

**Performance Evaluation of the  
Project Preparation Trust of Kwazulu-Natal (PPTKN)**  
(formerly the Natal Project Preparation Trust)

(USAID/SA Grant Agreement No. 674-0312-G-SS-3077-00, as amended)

**EVALUATION REPORT**

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**United States Agency for International Development**

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Anton Aiello, CEO of PPTKN

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Joel Kolker, USAID

Morris Makatini, Director: Policy & Support, Durban Metro Housing Unit

Mark Misselhorn, Manager (Projects) of PPTKN

Vusi Ngwenya, Manager (Projects) of PPTKN

Prof. Peter Robinson, Trustee of PPTKN

Vish Supersad, Trustee of PPTKN and Member of PPTKN's ASSESSCO

Mr. Khosa, Councillor Mapumalanga Community

Robin Phillips - Official, Provincial Housing Board Kwazulu-Natal

Despite considerable efforts by both ourselves and the PPTKN office staff, we were regrettably unable to secure interviews with certain key Board members.

## Abbreviations/Definitions

ASSESSCO	Assessments Committee
BOT	Board of Trustees
FINCO	Finance Committee
<i>inkomfa</i>	A strategic planning session
KT	Kagiso Trust
PHB	Provincial Housing Board
PPF	Project Preparation Facility
PPTKN	Project Preparation Trust of Kwazulu-Natal
TAG	Technical advisory group

## Executive Summary

The Project Preparation Trust of Kwazulu-Natal (PPTKN) is a trust originally established as the Natal Project Preparation Facility in the former province of Natal in 1993. USAID was the sole source of initial support for the Trust and in terms of the Grant Agreement, it was envisaged that it would function as a revolving fund to underwrite the costs of preparing community-based development proposals aimed at capturing both national and international sources of end use finance.

PPTKN initially received a USAID grant of \$400 000 (then R1 200 000) to be utilised over the period September 1993 to December 1995. Amendment 1 was issued in September 1994, awarding a further \$600 000 and extending the period to September 1996. Amendment 2 was issued in November 1996, awarding a further \$1 million and extending the period to June 1998. Amendment 3, issued in June 1998, extended the period to September 2000 and formally incorporated exchange rate gains into the budget. Thus, in total PPTKN received \$2 million over a seven year period (approximately R8.9 million at the weighted average exchange rate) to fund its operating expenses and to enable it to establish a revolving fund to underwrite the costs of preparing project proposals.

The purpose of this report is to evaluate PPTKN in terms of its performance against the conditions of the USAID Grant Agreement. The method adopted for the evaluation involved a thorough review of documents and interviews with key players. Based on the information gathered from these sources, we compared PPTKN's actual performance with its stated objectives as stipulated in the Grant Agreement. Our main findings were as follows:

PPTKN has succeeded in achieving all of the objectives of the Grant Agreement, due largely to good programme design and solid management. As required, the Durban office was set up and staffed, and the Project Preparation Facility (PPF) revolving loan fund was duly established.

To date, R4.9 million has been pledged to various projects. Of this amount, approximately 20% applies to successful loans, where the full amount either has been or will be recovered and recycled, and 5% applies to projects that failed for various reasons - and has been written off as bad debt. The majority of the successful loans were in respect of projects submitted to the Provincial Housing Board (PHB). The PHB-PPTKN relationship has worked well for both parties and has resulted in extremely good leveraging ratios, currently averaging about 1:100.

The remaining 75% applies to projects whose feasibility assessments have either not commenced, or are in progress. However, all projects in this category share the problem that capital funders (other than the PHB - which has run out of money) must still be found. PPTKN is actively engaged in exploring various possibilities in this regard. To this end the CEO and the office-bearing Trustees have established an *ad hoc* Strategy Committee. A meeting of this committee was held in June 1998, at which threats, opportunities and plans for growth were discussed by the CEO, two Board members and an office staff member. While this is clearly a good start to the process, we believe that all Board members and other key stakeholders need to become more formally involved. PPTKN has recognised this and plans to hold an *inkomfa* (strategic planning session) early in 1999, one result of which will be formal strategic plan.

Valuable lessons learned from the Grant included: understanding the importance of good program design, tight management and good systems, and risk minimisation; and realising that

over-dependency on a few key individuals leaves the Trust vulnerable.

Our main conclusion was that this was a well designed program that has benefited all stakeholders. However, recent events (the unavailability of PHB funding) have made it essential for the Trust to urgently review its future direction. The planned *inkomfa* is a good start to this process.

Our main recommendations are as follows. PPTKN should as soon as possible hold its planned *inkomfa* to: resolve the issue of PHB funding (which could include the consideration of establishing relationships with PHBs in other provinces); and to plan its future sustainability. An important aspect of the latter, is the need to plan for succession. In this regard, we recommend that a previously disadvantaged deputy CEO be appointed and that the salary packages and conditions of service of all employees be reviewed and monitored regularly. Other recommendations include: PPTKN should consider charging for its consulting services, and charging interest on its loans. Finally, we suggest that in order to avoid loan funding for potentially unsuccessful projects being trapped, pledges made by PPTKN for project loans should be for a limited time.

## **1. Introduction**

### **1.1 Purpose of Evaluation**

This report documents the results of an evaluation of the Project Preparation Trust of Kwazulu-Natal (PPTKN). The main objective of the evaluation was to compare PPTKN's progress to date relative to its stated goals and those of the SO6 Team.

A second objective was to synthesise the achievements of PPTKN in relation to SO6 RP#2 and RP#3 and to SO6 in general.

### **1.2 Methodology**

*Document review:* A careful study of the main agreements, amendments and related documents such as Trust Deeds, was undertaken in order to establish the main purpose and objectives of the grant. In addition to these documents, we obtained from USAID all internal semi-annual reports on the project and studied these.

*Interview with CUSSP Official:* A meeting was held in Pretoria with Russell Hawkins, the CUSSP official and Joel Kolker, USAID official responsible for the PPTKN project. From this meeting and a study of documents provided by Macro International we obtained an overall understanding of the nature and purpose of SO6, RP#6.2, RP#6.3 and PPTKN.

*Interviews with Key Players:* Following the document reviews, we visited PPTKN at its Durban offices and conducted a series of structured interviews with the Chief Executive Officer and two members of the office staff. In addition, we met with two trustees, a member of the technical advisory group, a counterpart funder (Durban Metro Housing Unit), an official from the Provincial Housing Board (PHB), and a community client. At one level, the objective of the interviews was to establish whether or not the interviewees understood the purpose and objectives of the grant, as defined in the amended Agreement. At another level, we wanted to learn how PPTKN was perceived by the various partners, clients and community members who are involved in the delivery of or are affected by its program. We requested, and were given access to, additional documentation describing the Trust's activities. This included minutes of board meetings, Assessments Committee (ASSESSCO) meetings, Finance Committee (FINCO) meetings, as well as operational procedures files. We also requested and were furnished with contact details of Board members and other key individuals in the activities of the Trust.

## **2. Background**

PPTKN is a trust established in Kwazulu-Natal in September 1993 with the express purpose of establishing and administering a Project Preparation Fund<sup>1</sup>. The Trust represents a formal structure that has its roots in the network of CBOs, service organisations and municipal service providers that collaborated to address the infrastructure, shelter, and broader developmental needs of Cato Manor and other communities. USAID was initially the only source of funding, but PPTKN has since secured significant local counterpart funding.

The Trust identified the need for communities to have access to professional consultants to

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<sup>1</sup> A revolving fund to underwrite the costs incurred by community based organisations, community service organisations and municipal service providers in the preparation of community based development proposals.

prepare and package project proposals intended for submission to the PHB for funding, since the PHB would typically reject proposals not complying with its criteria. The PHB does not provide advance funding for project preparation, but refunds these costs on receipt of an acceptable proposal. The Trust aims to bridge this gap by providing loans to communities to secure the services of consultants to develop project proposals.

### **3. USAID's Original Assistance Approach**

The original grant issued in September 1993 was for the amount of \$400 000 (then R1 200 000) and was due to expire in December 1995 (see section 4.1 for details of amendments).

#### **3.1 Original Purpose**

The original purpose of the Agreement entered into in September 1993 was to *“strengthen the ability of black South African communities in [Kwazulu-] Natal to work directly with non-governmental technical organisations of their choice to prepare detailed designs for the improvement of housing and infrastructure”*.

#### **3.2 Original Objectives**

The following objectives, inferred from the Agreement, represent our understanding of how the purpose of the grant would be achieved.

- i. to support the establishment of Project Preparation Trust of Kwazulu-Natal by funding the establishment and operation of a regional office in Durban
- ii. to underwrite the costs of creating a revolving fund to support the preparation of proposals for community-based development projects
- iii. to support, via PPTKN, the growth of development oriented NGOs in their efforts to become more involved as active designers and implementors of projects

#### **3.3 Original PPTKN Program**

PPTKN's program and implementation plan for attaining the above objectives was very straightforward. It essentially involved the following elements:

1. *establish a revolving fund*. This element allows for the establishment of a separate “project preparation fund” to be used to fund the design and preparation of community-based development projects.
2. *appoint technical advisory group*. This element allows for the appointment of development professionals to a technical advisory group (TAG) charged with the evaluation of the technical, social and environmental feasibility aspects of proposed projects.

### **4. Findings**

#### **4.1 Amendments to the Original Agreement**

The original Grant Agreement was first amended in September 1994. This amendment (Amendment 1) provided for an increase of \$600 000 on the original Grant, bringing the total to

\$1 million. In addition, the termination date was extended to September 1996. A detailed program description with budgetary allocations was included. The amendment did not alter the original purpose of the Grant. Although no direct alterations were made to the three original objectives, two further objectives were added, *i.e.*: to award seed capital grants of not exceeding R50 000 to community organisations to enable them to prepare proposals for raising funding from other donors; and to employ consultants who would assist the transitional government by providing researched proposals for new legislation and provide technical assistance for the benefit of communities.

The second amendment took effect in November 1996. A further \$1 million (R4 200 000) was allocated to PPTKN and the termination date was extended to June 1998. The revised Financial Plan introduced a budgetary provision for counterpart contributions of R1 050 000. In terms of Amendment 2 the technical advisory group (TAG), defined in the original Agreement and tasked as in Program Element 2 above, was restructured and renamed as follows. An Assessments Committee (ASSESSCO) of the Board of Trustees (BOT) was to be formed. This committee would draw on a Pool of Assessors comprising development professionals appointed by the BOT. A further change implied by Amendment 2 was the apparent omission of the requirement that PPTKN should support development NGOs striving to design and implement projects (see objective iii above). Further details of changes resulting from Amendment 2 are integrated into the revised Program elements listed below.

The purpose of Amendment 3 was to incorporate Rand-Dollar gains into the financial plan in favour of PPTKN and extend the termination date to September 30, 2000. The provision for counterpart funding was retained and increased.

The original objectives and program elements of the Grant (see Sections 3.2 and 3.3 above) were altered and expanded by the amendments as described above. The following are the revised objectives and program elements of the Grant.

#### Revised Objectives

- i. to support the establishment of Project Preparation Trust of Kwazulu-Natal by funding the establishment and operation of a regional office in Durban
- ii. to underwrite the costs of creating a revolving fund to support the preparation of community-based housing development proposals
- iii. to award small grants as seed capital to community organisations to enable them to prepare proposals for raising funding from other donors

#### Revised PPTKN Program Elements

1. *establish a Project Preparation Facility Loan Fund.* This element encompasses the establishment of a separate fund to be used for the provision of loans for the preparation of carefully selected community-based housing and development projects, and the recycling of such loans.
2. *establish a full-time secretariat.* This requires the Board of Trustees to employ an unspecified number of people to staff a full-time office.

3. *provide grants not exceeding R50 000.* Grants may be issued to community organisations for needs assessments, needs prioritisation, project identification, project conceptualisation, etc., where there is a reasonable expectation that PPTKN might later make a project preparation loan to the recipient.

#### 4.2 Changes in the Organisation of the Trust

The Trust was established in December 1993 with four founding trustees appointed for one year. The trust deed provided for their mandatory retirement at the end of this period, with provision being made for the election of a Board of Trustees who would hold office for two years. The BOT was duly elected and has met regularly since 1995.

#### 4.3 Achievements

The main purpose of the PPTKN grant was to enable previously disadvantaged communities to work directly with consultants and NGOs of their choice to prepare proposals for community-driven housing and infrastructure development projects. Figures 1 and 2 depict how the Trust has pursued this aim.



**Figure 1: Intervention Time Line**

Typically, PPTKN receives an application for funding from a potential community client (sometimes with and sometimes without the involvement of a consultant). PPTKN undertakes a field study, discusses the project with the applicant and decides whether or not to support it. This decision is based on criteria such as: the profile of the community and potential for a social compact to be formed; technical considerations including any work already done and an assessment of the suitability of the land for development; and the outcome of discussions with the local government.

Once a project is approved by ASSESSCO, PPTKN arranges for: a meeting between the client and potential consultants; the briefing and appointment of the consultant team by the client; and the management of the team. PPTKN enters into an interest-free loan agreement with the client (which must be a partnership between a local government and a community-based group), but pays the funds directly to the team of consultants in two instalments. The first instalment of R20 000 is for pre-feasibility work, and if the project is found to be feasible, a second instalment of R50 000 is loaned for the completion of the project preparation. Given PPTKN's considerable experience and excellent network of consultants, projects that reach this stage are accepted by the Provincial Housing Board (PHB). PPTKN has an agreement with the PHB that it will reimburse PPTKN for the full amount of the loan (typically R70 000) on

project approval.

It should be noted that the above *modus operandi*, which was applied on more than 90% of PPTKN's projects, was only possible because, over the period 1995 to 1997, the PHB had a surplus of funds relative to the number of properly prepared project applications being submitted. PPTKN seized this opportunity and did extremely well while it lasted. In essence, its loans were used as bridging finance for the PHB, with PPTKN taking what little risk remained in its carefully selected projects. Recently, however, the PHB has cleared its surplus and will only be in a position to

reimburse PPTKN for new (as well as a large number of existing) projects in 2002. This problem is discussed in more detail in Section 6.

Sections 4.3.1 to 4.3.4 below relate to the main objective of this evaluation, namely, to present PPTKN's achievements and to compare these with the agreed intended results.

See Section 4.5.1 for notes regarding deviation from the Agreement.

#### 4.3.1 PPTKN Office and Project Preparation Facility (PPF) Loan Fund

The Trust has established a Durban office, headed by a full-time Chief Executive Officer (CEO) and staffed by an administrative assistant and two project managers. All of the investigation and "scoping" work that occurs prior to the commencement of the pre-feasibility stage is undertaken by the two project managers. Once consultants have been appointed and the pre-feasibility stage has commenced, the project managers remain

involved to coordinate and ensure delivery from the consultants. The good management of this office, the excellent systems it has developed and the dedication and energy of its staff have together produced a highly efficient operation.

PPTKN has complied with the requirements of revised Program Element 1 (see Section 4.1), which requires the establishment of a separate revolving loan fund. As described below in Section 4.3.2 Projects, PPTKN had dealt with 87 projects since inception. These are described in more detail below, grouped according to their generic similarities.

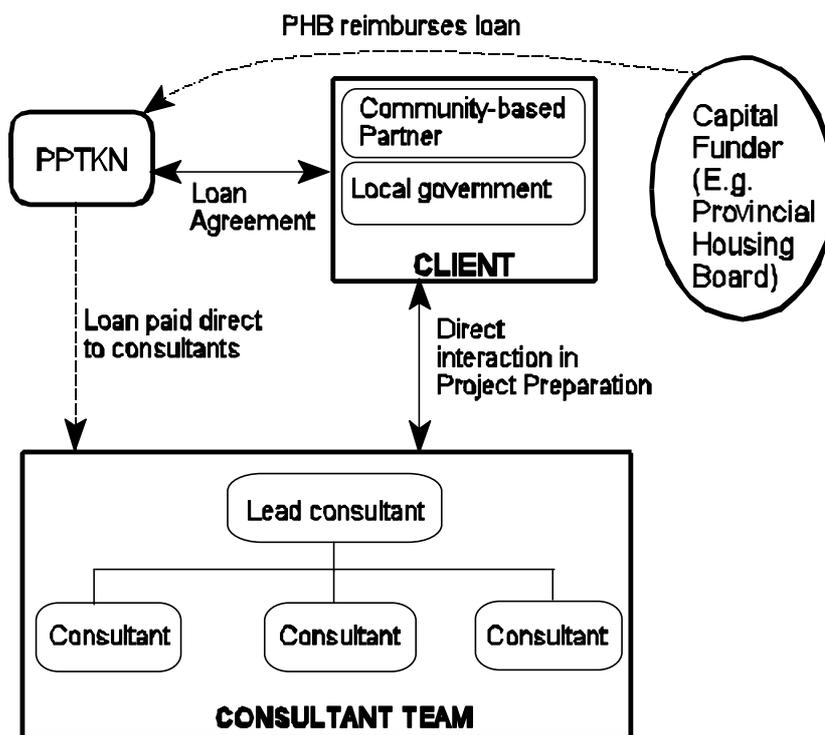


Figure 2: PPTKN's Intervention Model

**Degree of conformance with intended results.** PPTKN has complied with the condition requiring the establishment of the fund. In addition, its lending model provides for full recovery of loans, thereby satisfying the requirement that funds be recycled. As noted above, these activities relate to Program Element 1. The establishment of the office fully complies with the requirements of Program Element 2.

#### 4.3.2 Projects

Table 1 presents PPTKN's project achievements. Projects were typically processed as outlined in Figure 2, although the capital funder was not the PHB in all cases. The table is structured as follows. Projects are categorised as: "successful" (loan recovered or recoverable and available for recycling); "unsuccessful" (abandoned and loan written off as bad debt); "not commenced" (accepted after preliminary investigation, to be followed by pre-feasibility stage); "pre-feasibility" (in pre-feasibility stage); and "feasible" (pre-feasibility or feasibility stage reached, project looks viable, but capital funder not yet identified).

**Table 1: Status of PPTKN Projects as at 30 September 1998**

No.	Category/ Stage	No. of House s	Approximate Amount of Capital Leveraged (Rand)	Amount Pledged by PPTKN (Rand)	Amount Disbursed by PPTKN (Rand)	Amount to be De- committed by PPTKN (Rand)	Amount of Remaining Pledges still due (Rand)
19	Successful	9, 723	R143 million	R 955,500	R 660,500	R 114,500	R 180,500
7	Unsuccessful	4, 865	R0	R 475,500	R 201,000	R 236,000	R 38,500
27	Not commenced	7, 380	†	R 1,182,000	R 0	R 89,000	R 1,093,000
21	Pre-feasibility	11, 896	†	R 1,547,000	R 290,000	R 0	R 1,257,000
13	Feasible	13, 800	†	R 743,000	R 481,000	R 17,500	R 244,500
87	Totals	47, 664		R 4,903,000	R1,632,500	R 457,000	R 2,813,500

**Notes:**

† amount to be leveraged will vary according to the source of capital and amount of project undertaken

“Approximate amount of capital leveraged” means the amount of capital released or committed by the funder as a direct result of the PPTKN-funded application

“Amount pledged” means the amount pledged by PPTKN for projects it intends funding

“Amount disbursed” means the amount paid out by PPTKN in respect of its pledges

“Amount to be de-committed” means pledges that will be withdrawn

“Amount of remaining pledge” means the amount of the original pledge remaining after any de-commitment of pledges

Sections (a), (b) and (c) below should be read in conjunction with Table 1.

**(a) Successful projects**

To date, 19 projects have been successful in the sense that the PHB has either approved them and repaid PPTKN's loan or given satisfactory assurances that it will do so once PPTKN has disbursed the full amount pledged. In terms of value, these projects represent approximately 20% of the total amount pledged and have resulted in the release of approximately R145 million of capital. About 92% of this capital came from the PHB and the remaining 8% from various other funders including: the Malaysian Government; Kagiso Trust; Oxfam Canada; and Regional Councils. The PHB-PPTKN relationship has worked well for both parties and has resulted in extremely good leveraging ratios, currently averaging about 1:100.

**(b) Unsuccessful projects**

Seven of PPTKN's projects, in respect of which it has pledged R475 500, have not evolved as expected and are no longer considered viable. R236 000 of this amount will be de-committed, but a total of almost R240 000 which has either been committed or disbursed will be written off as bad debt. This loss represents about 5% of the total amount pledged and, given that in USAID's view this was essentially a risk fund, is considered completely acceptable. The projects failed for a variety of reasons, all beyond PPTKN's control. Examples of these include; land invasion at an advanced stage of the preparation; problems with community organisational structures and capacity within local authorities; geotechnical problems and unavailability of suitable land in vicinity; and problems forming social compacts.

**(c) Current projects**

There are three types of current projects. Firstly, there are those that are at the stage where the preliminary investigation has been done, the projects have appeared favourable, and they are now entering the pre-feasibility stage. A total of about R1 181 500 has been pledged in respect of these 27 projects, but PPTKN plans to de-commit about R89 000 of this. No conclusions have yet been drawn as to whether or not the remaining projects are viable, but based on past experience, PPTKN assumes that the majority will pass successfully through the pre-feasibility and feasibility stages and be brought to the standard required by the PHB.

Secondly, there are projects in the pre-feasibility stage. PPTKN currently has 21 of these, to which it has pledged R1 547 000. Only R290 000 of this amount has been disbursed. It is similarly expected that these projects will pass successfully through the feasibility stage and reach PHB-approved status, provided that this occurs within PPTKN's internal time limits.

Thirdly, there are projects that have passed through the pre-feasibility and feasibility stages and appear to be viable. PPTKN has 13 such projects and has pledged R743 000 in respect thereof. R17 500 of this is to be de-committed and R481 000 has already been disbursed.

The 61 projects referred to in the preceding three paragraphs share one very important problem - the fact that no capital funder has yet been identified. As noted above, the PHB does not have the budget to cope with the current backlog of approved projects, and will not be able to entertain any new applications for the next four years. The total net pledged value of these 61 projects (after allowing for planned de-commitments) is R3 365 500 - of which R771 000 has already been disbursed. From our interviews with the CEO we were led to believe that the PHB might well fund certain strategically important projects from this pool. Further, 15% of these projects seem likely to attract capital funding from other sources (e.g. Durban Metro and other local governments with housing funds). In addition, Land Affairs has been identified as a potential source of capital. Leveraging ratios for land establishment and rudimentary services are likely to be in the region of 1:30.

***Degree of conformance with Intended Results.*** The above achievements relate to Program Element 1. The loan fund has been established, loans have been made and repayments have been received. However, the majority of PPTKN's current projects have not yet been linked to a source of capital and this could pose real problems in terms of the requirement that this be a revolving fund.

#### **4.3.3 Grants**

A total of R73 500 has been granted to five recipients. Three grants of approximately R20 000 each went to the Kwashangase, Pholela and oSuthu Nongoma communities. The funds were used for the preparation of development framework documents (including annotated plans) and the identification and prioritisation of housing projects and related budgets.

A grant of R10 000 was made towards the preparation of a Land Issues Manual for the district of Inanda. This document included details on land ownership patterns and features, and was an essential starting point in the development process for that area.

A final grant of R3 500 was made in respect of a "scoping" study of a shelter for Kwamashu street children.

We note for the record that PPTKN has spent virtually all of its grant budget and does not intend awarding grants in future.

***Degree of conformance with Intended Results.*** The grants described above relate to Program Element 3 and conform with the intended results.

#### **4.3.4 Counterpart Funding**

PPTKN has secured a R1 million interest free loan from the Durban Metro, repayable over an unspecified period. For all intents and purposes this can be considered a grant, given that it is interest-free and that no repayment period has been specified. The broad purpose of the loan is in line with the main aim of PPTKN's Agreement with USAID, *i.e.* to prepare project proposals. The agreement governing the loan is reasonably unrestrictive, requiring essentially that the projects must involve private land; and that periodic reports on how the funds have been used are submitted. The Metro Housing Unit reported that it made the loan/grant because it had great faith in PPTKN's proven ability to successfully prepare project proposals and considered it to be an extremely efficient organisation given its size and amount of capital

that it has succeeded in leveraging or releasing. In addition, the Metro believed that PPTKN had an important role to play in assisting it to assess and plan strategically for the changing environment.

A further counterpart contribution has been pledged and approved in principle by Kagiso Trust (KT). This includes R250 000 for start-up costs and a further R1 million for the planned joint venture project. The project is similar in purpose to that of the USAID Agreement, but its emphasis is on rural projects. The main activities will be: creating development frameworks in areas where these do not exist; and within these, identifying projects such as land reform, water supply, agricultural, and tourism development. The latter refers to "village tourism", Parks Board-community joint ventures, community resort management. The R1 million is likely to be employed as follows: one-third for project preparation; one-third in cash reserves; and the remaining third for purchasing equity stakes in ventures (e.g. tourism development) where the possibility exists of selling this stake over to communities.

***Degree of conformance with Intended Results.*** Amendment 2 stipulated that a minimum of R1 050 00 should be raised from counterpart funders. As described above, R1 million has actually been received and a further R1,25m has been pledged.

#### **4.4 Non-achievement of Intended Results**

To date the intended results have been achieved. However, the concern has been noted above that the majority of funds pledged against PPTKN's *current projects* might in future not be revolved as easily or as quickly as has been the case with the PHB projects. To whatever extent this is already a problem, or becomes one in future, the non-recycling of loan funds represents non-achievement of Objective (ii) and Program element 1 (see Section 4.1). We believe that PPTKN is completely aware of this problem and is actively exploring alternatives to resolve it.

#### **4.5 Conformance with Conditions of Agreement**

From our perusal of the relevant documentation and from our interviews with the CEO and staff, we concluded that PPTKN had generally complied with all conditions stipulated in the Agreement and Amendments. The only transgressions we observed are discussed below.

##### **4.5.1 Financial Issues**

There were no unresolved financial transgressions. Each of the three amendments to the original Agreement contained revisions to the financial plan, which included any additional awards (as well as any effects of gains on the Rand by the Dollar) and reassigned amounts to the various line items.

We requested and were given access to copies of three financial audits of PPTKN (one Ernst & Young report for the period September 17, 1993 to September 30, 1995, and two Deloitte & Touche reports for the period October 1, 1995 to September 30, 1997). The Ernst & Young report highlighted a few problems including: unsupported and ineligible costs; insufficient details on travel claim forms; evidence of cheques issued for amounts exceeding authorised amounts; and failure to establish a separate Project Preparation Facility bank account. The latter two reports found no deviations or irregularities and indicated that the problems identified in the first report had been attended to satisfactorily. The only problem raised in these reports was the apparently inadequate segregation of duties within the Trust. It was, however, noted that this was not uncommon in NGOs with small numbers of staff. We understand that these

audit reports have been presented to USAID and that all irregularities have been reported and rectified.

#### **4.5.2 Sustainability Issue**

An issue not raised by the auditors was the question of whether or not PPTKN will be able to function as a going concern without ongoing donor funding. Although post-grant sustainability was not specifically required by any clause in the Agreement, it is clear from the “sustainability” clause in the action memo authorising the Agreement (signed in 1993 by Leslie Dean, then Director of USAID/South Africa) that USAID expected PPTKN to achieve sustainability through the recovery of its project preparation costs from the capital funder.

Such recovery has clearly been happening, but the PHB has reached a point where it no longer has the funds available to allocate to approved projects - and the likelihood is that for many years to come it will allocate whatever funds it does have to the backlog of already prepared projects - raising the real risk that recovery might not occur, or might occur far more slowly than originally anticipated.

The sustainability clause referred to above, implies that PPTKN would be sustained as long as its revolving fund was operating efficiently. This understates the actual requirement. For PPTKN to be sustainable (in the sense that it could operate without ongoing donor funding), it would be necessary for the loan fund to be revolved, but these loans would also have to generate sufficient interest to cover the costs of operating PPTKN's office. Alternatively, PPTKN would have to secure a capital endowment in the order of R5 million (at current interest rates of 24%) to generate the necessary income.

### **5. Lessons Learned**

This section reports on our interviews with the PPTKN's CEO, where the discussion focussed on the identification of lessons learned from its involvement in its various projects. In addition, recommendations and guidelines flowing from these lessons are suggested in the interests of developing best practices.

#### **5.1 Good Initial Design and Planning**

It is clear that PPTKN's success to date was the result of good programme design and planning. The PHB was flush with funds when PPTKN commenced operations and the Trust capitalised on the opportunity by submitting project proposals for which funding was virtually guaranteed. However, we believe that PPTKN would have been in a better position to respond to the problem of the current non-availability of PHB funds had the initial design of the programme foreseen this and specifically planned a range of alternative interventions.

#### **5.2 Development of Good Systems and Procedures**

PPTKN is fortunate to have had its current CEO at the helm during the early stages of its development. He has developed and documented excellent systems and procedures (e.g. operating directives and codes of practice). These appear to be constantly under review and are redesigned in the light of experience. All office employees are involved in this review process, which is a regular part of internal meetings.

#### **5.3 Reputation and Integrity**

PPTKN has established a good reputation amongst communities, local governments, metropolitan councils, provincial government departments, other NGOs, and donors. It prides itself on this achievement and works hard to maintain its reputation through professional integrity and solid commitment.

#### **5.4 Risk Management**

PPTKN's success in getting its projects approved by the PHB is as much a result of its good systems and people as of its rigorous risk management practices. No project is funded before a thorough on-site investigation of the key social and technical elements has been undertaken by PPTKN's project managers. Funds are pledged only once PPTKN is satisfied that the project is likely to get through the pre-feasibility stage, and even then it releases the loan in two stages (R20 000 for pre-feasibility and R50 000 for feasibility), allowing itself the opportunity of withdrawing without suffering too great a loss if its initial assessment proves incorrect.

#### **5.5 Influence of / Dependency on Key Players**

The composition of PPTKN's Board of Trustees is one of its greatest strengths. PPTKN's success has to a large extent been made possible by its Trustees, both in terms of their intellectual inputs, as well as their involvement with networks or organisations.

At the operational level, PPTKN's CEO is a unique and valuable asset who would be difficult to replace. In the event of this being necessary, PPTKN would rapidly run into difficulty if a suitable replacement could not be found quickly. This vulnerability could be reduced by employing a suitably qualified deputy to understudy the CEO.

### **6. Future Direction**

With the PHB funds having dried up PPTKN is, and has been for most of 1998, trying to decide on its future direction. Its first priority is to protect its revolving loan fund which at present is heavily exposed. Where, or whether or not, PPTKN will find alternative capital funders to take on its current projects prepared under the assumption that PHB funding would be available, is still not clear. Various potential responses to the current predicament were explained to us, but as yet no formal integrated plan has been developed to guide the necessary refocusing of the Trust's products and activities.

The lack of a strategic plan is cause for concern. We got the impression that the CEO and office staff were more concerned about the issue than was the BOT. This impression is based on the fact that when one of the Trustees proposed the establishment of a standing Strategy Committee in late 1997, the Board was unable to reach a conclusion and no such committee was established. To his credit the CEO proposed and found support amongst the office-bearing Trustees for the establishment of an *ad hoc* Strategy Committee. A meeting of this committee was held in June 1998, at which threats, opportunities and plans for growth were discussed by the CEO, two Board members and an office staff member. While this is clearly a good start to the process, we believe that all Board members and other key stakeholders need to be more formally involved. The Trust has recognised this and plans to hold an *inkomfa* (strategic planning session) early in 1999, one result of which will be formal strategic plan.

### **7. Conclusion**

PPTKN is well respected by all of the partners and stakeholders with which it interacts. The strength of PPTKN's program and implementation plan for attaining the Grant objectives lies in their simplicity. As a result of the tight focus and viability of its program, PPTKN has, to date, been extremely successful in terms of delivering on its agreed objectives.

A stage has now been reached where planning for the post-Grant future of PPTKN, by both the Board and Office, has become critically important. The relationship between PPTKN and the PHB was a strategically planned opportunity that was well exploited. Ironically, it is now the biggest threat facing PPTKN. Its almost complete reliance on the PHB and its lack of effective strategic planning have rendered PPTKN extremely vulnerable. Not only is the PHB problem a threat to the Trust, but so is its reliance on its three core staff members, the CEO and two project managers. Conditions of employment, salary levels and career path planning for these individuals should be carefully monitored if the Trust wishes to ensure their continued availability and loyalty.

PPTKN's Board of Trustees must be regarded as a major asset or strength of the organisation in that they are able to provide the expertise and moral support that is necessary. In comparison with many other organisations of this nature PPTKN is very strong in this regard.

## **8. Recommendations**

It should be noted that these recommendations are made by the assessors based on a limited understanding of the organisation and the environment within which it operates.

The Trust has to date only produced one formal annual report (for 1995). Given its importance as a marketing tool and conduit for providing feedback to interested parties, we strongly recommend that this practice be resumed.

PPTKN needs to urgently address its strategic planning regarding its: personnel; the problem of the non-availability of PHB funding; and its post-Grant sustainability. Close communication and cooperation in this regard needs to occur between Board and Office.

We suggest that PPTKN should consider the strategic and political importance of appointing a previously disadvantaged deputy CEO. In addition, the conditions of employment, salary levels and career path planning for its core employees should be reviewed and monitored regularly.

PPTKN needs to take greater advantage of its demonstrated expertise in the area of project preparation and to offer its services to communities, local governments and NGOs on a fee basis. In addition, we believe that the Trust will have to consider charging interest on its loans. The allocation of these potential sources of income to operating expenses would clearly enhance the Trust's prospects of achieving sustainability.

PPTKN should consider establishing similar relationships with other Provincial Housing Boards that still have funds available - *i.e.* broaden the geographical scope of intervention to the national scale. While we recognise that in many cases it would be unrealistic and prohibitively expensive for PPTKN to operate in other provinces, we believe that its methodology is transferable and that it could play a valuable role in facilitating and directing the establishment of similar operations in other provinces.

An opportunity exists for PPTKN to rework all those proposals that had been accepted under the previous criteria, but now do not meet the new PHB criteria. This could be done for a fee

(payable by the applicant and recoverable from the PHB) and could involve PPTKN-prepared projects as well as those prepared by others. This too, could be done on a national scale.

Finally, we suggest that the time period during which pledged loans can be taken up should be limited. This would have the effect of re-routing committed monies back to the fund for commitment elsewhere, should unreasonable delays be encountered.

## ANNEX A EVALUATORS' SCOPE OF WORK

### A.1 Scope of Work

In terms of our agreement with Macro International Inc. we were commissioned to conduct a performance evaluation of the Project Preparation Trust of Kwazulu-Natal, the scope of work being as follows:

- C review relevant information sources and interview representatives from Grantee organisations with a view to establishing the aims and objectives of the Grant and how these link with USAID's SO6 goals
- C for RP#2 Grants, meet with the CUSSP Project Officer to gain an understanding of the projects and how the project preparation trusts were to relate to the former CUSSP project
- C assess the current status of the Grant in terms of individual accomplishments and in comparison to the intended results agreed on by the Grantee and USAID
- C identify and discuss the rationale for any transformation or changes that have occurred in the organisation
- C determine and show whether or not results have been achieved and goals met, and whether this was done within the agreed upon Grant arrangements
- C for all performance levels, assess the rate of progress/non-progress
- C for training-related components of the performance assessment, conduct a trainee impact assessment survey. This should address the following questions:
  - a) what was the trainees' perception of the training experience?
  - b) whether trainees are using the experience gained, and how?
  - c) whether the training has impacted on the professional life of trainees, and how?
  - d) what concrete examples can be provided of things learned?
  - e) what do trainees' envisage will be the long-term benefits of training received?
- C indicate whether there were any unanticipated positive or negative consequences and how these impacted on the program
- C highlight lessons learned by or through the Grant and identify best practices
- C make suggestions and recommendations regarding the overall performance and future activities of the Grantee and USAID
- C if necessary, debrief Grantees and organisations prior to departure

## ANNEX B

### SYNTHESIS : RESULTS CONTRIBUTION TO SO6 RP#2 AND SO6

#### B.1 Synthesis: Results Contribution to SO6 RP#2, SO6 RP#3 and SO6

##### SO6 Results Package #2: Shelter Finance

Intermediate Result #6.2: *Previously ineligible households, developers, builders and municipal service providers obtain access to credit for shelter and urban services*

In terms of the IR-level indicator; 'rand value of credits obtained by HDP homeowners, builders/developers and service providers', PPTKN has made bridging finance available to Local Authorities and Community Based Partners. This has made it possible for 26 projects to be planned and proposals put forward to the Provincial Housing Board for subsidy funding. To date PPTKN has pledged an amount of R4.9 million for 87 projects and has leveraged an amount of R143 million in housing subsidies

##### SO6 Results Package #3: Support for NGOs and CBOs

Intermediate Result #6.3: Increased non-credit forms of assistance to the HDP for obtaining access to shelter and urban services

In terms of the IR-level indicator, 'number of HDP households that receive services through non-credit assistance', PPTKN has, as in the case of RP#2, supported Local Authorities and Community Based Partners through its short-term loans for project preparation and in this way has contributed to acquisition of subsidy funding and, therefore to the construction of houses and the development of urban services. To date the amount loaned by PPTKN has resulted in the successful application for subsidies for 20 projects comprising approximately 8 000 serviced houses.

##### **SO6 Goal: *Improved access to environmentally sustainable shelter and urban services for the historically disadvantaged population***

The *environmentally sustainable* aspect of the SO6 goal does not appear to have been a factor with respect to PPTKN's activities although it may be argued that the provision of urban services (infrastructure) does contribute to a better physical environment; its short-term (or bridging) loans result in the urban poor having access to houses with adequate urban services. The SO6 housing strategy is 'designed to support the national effort to adequately house the disadvantaged *majority*'. PPTKN is highly successful in this respect in that it supports projects that are aimed at the majority of the population.