringent and expensive conditions, most small firms are (illegally) not registered. Nevertheless, they are able to get work and many do so as sub-contractors to large firms.

C. The constraints

Small builders face difficulties in many different ways. They find it hard to get credit at building materials suppliers, and even to get materials delivered at site. This increases their costs significantly.

They also find it difficult to obtain "bridging finance" to cover their cash flow needs during a contract, to post performance bonds and meet other financial commitments in the early stages of a contract.

A large percentage of the available formal sector contracts are packaged in such a way that they are too large for small contractors to tender for.

D. The technical and managerial needs of the small contractors

Small contractors lack several important skills, of which the most important is their lack of business/managerial skill. In terms of technical skills, their main deficiencies are in cost estimating, materials scheduling, and job programming.

E. Existing training programs

A number of training programs exist to meet these needs which, between them address a wide "market," from training the individual artisan to setting up as a self-employed craftsman, to highly sophisticated advice to contractors who are already doing well. Some training programs are project-based - i.e. linked to a specific development on a specific site, while others are classroom based. Some institutions charge fees, others do not. However, the number of firms currently benefitting from training is very limited.

F. Proposals

The report proposes three principal interventions.

1. Increasing the availability and scope of training courses and the development of training materials. One of the objectives would be to increase the training opportunities presented by USAID financed housing developments, and thereby give the contractors more on-the-job training. Criteria for participation in the program and designation of agencies to conduct the training would be determined by a project committee on which small contractors and USAID would be represented.
2. Establishment of a bridging finance fund. The nature and operational system for this fund are to be determined after further studies of the reasons for the problems facing existing funds. The potential for a mutual guaranty (e.g. Grameen Bank) system will be explored.
3. Strengthening and unifying the small contractors associations and creating an environment in which small contractors can flourish. As part of the latter, the aim would be to make contract packages smaller, giving them more opportunities as housing developers (as opposed to builders as such).

86

1. Introduction

This report is based upon the author's field visit to South Africa from January 13 - January 25, 1992. The first week was spent in Johannesburg and the second was divided between Cape Town and Durban. The study was focussed on four aspects:

1.1 The organization of the building industry and the role played by small contractors within it.

1.2 The constraints that adversely affect the performance of small contractors.

1.3 The training and technical/managerial assistance needs of the small contractors as perceived by themselves and those whom they work for.

1.4 The sources and nature of training available to meet these needs.

2. Background

The construction industry is a major sector in all economies, noted for the fact that it can absorb large numbers of unskilled and semi-skilled workers. In South Africa it has the second lowest cost of job formation, after community services, and has been the fastest growing sector in the economy (DBSA, 1991). Furthermore, the labor intensive characteristic of construction makes it easy for entrepreneurs to establish themselves in business at a low cost.

However, the small scale building contractors, although playing an essential part in the economy as service providers as well as employers, have encountered many problems, and the failure rate of small firms has been high.

This failure to thrive has meant that they cannot establish themselves and compete with larger firms, so the industry is split between a few very large firms and a very large number of small ones, and very few in between.

This characteristic pattern has been observed in other countries in the region and, even under independent governments with an avowed aim of helping small businesses, the sector has not flourished.

In observing this phenomenon, RHUDO has diagnosed the problem as being a lack of managerial skills, rather than building skills which, if enhanced, could allow small contractors to improve their performance and grow. Training and technical assistance programs to address this issue have been developed for Swaziland and Zimbabwe, and are planned for Botswana.

In light of this, and as part of USAID and RHUDO's overall housing and urban development program, it was decided to examine the conditions under which small scale contractors operate in South Africa, their performance and existing training facilities.

3. The structure of the building industry

3.1 The proportion of small to large firms

The last census of the building industry, conducted in 1985, showed that 75.3% of the 13,451 firms recorded employed less than 20 persons, and that 45% of these small firms were sub-contractors.

These figures are already six years out of date and it is very likely that the recent recession, combined with political circumstances which enable an increased economic role for blacks in South Africa, has led to an increase in the number of black owned firms, which implies an increased number of small firms. In addition it is considered that there has been a rapid increase in unregistered firms (i.e. ones that have not formally registered with the Government, as they are legally required to do), most of which would be very small - i.e. employing between one and five persons. As evidence of the proportion of registered to unregistered firms a survey in the Cape Province showed that 68.8% of the firms working on housing projects were unregistered. By projecting the rate of increase in construction firms since 1985, and assuming the number of unregistered small firms is equal to the registered small firms, we can estimate that there are about 13,000 small contractors in total in South Africa, the great majority of which would be black owned.

3.2 Educational and skills background of the small contractors

The small firms are typically owned by a bricklayer or carpenter - unless they are a specialist subcontractor such as a plumber or electrician. They were usually started by the owner after he had gained experience with one of the large white contractors and either decided to leave to make more money, or was declared redundant. There are exceptions to this pattern, though these are numerically small. First, there are contractors that are run by businesspeople who do not come from within the construction sector; secondly there are those who have had an academic or professional training in the construction sector.

For the most part, however, the small firms are run by people with less than ten years of schooling; a few are completely illiterate, and many face very real difficulties due to their low level of literacy and numeracy.

3.3 Regulatory Framework

For reasons that will become apparent below, the majority of small firms are not registered, and thus accurate statistics about them are difficult to obtain. Based on one sample, the average life of such firms is less than 3 years: it is therefore very difficult to know how many there are. However, for those that are registered and therefore figure in the statistics, registration implies four things.

3.3.1 The firm has higher labor costs. This is caused by two regulations:

- They must pay the statutory minimum wages. In the case of a bricklayer this is about R5 per hour; for a laborer R3 and a foreman R7. These are considerably higher than those prevailing in the non-regulated sector.
- The firm is not allowed to use labor that has not passed trade tests for "skilled" work. Because of this, unregistered contractors can undercut registered contractors, as the market rate for semi-skilled tradesman, who are sufficiently skilled for simple house building, is well below the minimum wage.

3.3.2 Under the regulations, training of manpower cannot be undertaken on the job, as trade unions insist upon proper certification and testing, which are done in formal sector training institutions.

3.3.3 Registration must be done within one week of starting operations, and all contractors and sub-contractors - no matter how small - are required by law to do so. Each firm must be registered with the Industrial Council, the Unemployed Insurance Commissioner and the Workmen's Compensation Commissioner. When registering they must lodge a deposit with the Industrial Council to cover liabilities in the event of insolvency sufficient to cover two weeks' wages. The minimum size of the deposit is R500. The employer also has to make weekly contributions in respect of holiday, leave, pension sick and death benefits. These add about 12% to the minimum wage. The payments are made to the Industrial Council.

3.3.4 A firm with an annual turnover of more than R100,000 has to register with the Value Added Tax (VAT) authorities. This enables it to obtain rebates of the VAT (currently 10%) on inputs. Thus, small firms are charged VAT on their materials whereas larger firms (provided they are registered) can get their VAT refunded.

3.4 The Trade Associations

The apex organization of the building industry is the Building Industry Federation of South Africa (BIFSA), and within the building (as opposed to civil engineering contracting) sector the Master Builders Association. As these represent the interests of the large contractors, there has been a proliferation of bodies representing small contractors.

3.4.1 The Small Contractors Association

This is based in Cape Town, and has a fairly small membership of contractors of all races. Its chief aim is to fight for the deregulation of the industry which, as currently constituted, discriminates against small contractors. Chief among its targets is BIFSA, but they are also actively lobbying for more appropriate regulations directly with the Government.

3.4.2 African Builders Association (ABA)

This is one of the two major associations for black builders, and is associated with the Foundation for African Business and Consumer Services (FABCOS).

3.4.3 National African Federation of Building Industries (NAFBI)

This is the other major association, and falls under the National African Federated Chambers of Commerce (NAFCOC).

3.4.4 Soweto Builders and Developers Forum (SBDF)

Although not yet national in scope, this one plans to go national under the name Southern Africa Builders and Developers Forum.

3.4.5 In addition to the above, ABA and NAFBI have local branches throughout the country.

3.4.6 In order to coordinate these parties and present a common front, Small Builders Fora have been created by interested parties in both Johannesburg and Cape Town. These are still in their infancy.

4. Constraints

The small scale of the majority of black firms places them in a very disadvantageous position relative to larger ones in some important respects.

4.1 Building Materials

4.1.1 Because their turnover is low, they cannot get building materials at wholesale prices.

4.1.2 Because they cannot afford to own their own trucks or pick-ups, they have to pay at inflated prices for transport of the materials to the site.

4.1.3 Because they are not registered with the VAT authorities, they have to pay 10% VAT on all their materials.

4.1.4 Because they lack bank guarantees or other credit references, they have to pay cash for their materials, instead of obtaining the 60 or 90 days credit enjoyed by large firms.

4.2 Finance

4.2.1 Bridging Finance

The term "Bridging Finance" is usually used to refer to finance required to meet the cash flows during the implementation of a contract. The finance is usually rolled over several times during the contract period which is typically about six months.

Various schemes exist to cover the need for bridging finance, but some of these loans are considered virtually unobtainable by small contractors due to the conditions and procedures. The complaints are either in terms of the delay in processing, the interference in the management of the contract, or securities required. The best known schemes for this are the IBM fund administered by Entrepreneurial Development (Southern Africa) (EDSA), the KwaZulu Finance Trust (KFT) and the Small Business Development Corporation (SBDC). Whatever the reasons, the numbers of beneficiaries appears to be small. For example the Cape Town office of the SBDC makes only 4 - 6 loans per month of about R25,000 each: a total exposure of about R500,000. (This is not due to a shortage of capital to lend: for example, the IBM fund administered by EDSA has capital in excess of R1.5 million).

4.2.2 Performance Guarantees

Formal contracts usually require that contractors provide a surety to the value of 10% of the work with the employer that can be called in case of default. Large contractors can typically obtain these at a nominal cost from their banks or insurance companies, but the lack of fixed assets and banking history in the case of small contractors make these securities virtually impossible to obtain. This effectively prevents them from obtaining formal sector larger contracts.

4.2.3 Tender Deposits

Though a minor expense, requirements that contractors deposit R150 or similar amounts in order to obtain tender documents is another hurdle that they must face.

4.3 The Nature of the Contracts

4.3.1 Size

Contracts are often parcelled into units that are too large for small contractors to handle (for example 100 housing units, as compared to 5 units), even though they would be well suited to the work of building small houses. This is true of building contracts per se, as well as tenders for the purchase of land for re-sale in housing developments.

4.3.2 Format

Documentation of the contracts, especially Government contracts, is very complex even when the work is of a straightforward nature. Some Departments of Government issue tender documents only in Afrikaans, a language in which most small contractors are not proficient.

5. Summary: the present situation

5.1 The limiting factors

5.1.1 Contractors are locked into a subservient role

The constraints listed above combine to make it very difficult for small black contractors to compete on the open market with larger firms. As a result of this, a symbiotic relationship has developed between the large, white contractors and the small black ones. Under this relationship the large contractors compete with each other under open tendering systems, but the actual work is done very largely by black sub-contractors. In one housing project there could be as many as 50 or 100 sub-contractors working for a single main contractor. According to the census of construction, in 1985 - the latest year for which figures are available - 45% of the gross output of the industry was subcontracted. It is considered that today's figure is about 50%.

The advantage for the main contractor is that:

- the problem of the direct management of labor is avoided; and
- money is saved because sub-contractors are usually not registered and, therefore, pay their labor below market rates. This enables them to give the main contractor a product at a cheaper price than could otherwise be built. Though it is illegal for the main contractor to employ non-registered sub-contractors, this practice is very common, so some officials must be turning a blind eye to the practice.

The advantage to the sub-contractor is that there is a comparatively steady source of employment, regular payments and

a limited degree of technical assistance.

However, the sub-contractors complain that the relationship is not an equal one: they get underpaid, they do not get compensated for delays beyond their control (e.g. materials shortages) and have no recourse in the case of a dispute.

5.1.2 The lack of an alternative market

The lack of capitalization of small contractors is partly due to the lack of opportunities for them to do the sort of work for which they are best suited: building one-off houses for middle income persons in the black townships. This market is currently very depressed as a result of a shortage of long term finance caused, in turn, by histories of rent and bond repayment strikes. Until confidence is restored in this market on the part of the housing finance institutions, it will remain depressed, but immediately thereafter there will be massive demand. Small contractors should be poised to provide the service as required and, if so, will be able to provide an important and remunerative service.

5.2 The positive aspects

Small contractors have two important advantages:

5.2.1 Low income communities frequently insist that local black contractors should be used for all work within their neighborhood. This is a comparatively new phenomenon, and has been recognized by Government and Local Authorities. Today there is a conscious effort to get the local community to support any new developments and to ensure that local contracting skills and labor are used on the work. Unfortunately, although this effort is being made, conditions of contract, etc., have not been adjusted to suit the conditions, and many projects are therefore at a stalemate.

5.2.2 By mostly being unregulated and un-unionized, black contractors can undercut white contractors, thereby providing a low cost service when employed as subcontractors.

6. The training, technical and managerial assistance needs of small contractors.

All interviewed agreed that the managerial performance of small contractors has been poor hitherto, and this undoubtedly partly explains their failure to thrive. In addition to the problems concerning finance referred to above, the causes of this poor performance have been ascribed to a lack of skills in areas such as:

6.1 Estimating and materials scheduling skills

The basic skills which allow the contractor to estimate his price accurately are almost completely lacking among the small contractors. Accordingly, they estimate on the basis of the cost of their previous job, or rates that friends and colleagues have been paid. If they price too low they lose money on the work and default before completion (or lose what little money of their own that they had in the business), while high rates mean that they do not get the work at all.

6.2 Programming

Poor programming increases costs, through poor synchronization of inputs. For example, labor stands idle because materials are not available on the site when required, trades work in competition with each other on the same part of the building, and excessive labor is used on the work. The net result of this is to cause late completion of the job and increased costs.

6.3 Business Methods

A lack of methodology in business administration, such as little or no bookkeeping, and poor record keeping concerning stores inventories, labor hours, etc; combined with a state of mind that treats building as a craft rather than a business, typify the small contractors.

ANNEX I

SHELTER AND URBAN DEVELOPMENT SUPPORT PROJECT
SUMMARY OF TRAINING, INFORMATION EXCHANGE AND RESEARCH

PROJECT COMPONENT	NUMBER OF PARTICIPANTS				COST/PARTICIPANT FY 92 (10% inc. FY93-95)
	FY92	FY93	FY94	FY95	
I. CBO CAPACITY					
BLDG					
1. CBO DEVEL.					
MGMT CAPACITY					
a. workshops	150	300	300	300	150
b. regional semrs		100	100	100	400
c. observ. tours		10	10	10	10000
2. COMM DEVEL. ADVSRs					
a. course		20	20	20	1500
3. HOME OWNERSHP					
EDUCATION					
a. advisor trng		30	30	30	500
b. observ. tours		5	5		10000
II. ASST BLACK CONSTRCTN.					
ENTERPRISES					
a. training	25	50	50	50	500
b. interntl. conf.			50		1500
III. BRIDGING & SHORT					
TERM FINANCE					
1. BRIDGING FINANCE					
2. HOME FINANCE					
a. observ. tours	5	10	10	10	10000
b. internatl conf		50		50	1500
IV. LONG TERM FINANCE					
1. LEVERAGING FINCE					
2. ENTRY TO LOW INCOME					
MARKET					
a. seminar		20	20		400
b. observ. tour		5	5	5	10000
V. POLICY AND INSTITUTNL					
DEVELOPMENT					
1. POLICY FORMULATN					
a. workshops		160	320	320	400
b. observ. tours		25	25	25	10000
c. interntl conf.			50	50	1500
2. SUPPORT FOR POLICY					
PROCESS					
3. TRAINING					
a. urban mgmt trng in SA		100	300	300	200
b. observ. tours.		20	20	20	10000
c. academic trng - US (MA)		5	10	15	55000
d. academic trng - SA (BA)		20	50	50	6000

95

SHELTER AND URBAN DEVELOPMENT SUPPORT PROJECT
SUMMARY OF TRAINING, INFORMATION EXCHANGE AND RESEARCH
ANNUAL COSTS

PROJECT COMPONENT	FUNDING SOURCE	ANNUAL COSTS				TOTAL COST
		FY92	FY93	FY94	FY95	
1. CBO CAPACITY						
BLDG						
1. CBO DEVEL.						
MGMT CAPACITY						
a. workshops	SUDS	22,500	49,500	54,450	59,850	186,300
b. regional semrs	SUDS	0	44,000	48,400	53,200	145,600
c. observ. tours	EDUC	0	110,000	121,000	133,000	364,000
2. COMM DEVEL. ADVSR						
a. course	EDUC	0	33,000	36,300	39,900	109,200
3. HOME OWNERSHIP						
EDUCATION						
a. advisor trng	SUDS	0	16,500	18,150	19,950	54,600
b. observ. tours	EDUC	0	55,000	60,500	0	115,500
II. ASST BLACK CONSTRCTN.						
ENTERPRISES						
a. training	SUDS	12,500	27,500	30,250	33,250	103,500
b. interntl. conf.	EDUC	0	0	90,750	0	90,750
Documentation	SUDS	20,000	20,000	20,000	20,000	80,000
III. BRIDGING & SHORT						
TERM FINANCE						
1. BRIDGING FINANCE						
2. HOME FINANCE						
a. observ. tours	EDUC	50,000	110,000	121,000	133,000	414,000
b. internatl conf	EDUC	0	82,500	0	99,750	182,250
IV. LONG TERM FINANCE						
1. LEVERAGING FINCE						
2. ENTRY TO LOW INCOME						
MARKET						
a. seminar	SUDS	0	8,800	9,680	0	18,480
b. observ. tour	EDUC	0	55,000	60,500	66,500	182,000
V. POLICY AND INSTITUTNL						
DEVELOPMENT						
1. POLICY FORMULATN						
a. workshops	SUDS	0	70,400	154,880	170,240	395,520
b. observ. tours	EDUC	0	275,000	302,500	332,500	910,000
c. interntl conf.	SUDS	0	0	90,750	99,750	190,500
2. SUPPORT FOR POLICY						
PROCESS	INCRM	50,000	200,000	200,000	200,000	650,000
3. TRAINING						
a. urban mgmt trng	SUDS	0	22,000	72,600	79,800	174,400
in SA						
b. observ. tours.	INCRM	0	220,000	242,000	266,000	728,000
c. academic trng - US (MA)	EDUC	0	302,500	665,500	1,097,250	2,065,250
d. academic trng - SA (BA)	EDUC	0	132,000	363,000	399,000	894,000
Documentation	SUDS	20,000	20,000	20,000	20,000	80,000

96

VI. SECTORAL STUDIES, INTER-DONOR RESEARCH	PD&S	150,000	250,000	250,000	250,000	900,000
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VII. TOTAL COST		325,000	2,103,700	3,032,210	3,572,940	9,033,850
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FUNDING SOURCE TOTALS:

SUDS	\$1,428,900
MISSION EDUCATION PORTFOLIO	\$5,326,950
INCREMENTAL FUNDING	\$1,378,000
PD&S	\$900,000

9033850

97

5C(1) - COUNTRY CHECKLIST

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

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE**1. Narcotics**

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance? N/A

c. Government Policy (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress

listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

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

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

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by

100

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? No

5. Mob Action (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? N/A (assistance is not to South African Government)

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No

8. Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? a) No; b) No

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

10. **Diplomatic Relations with U.S. (FAA Sec. 620(t)):** Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No

11. **U.N. Obligations (FAA Sec. 620(u)):** What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) While South Africa has been deprived of its UN vote because of arrearages this was taken into consideration by the Administrator in approving the Agency OYB.

12. **International Terrorism**

a. **Sanctuary and support (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A):** Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or

102

(b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

a) No; b) No

b. Airport Security (ISDCA of 1985 Sec. 552(b)). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No

13. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No

14. Nuclear Technology (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No

15. Algiers Meeting (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 16th General

Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) No

16. **Military Coup (FY 1991 Appropriations Act Sec. 513):** Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? N/A

17. **Refugee Cooperation (FY 1991 Appropriations Act Sec. 539):** Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Discussions are underway with the South African Government to allow the United Nations High Commission for Refugees to broaden its mandate to include Mozambique refugees.

18. **Exploitation of Children (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116):** Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? Yes

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

1. **Human Rights Violations (FAA Sec. 116):** Has the Department of State determined that this government has

104

engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

2. Abortions (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

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

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? No

Drafted: AFR/SA:Williott:U:\SAPUB\SOAFRICA\DOCS\ CHECKLIST:pl-10

Clearances:

GC/AFR:NAKleinjan NAK
AF/S:DMalac DMalac

5C(2) - ASSISTANCE CHECKLIST

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

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? YES

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

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

N/A

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

U.S. private companies will be invited to submit proposals for providing technical services for the Program

3. Congressional Notification

a. General Requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

YES

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

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

N/A

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$50,000, what is the basis for a reasonable expectation that such action

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

NO

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

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

N/A

9. Multiple Country Objectives (FAA Sec. 501(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

N/A

10. U.S. Private Trade (FAA Sec. 631(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private companies will be invited to submit proposals for providing technical services under the Program.

11. Local Currencies

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

N/A

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

No.

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

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

(1) N/A
(a) N/A

(b) N/A

(c) N/A

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

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

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

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, or N/A

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel.

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

N/A

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or records necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Will be done at time of sub-obligations.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Yes

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 43 for agreements covered by this provision).

N/A

111

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

N/A

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

YES

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

N/A

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "population, DA," and Sec. 525):

N/A

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

b. Will any funds be used to lobby for abortion?

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

N/A

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A

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

N/A

22. Procurement

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

Full and open competition procedures will be followed for contractor and commodity procurement.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Reasonable efforts will be made to maximize the procurement of U.S. source/origin commodities required in the Program. Proposals from U.S. organizations will be solicited.

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

N/A

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

N/A

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

N/A

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

No.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

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114

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A.

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

Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

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

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115

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

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

Competitive selection procedures will be used.

23. Construction

N/A

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

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

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

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

N/A

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

Yes.

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116

26. Narcotics

N/A

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

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

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

N/A

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

N/A

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

N/A

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

N/A

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117

31. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.

32. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.

33. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? N/A

34. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.

35. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

36. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No.

37. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes.

38. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Stumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

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119

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? N/A

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

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

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

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

and the improvement of women's status; and
(e) utilize and encourage regional
cooperation by developing countries.

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

N/A

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

N/A

9. Abortions (FAA Sec. 104(f); FY
1991 Appropriations Act, Title II, under
heading "Population, DA," and Sec. 535):

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

(a) - (g) N/A

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

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

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

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

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

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

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

Yes.

11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 857): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

It is planned that the principal TA contract will be awarded to a "Grey Amendment" Entity.

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122

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

N/A

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

N/A

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

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

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123

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

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

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124

forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

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

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

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

N/A

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125