

**USAID/South Africa**

**Triennial Review Analytical Paper**

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## **Introduction**

Looking at South Africa today, with its open political debate, growing economic and regional influence, and vibrant private sector, it is easy to forget that less than a decade ago that this was a country under apartheid, in which more than three-quarters of the population were routinely oppressed, denied access to adequate shelter, education, healthcare and meaningful employment. The accomplishments of the South African government and its people in the nine years since the end of apartheid are nothing short of remarkable. Major transformations of the judicial, education, health and housing sectors have already occurred. More than one million low-cost houses have been built, with more than two million previously disadvantaged people gaining access to electricity and over seven million to water. Taxes have gone down, while government assistance to the poor has risen. But many South Africans have yet to experience the “democracy dividend” of better jobs, a higher standard of living, greater personal well-being and hope for the future that was assumed would quickly follow the transition. Disquieting signs have emerged signaling the growing discontent among South Africans with the pace and magnitude of reform being achieved. Surveys conducted by the Institute for Democracy in South Africa (IDASA) have shown declining support for democracy in South Africa, with decreasing numbers of South Africans choosing democracy as the most preferable governing structure. In fact, South Africans are more negative about democracy than almost everyone else in Southern Africa. This has serious implications for the South African government, and ultimately for the region as a whole which benefits from the political stability and economic strength of South Africa.

The U.S. also benefits from the continued success of South Africa. The introduction to the Amended Strategy for USAID/South Africa (February 2000) notes that, “The success of South Africa’s transformation is one of the highest U.S. foreign policy objectives in Africa.” The reality is that South Africa is the economic engine for the southern Africa region, and its political leadership is essential to ensure that political democratization and economic development continue within the region and the continent. To do this, South Africa must be able to address its own development priorities and challenges. In this context, USAID/South Africa has structured its current strategy to fully align with South Africa’s development priorities. In 1999, the original strategy that covered the period 1996-2005 was amended to reflect changing conditions in South Africa during the 1996-1999 period, namely the dramatically worsening unemployment, the sharp increase in crime rates, and the widespread impact of HIV/AIDS. Key critical factors which were not foreseen at the beginning of the strategy period included a) lower than expected capacity of governmental and non-governmental institutions to implement the numerous policy changes in the post-apartheid transition, b) lower than anticipated foreign investment and growth, and c) significant job losses in the formal sector.

As a result, the Amended 2000-2005 Country Strategic Plan emphasizes working with the South African government to address key development priorities, namely unemployment, crime, and mitigating the impact of HIV/AIDS. This is done through a multi-pronged, multi-sectoral approach that focuses on improving local governance capacity for service delivery and responsiveness to citizens, encouraging public-private

partnerships to leverage the impact of our investments. The strategy also supports regional integration efforts to share the benefits of South Africa's economic progress and support the objectives of the New Partnership for Africa's Development (NEPAD) through institutions such as the African Union (AU), as well as encouraging joint problem solving on regional issues such as food security, trade, and transport. Unlike other countries, the South African government has the resources to help address many of its development challenges, though human and institutional capacity constraints often hinder implementation of public and private sector efforts to implement development programs. Our role is to facilitate South Africa's response to its challenges through human capacity development to enable the most efficacious use of its resources.

### **Development Hypothesis**

USAID/South Africa's development hypothesis is that in order to secure the sustainable transformation of South Africa, we must ensure that the historically disadvantaged population is empowered to take the next steps in its own and its community's development. Put more explicitly, we must focus our efforts on "reducing the gap" between the haves and have-nots, particularly in the social and economic areas. We do this through work at both the policy level and in assisting in the implementation of policy. A vital principle of transformation is increasing empowerment of the historically disadvantaged majority. Our program supports the aspiration of South Africans to manage these social changes effectively and sustain development progress towards increased political participation, improved educational and health status, and increased economic growth and equity.

The Amended Strategy notes that "The most powerful and enduring legacies of the USAID/South Africa program will be increased human capacity across the public, private, and non-governmental sectors, and the institutional linkages developed throughout the life of the program." (Page 48) This increased capacity is essential to effecting the massive changes that will be required to produce a more equitable distribution of resources.

### **Critical Assumptions of the Strategic Plan**

Several critical assumptions can be distilled from the Amended Strategy:

1. South Africa will remain politically stable and continue to pursue sound and effective implementation of macro-economic policy within a growth oriented economic framework.
2. The South African government will demonstrate the ability to recognize and respond to critical national development issues.
3. South Africa will assume a leadership role in the political and economic affairs of the region.

While these assumptions generally remain valid, there are some areas that remain problematic. In terms of the first assumption, the key qualifier would be that thus far the

country remains stable and the government continues to implement its economic program. However, there are indications that much of the public pessimism about democracy in South Africa can be traced to the lack of economic trickle-down from the current economic program. If material benefits do not begin to materialize more broadly across South African society in the next few years, people will become impatient, and the resulting pressure or unrest could persuade the government to abandon its current economic framework for a more activist or interventionist role. Similarly, on the second assumption, while the South African government has done an excellent job in responding to many of the critical development needs of its people, the political leadership has not embraced HIV/AIDS as an issue requiring public discussion and action. Although counter-productive statements and opposition to increased attention to HIV/AIDS by the government has subsided over the past year, public leadership on this issue remains lacking, leading to continued criticism from inside and outside the country. Outside of the public eye, progress has been made and South Africa is effectively on the precipice of implementing a massive broad-based approach to HIV/AIDS that includes the use of anti-retrovirals. Finally, South Africa's regional role has met with mixed success, while it has not been able to engage effectively on the issues in Zimbabwe, it has been much more proactive and successful in Burundi and the Democratic Republic of the Congo, and in promoting the launch of NEPAD and the new African Union.

### **Progress toward Achieving the Program Goal**

Dating from the original strategy, the overall goal of the program is "Sustainable Transformation" which is defined as follows:

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

The Amended strategy notes this is an ambitious goal that while achievable, is far more likely to be accomplished by 2010 than by 2005, owing in no small measure to the previously mentioned challenges facing South Africa.

### **Challenges and Constraints**

While we are making progress towards achieving this program goal, we see that the greatest challenge may be the negative impact of HIV/AIDS on the success of our programs across the board. We have identified the local government level as critical to the implementation of this strategy, since it has been designated by national government as the primary service delivery mechanism in South Africa. Whether we will be able to effect successful capacity building quickly enough at the local level is an open question. Local government already suffers from both a capacity and a credibility problem, and the full impact of HIV/AIDS has yet to be felt. We know that the impact of HIV/AIDS on

the demand for services (particularly health) and on the human capacity of local governments themselves will be significant and growing over the next decade. For example, it is projected that by 2010, HIV/AIDS infection rates among teachers could be as high as 30%; and 86%, or five out of every six deaths, will be attributable to AIDS-related causes. The impact of the deaths could reverse many gains made in this sector since 1994. We continue to focus our efforts to address this problem across all sectors and to increase the synergies among our programs and partners, but the extent to which we can respond comprehensively is constrained by both our overall budget levels and the allocation of resources among the various sectors. A key USAID/South Africa lesson is that HIV/AIDS is not only a health issue, but cuts across all sectors and must be tackled from many fronts. Hence, the need for an appropriate mix of funds across the sectors and flexibility within HIV/AIDS programming remains a critical issue.

### New Opportunities

Recognizing that an ongoing challenge for all USAID missions is the question of whether allocated resources will be significant enough to have an impact – USAID/South Africa has taken the opportunity to maximize the impact of its program through two proactive approaches:

1. Integration across the Strategic Objectives
2. Leveraging USAID Resources

There are several themes that cross-cut the USAID/South Africa program which are being integrated across the different sectors to increase our impact:

- Keeping our program relevant to South African priorities
- Improving local governance, especially for service delivery
- Managing the impact of HIV/AIDS
- Improving human and organizational capacity
- Supporting regional integration

At the same time, we are working to expand the impact of our resources through public-private partnerships across the sectors, and through Global Development Alliances.

### **Mission Issues for Discussion**

1. Extension of existing Country Strategic Plan by one year to 2006

USAID/South Africa is on track to achieve the program goal of sustainable transformation. It is not clear whether this goal can be met by 2010. However, as noted in this document, there has been clear and significant progress since 2000. The pace of change has been slowed by the effects of HIV/AIDS and a lack of capacity throughout all levels of South African society. This slowed progress is particularly troublesome when coupled with the unmet frustrations of a majority of South Africans. In the very near future, the South African government will face a crisis of credibility if it cannot effect

economic change and produce a rising standard of living for its people and a narrowing of the gap between the haves and have-nots. This is complicated by the upcoming elections in 2004, where the government will have to respond to these criticisms and to pressure to do more to protect South African jobs through a more interventionist policy.

The next few years are critical for determining the future of South Africa. There are many hard choices that the South African government must make to continue on the path of sustainable transformation. It is too early to judge whether it will be successful. For this reason, it would be premature to develop a new strategy next year, at the same time as national elections. Therefore, the Mission requests a one-year extension of the program to 2006. We believe that this will allow us to judge the intent of the new government and that we will be better placed to determine the way forward.

## 2. Increases in Strategic Objective Authorization Levels

Related to the extension of the strategy for an additional year is the need to increase the authorized levels for all of our Strategic Objectives. Some of these changes are due to the change in the composition of funding – particularly for the Health program, and for Initiative and Global Development Alliance funding for other programs. In addition, extending the program for an additional year will require that we raise the ceiling to accommodate an additional year of base Operating Year Budget funding. The table below indicates the current authorization level based on approved funding levels and activity approval documentation and indicates anticipated funding in the 2003-2006 period. Requested Strategic Objective Authorization levels are slightly above the current planned totals to allow room to receive Presidential Initiative funding, Global Development Alliance funding and other potential funds. The requested increases are in some cases within the authority of the Mission, as set forth in ADS 201.3.11, but USAID/South Africa is asking for USAID/W review and concurrence at this mid-term review in order to proceed smoothly with implementation of programs.

<b>USAID South Africa Strategic Objective Authorization Levels</b>				
	<b>Current Authorization Level</b>	<b>Current Obligation Amount</b>	<b>Anticipated FY 2003 - 2006 Obligations</b>	<b>Requested Strategic Objective Authorization Level</b>
SO1 - Democracy and Governance	273,000,000	248,822,663	23,845,000	280,000,000
SO2 Education	386,350,000	333,254,282	35,583,200	390,000,000
SO4 Economic Capacity	54,657,000	35,616,388	17,781,060	60,000,000
SO6 Housing/Municipal Services	129,182,800	101,090,445	28,559,620	138,000,000
SO8 Health/HIV/AIDS	102,399,100	75,901,497	142,063,680	225,000,000
SO9 Increased Employment	127,900,000	102,206,412	33,309,690	145,000,000

## **Strategic Objectives**

### (1) Democracy & Governance

#### A. Summary

The Strategic Objective is “Democratic Consolidation Advanced.” USAID/South Africa defines the biggest challenge to the consolidation of political democracy in post-apartheid South Africa as the perception that there has been no “democracy dividend” in terms of improved material well-being and opportunities for the majority of South Africans, and the impact of high crime on the confidence of South Africans in the ability of the government to provide security. Indeed, 60% of South Africans state that an “essential” feature for a country to be democratic is for the government to deliver the socio-economic services. This program focuses on addressing these challenges through assistance to improve the capacity of municipalities to deliver demanded services, reduce the gap in access to those services, and strengthen successful governance and prosecution of crimes.

#### B. Progress Toward Achieving Strategic Objective Results

We continue to work with municipalities to build their capacity to be responsive and deliver needed services to their constituents. Four of five key pieces of local government legislation have been developed and passed by the South African government since 2000 with our assistance, creating an unprecedented framework for devolving authority, resources and responsibilities to local government bodies to manage the delivery of most key social services.

South Africa consolidated and demarcated its local authorities in 2000, resulting in 284 municipalities being created from the previous 843. Local elections for the new municipalities were held in December 2000. There have been some integration problems and harmonization issues in these new units, and uneven progress among municipalities. Some, such as Johannesburg, were not altered significantly in this reorganization and have made significant progress. Others, particularly rural areas that are geographically large, have experienced greater difficulties.

Progress is also being made in processing and prosecuting of cases, and reducing the case backlog. Increased use of plea-bargaining will be a key strategy in this area. USAID’s Democracy program facilitated a public-private partnership between an association of major South African corporations (Business Against Crime) and the South African Department of Justice in which the three partners contribute to funding the restructuring of the Department of Justice through integrated case management and decentralized court services.

Special tax legislation, drafted with USAID assistance, was passed allowing donations to South African non-governmental organizations (NGOs) to be tax deductible for corporations and individuals, thus helping to direct resources to the non-governmental organization/civil society sector and increasing prospects for sustainability.

#### C. Prognosis for the Future

USAID programs will continue to make progress in strengthening the capacity of municipalities and improving the justice system, however national elections in 2004 and municipal elections in 2005 may affect some of these efforts, both in the immediate pre and post-election periods.

#### D. Proposed Changes/Adjustments to the Strategic Objective

USAID/South Africa is integrating its civil society portfolio into the criminal justice and local governance portfolios, strengthening existing partnerships with other strategic objectives and with Business Against Crime, and forming new partnerships. The reduced scope of the program is principally due to decreased Democracy and Governance funding. For example, this program is narrowing and focusing its efforts on the areas mentioned above, while simultaneously integrating the municipal strengthening component more closely with activities under the Housing and Municipal Services Strategic Objective. This may include use of joint indicators and survey instruments to measure impact. If Anti-Corruption Initiative funds are received, activities will be added relating to forensic accounting, and specifically for work with the National Competition Commission.

### (2) Education

#### A. Summary

The Strategic Objective “Increased Access to Quality Education and Training” targets black South African children and adults who were denied the right to a good education under apartheid and now need access to quality education in order to be full participants in the new South African economy.

#### B. Progress toward Achieving Strategic Objective Results

Activities under this strategic objective have been successful in many areas, from basic education gains in student performance on standardized tests, to support for the inauguration of Kami, the HIV/AIDS positive muppet on Takalani Sesame, to school reconstruction, support for math and science curricula, workforce skills, and strengthening of historically disadvantaged tertiary institutions. Unfortunately, HIV/AIDS is affecting this sector significantly, resulting in new issues of teacher shortages, quality, and access to education, especially for girls. Teacher training is one of several areas that will be addressed with Africa Education Initiative funds. Some examples of success include:

Grade 3 student achievements in literacy and numeracy increased by 9% from 36% in November 2001 to 45.6% in November 2002, in schools participating in USAID's basic education program in four of South Africa's poorest provinces. The target for Grade 3 student performance in 2002 was 42%, or a 6% increase in performance. Hence, the increase in percentage change target was exceeded by more than 50%.

Thirty schools, destroyed by floods in 2000 were reconstructed in the Limpopo Province. In four provinces, box libraries have been delivered to 665 schools, training was completed, and classroom follow-up visits were made to monitor effective use of the materials. Completion of all 123 targeted boreholes in Limpopo, Eastern Cape and KwaZulu-Natal is imminent. Approximately 500,000 textbooks, 1,000,000 pencils, 500,000 composition books and 25,000 sharpeners are being distributed to all schools in the Eastern Cape, KwaZulu-Natal and Northern Cape.

USAID support was essential in developing South Africa's first national strategy for mathematics, science and technology. We also assisted the department to develop performance targets for the 102 dedicated mathematics, science and technology schools (similar to U.S. magnet schools) and these are linked with the school improvement plans. Significant investments were made by private sector partners to support these schools, and they have committed resources over the next three years to supply computers and train teachers in information communications technology, mathematics and science instruction and teaching methodologies.

At the tertiary education level, USAID assistance is helping transform all 17 previously disadvantaged universities and technical colleges. Thirty-four programs in mathematics, science, technology and engineering taught at these institutions were revised to meet internationally accepted standards. South Africa's progress in these areas also has a regional reach as textbooks and other curriculum developed by USAID-assisted groups have been adopted by leading publishers and are being used elsewhere. Programs previously supported by USAID are becoming sustainable; for example, the South Africa Department of Education was so impressed with a successful adult literacy and skills development program funded by USAID, that it is now expanding the program nationwide with an investment of \$10 million of government resources this year.

### C. Prognosis for the Future

Although USAID has provided significant support for higher education, including the reorganization and consolidation of higher education institutions as part of the South African government's "Roadmap for Transition at the Tertiary Level," we will be sharply curtailing our work in this area. Although we remain committed to helping South Africa scale up successful models and practices, and will continue to do so in the basic education area, we are unable to be responsive to the South African government's strong interest in higher education activities.

Due to declines in funding in Human Resource Development (HRD) resources, USAID/South Africa is phasing out its focus and support in workforce development, youth, further education and training and higher education. The withdrawal from the tertiary sector is likely to be a problem with both U.S. and South African constituencies.

#### D. Proposed Changes/Adjustments to the Strategic Objective

USAID/South Africa is adjusting its education strategic objective to reinforce and build upon basic education activities as a core activity area. If deemed appropriate, and as funds allow, remaining further education and training and higher education activities will support the basic education focus. South Africa will also be participating in the Africa Education Initiative, which will complement important efforts in teacher training and textbook and curriculum development.

### (3) Economic Capacity

#### A. Summary

The Strategic Objective is “Improved Capacity of Key Government and Non-Government Entities to Formulate, Evaluate and Implement Economic Policies.” This program builds the capacity of historically disadvantaged South Africans to analyze economic problems and to design and implement market-related policies.

#### B. Progress Toward Achieving Strategic Objective Results

One of the most visible areas of progress is the work with the South African National Treasury on fiscal analysis and reform, which led to changes in the tax structure resulting in increased revenues used to pay down the national debt and increase funding for social services. Analyses supported by USAID on the impact of AIDS on business and other sectors contributed to the massive increase of funding for AIDS from the government. Our work on public-private partnership deals in the privatization area has led to substantial savings for the government upon completion of several deals valued at over \$500 million to outsource government commercial functions to the private sector. The influence of Mandela Economic Scholars sponsored by this program is increasingly felt in the policy and economic decision-making circles of South Africa. For example, one graduate trained at Vanderbilt was appointed the first South Africa Ambassador to the African Union; another, trained at Harvard, is one of the leaders in the upcoming U.S.-Southern Africa Customs Union free trade agreement negotiations.

#### C. Prognosis for the Future

South Africa remains the most likely engine for rapid and significant economic growth in the region. Even though its economy equals that of the State of Minnesota, it accounts for over 75% of all the economic activity in the southern Africa region, USAID/South Africa has encouraged the opening of the economy, its liberalization and improved policy harmonization with the region. The past 44 months have been a record post World War

II period of economic growth. However, the growth has come at the price of economic restructuring. Until mid-2002 there was no formal sector job growth, and income poverty was essentially constant. South Africa was able to deliver more education, health and housing resources to the poor, thus allowing overall poverty to decline. The lack of job growth is a rapidly increasing tension in the economy. USAID's work on public-private partnerships, privatization, modernizing and lowering of taxes, improving the efficiency of government spending, devolution of spending, improving the capacity of parliamentarians and legislators to influence spending, are critical to the future success of the South Africa economy.

#### D. Proposed Changes/Adjustments to the Strategic Objective

The program has recently been revised to align priority activities with anticipated funding. However, significant work remains in restructuring, getting policies implemented at the provincial and local levels, and furthering analysis of the impact of HIV/AIDS. Accordingly, the strategic objective authorization level will be increased to provide room for expansion of activities in these key areas.

#### (4) Housing and Municipal Services

##### A. Summary

The Strategic Objective is "Increased Access to Shelter and Environmentally Sound Municipal Services." This program addresses the gap in access to basic housing and service needs of the majority of South Africans through the development of sound policies and access to resources for municipalities; strengthened management capacity of municipalities; and increased partnerships between the private sector and local government to finance and deliver environmentally sound municipal services.

##### B. Progress Toward Achieving Strategic Objective Results

USAID assistance to municipalities, government institutions, and non-governmental organizations (NGOs) have resulted in over 4 billion rand (\$650 million) leveraged for housing and municipal services for the historically disadvantaged since 2000. Over one and a half million households (7 million people) have benefited from new or improved housing, water, sanitation, power, and/or solid waste services. Four Development Credit Authority (DCA) transactions have utilized \$2.75 million of the program budget to provide \$66 million in investment funds for housing and municipal services. USAID advisors have helped South Africa complete key pieces of legislation in housing and municipal finance. The Municipal Financial Management Bill and Municipal Systems Bill both will enable local authorities to improve service delivery through better management and private and public capital investment. The Community Reinvestment Act, built on U.S. experience but revised to fit the South African context, will increase lending to lower income households seeking to improve their housing.

Private-public partnerships and public-public partnerships are being developed in 69 municipalities. In the past four years, such partnerships have leveraged over \$750 million for improved municipal service delivery, particularly in water, solid waste, and power. The municipal and housing sectors are engaged in addressing HIV/AIDS. Mitigation strategies are now one of five top priorities of a South African network of nine cities; three orphan housing projects have been built, and an HIV/AIDS insurance product for lower-income home loan borrowers is being piloted with support from the Development Credit Authority. USAID has provided the support to what is now the model for decentralizing service delivery responsibility from national to local level; this effort has been so successful that it has become a NEPAD best practice for water delivery.

After several years of stalled progress, USAID/South Africa's program in global climate change (GCC) has taken off, supporting 17 demonstration projects linking GCC action to development priorities, engaging 210 schools in climate change projects. The program also supports the energy-efficient design of over 65,000 affordable houses, builds research capacity at several institutions, and works with major South African cities in energy efficiency and climate change mitigation activities. South Africa has since signed the key GCC protocols, developed its national GCC strategy, and is taking a leadership role on GCC in international and domestic action.

#### C. Prognosis for the Future

The large numbers of beneficiaries and funds leveraged have come in the past from credit programs and the public private partnerships. The last of the Housing Guarantee (HG) loans will be utilized this year. DCA programs are not as large as the old HGs, and thus might affect the numbers of households benefited. Macro level issues and regulations have reduced, rather than expanded the number of housing lenders. The program had anticipated supporting alternative lenders in its housing finance strategy; this is no longer a realistic approach without change in the regulatory environment.

As a positive trend, the growing stability of local government structures will enhance the efficiency of the program in building capacity to improve service delivery. Passage of the Community Reinvestment Act should provide new resources and perhaps new institutions for lending to the lower income housing sector.

#### D. Proposed Changes/Adjustments to the Strategic Objective

The Development Credit Authority remains a critical tool for the Housing and Municipal Services program to achieve its service delivery results. Authorization for use of Development Assistance funds for the subsidy is therefore important. While USAID has been able to refine its municipal and service delivery program activities to address climate change, it must do so in balance with non-GCC related issues, such as basic financial management, mitigation of HIV/AIDS and housing finance. Therefore, higher levels of GCC or clean energy earmarks would heavily undermine achievement of the

strategic objective particularly in the areas of housing finance and municipal service delivery.

Apart from the efficiency of using the experience of Regional Urban Development staff in South Africa to support other missions in the region on local government and urban development, the regional urban program has also enhanced USAID/South Africa's ability to bring in new models, experiences, and approaches. This is particularly true in linking HIV/AIDS, economic growth, and agriculture sector support to urban development. South Africa cities are increasingly interested in networking and sharing with cities in the region.

## (5) Health

### A. Summary

The Strategic Objective is "Increased Use of Primary Health Services and HIV/AIDS." The focus of this program is addressing the lack of access to quality health services while focusing simultaneously on addressing the impact of HIV/AIDS. This is accomplished through activities targeted at strengthening the capacity of the public health system; scaling up better practices and lessons learned from pilot activities; and integrating HIV/AIDS services into primary health care services at the community level. USAID South Africa's health program has evolved from a focus on a single province, the Eastern Cape, to a multi dimensional portfolio that is heavily engaged in HIV/AIDS activities and now has a geographic scope encompassing the five poorest provinces.

### B. Progress Toward Achieving Strategic Objective Results

Substantial progress has occurred in a number of areas:

**Immunization coverage:** proportion of children in the Eastern Cape vaccinated against measles increased from 57% in 1997 to 84% in 2002.

**HIV Prevalence Rate:** Data from annual antenatal sentinel surveillance suggest a stabilization of the national rate since 1998 at between 22.4% and 24.8%. The program has also achieved notable successes in system strengthening, service improvements, and people reached/served. For example, in Eastern Cape, the second poorest of nine provinces with a population of seven million, USAID's key project, Equity, helped rapidly increase the availability of voluntary counseling and testing (VCT) services in primary health care centers. Now in 2002, 30% of the province's population has access to VCT, whereas less than 500,000 had access in 2000.

**People reached:** In the Eastern Cape, clinic utilization has increased by 25% in the past two years with over 13 million clinic visits in 2002. This is more than two visits per person per year. Furthermore, one of five Eastern Cape adults used a public health facility in the past month. Over the five years of USAID's assistance, there has been a 24 % increase in antenatal visits in the Eastern Cape. With respect to the prevention of

mother-to-child transmission of HIV/AIDS, all pregnant women in Soweto (the largest township in South Africa) have access to comprehensive prevention of mother to child transmission (PMTCT) services resulting in 30,000 clients seen in 2000 (from zero in 2000). Over 20,000 orphans and vulnerable children received regular care and support through USAID-assisted programs from zero in 2000.

**Services Improved:** The percent of Eastern Cape clinics offering primary health care (PHC) services daily increased from 42% to 91% in five years. In Mpumalanga Province, USAID assistance to improve quality of care resulted in reducing neonatal mortality and strengthening tuberculosis case detection and treatment in public hospitals. In Soweto, USAID assisted partners are implementing a comprehensive prevention of mother to child program that consistently has over 90% uptake at each stage in the process (pretest counseling, testing, post-test counseling, and use of Nevarapine). Increased condom availability and South African government funding for condom procurement increased due to USAID technical assistance.

**Systems Improved:** Numerous USAID-supported pilot activities initiated in a single district or province have been scaled-up and adopted by other provinces or accepted as the national standard. For example, the successful Eastern Cape district health information system has been adopted as the national health information system. The district management systems piloted in Northwest and Mpumalanga provinces have been adopted by the National Department of Health for use in other provinces. The annual facility survey that started as a monitoring and evaluation tool for USAID is now institutionalized as a performance monitoring tool by the Eastern Cape and Northwest provinces. USAID assistance was also key to the development and adoption of national and provincial medium-term tuberculosis (TB) plans to reduce the high rate of TB in South Africa.

### C. Prognosis for the Future

Through our continuing work on institutional systems and health care capacity building we expect to, with our partners, have impact in five provinces covering approximately 70% of the population. This includes five of the poorest provinces and several of the provinces most affected by HIV/AIDS.

Should USAID/W approve the two phases of the revised Health strategy, the Mission would consider moving from an HIV/AIDS use strategic objective to a HIV/AIDS prevalence strategic objective. A separate strategic objective for HIV/AIDS independent from the primary health care element is not feasible because of the strong desire by the South African government for an integrated primary health care and HIV/AIDS program and its opposition to creating a vertical HIV/AIDS program.

The increased funding under USAID's revised program, and potential funding from the two Presidential HIV/AIDS initiatives necessitate that the Strategic Objective Authorization level be increased. The strategic framework of the revised health (and HIV/AIDS) program should be able to accommodate the potential increased funds from

these initiatives. The constraints are more likely to be in the human and organizational capacity to absorb the additional funding – especially among the local partners.

Should South African government policy toward the provision of anti-retrovirals (ARVs) change, there will be significant pressure and opportunities for USAID to support the training and introduction of ARVs. It is unlikely, however, that we will be asked to fund the procurement of such drugs. Such a policy change will also increase the opportunities to reach men.

Any reduction in non-AIDS funding would have strong negative programmatic and policy ramifications for the Mission's health program that is predicated on increasing HIV/AIDS services within the context of South Africa's primary health care system. Reducing or creating a further imbalance in funding for the health sector will undermine systemic achievements to date and will jeopardize relationships with the Government of South Africa on this sensitive issue.

#### D. Proposed Changes/Adjustments to the Strategic Objective

Proposed Strategic Objective (2003): "Increased use of HIV/AIDS and other Primary Health Care Services." This is only a minor adjustment to the earlier statement of the strategic objective. What has changed more significantly is the emphasis of the Intermediate Results (IRs). The proposed IRs increase the focus on priority HIV/AIDS interventions including prevention, treatment, and care and support while maintaining an element for strengthening other primary health care services and systems.

Changes were needed to: (1) increase the authorized ceiling and duration of the Mission's health strategic objective; (2) adjust the health strategic objective, especially the IRs, to more accurately reflect the funding streams; (3) reflect the growing importance of HIV/AIDS in the health sector; and (4) more accurately reflect the changing and expanding nature of the health portfolio. In addition, many of the strategic objective and intermediate result indicators have been updated to more accurately reflect the breadth of the current health portfolio and to incorporate the latest USAID/W guidance on recommended HIV/AIDS indicators.

#### (6) Increased Employment

##### A. Summary

The Strategic Objective is "Increased Market-Driven Employment Opportunities." This program works to address the dual-economy legacy of apartheid that perpetuates the gap between the white and black population through activities to create employment by fostering the growth of small, medium and microenterprises (SMMEs) and agribusiness by creating business linkages between the country's two economies.

## B. Progress Toward Achieving Strategic Objective Results

The Employment program has assisted small, medium and micro-enterprises owned by historically disadvantaged entrepreneurs to identify new markets and meet the standards demanded by these markets. In FY 2002 this approach has generated over \$116 million in business transactions and created over 5,000 jobs. Given the success of this approach, during the latter half of FY 2002 the small, medium and microenterprise (SMME) program expanded to focus linkages that exploit the trade opportunities available through the Africa Growth and Opportunities Act (AGOA) and in the Southern African Development Community (SADC) region. To date, the results are small (approximately \$200,000 in AGOA-related transactions and \$650,000 in regional trade opportunities) but the pipeline of deals in development suggests that there will be some significant transactions in the near future. In addition, USAID's Regional Center for Southern Africa is also providing assistance to the regional trade program by providing funding for two trade advisors to explore business transactions from emerging SMMEs in Zambia, Tanzania and Botswana to South Africa.

Support under the agribusiness linkage activity has resulted in land transfers totaling 45,711 hectares of freehold/privately own land being transferred to 4,198 new emerging black farmer beneficiaries for a total value of \$6,146,231. In addition, the program has institutionalized livestock auctions for emerging farmers. In less than two years of implementation, a total of 715 auctions have been held, with over 100,000 heads of stock being sold by over 8,000 emerging farmers for a value of \$27 million. In total, the project has supported agricultural business transactions worth over \$156 million and helped leverage over \$7 million in financing.

USAID's support to the privatization of state owned assets for the benefit of farm/agricultural employees has resulted in the completion of 41 transactions with a value of \$44 million. This program is now being extended to support emerging farmers with "willing buyer, willing seller" land assets.

## B. Prognosis for the Future

Sustainable employment creation is the number one issue across racial groups in South Africa, as reported in the 2002 Afrobarometer study. USAID's technical approach, using business linkages to grow and develop SMMEs, has also been confirmed as an effective mechanism to address employment by a recently completed assessment on the approach in South Africa. The program is also assessing and validating the value of the individual programs by completing four evaluations of our largest programs. These evaluations are taking place or will be completed by the end of 2003.

## C. Proposed Changes/Adjustments to the Strategic Objective

The performance data for this program confirms that the technical approach of using business linkages to grow and develop SMMEs has been successful in increasing their

volume and value of sales. However, the recent Data Quality Assessment (DQA) undertaken for this program has questioned whether the activities under the program are actually increasing the number of market-driven jobs created. To address this question, the Mission is pursuing the DQA recommendation that a survey be conducted to validate the program's development hypothesis that increasing growth of SMMEs (both agricultural and non-agricultural) results in an increase in market-driven employment. The Mission has shared the draft Terms of Reference for the survey process with AFR/SD and EGAT and welcomes their participation. USAID is currently working with its partners to respond to DQA recommendations to standardize definitions for key performance indicators.

As a result of these revised performance indicators, the USAID/South Africa is now updating the Performance Monitoring Plan for this program. The Mission feels strongly that the revised reporting systems will further enhance a solid technical program that is directly addressing the number one development challenge facing South Africa.

USAID/South Africa welcomes the increased attention and resources being provided to the agriculture sector. There are nine AID/W funded activities in agriculture operating in the country. This raises the need for closer collaboration and coordination with these activities. USAID/South Africa would welcome the opportunity to work EGAT and AFR/SD on a comprehensive basis to insure the appropriate level of collaboration and coordination to maximize impact and results.

### **USAID South Africa Staffing and Operating Expense**

Over the three-year period since the current Country Strategic Plan was approved in FY 2000, USAID/South Africa has reduced its United States Direct Hire staffing complement and will continue to review stringently its staffing profile against programmatic needs. We note with interest the plans for New Entry Professionals (NEPs) to be assigned to missions with their own positions and concurrent Operating Expense provision. This is a welcome and useful change to the current system of NEP assignments in which NEPs encumber regular USDH positions and missions must cover related operating expenses.

Like most other Africa Bureau missions, USAID/South Africa has experienced substantial declines in its Operating Expense budgets. In FY 2003 this budget cut has been coupled with a strong appreciation of the South African Rand against the U.S. dollar, such that our effective reduction is more than 25% of the planned FY 2003 and FY 2004 Operating Expense levels. While we have taken strong measures to curtail costs, deferring assignments, and other one-time cost saving measures, it is likely that more severe steps will have to be taken. The session on Staffing and Operating Expenses will detail these issues further.

### **Conclusion:**

USAID/South Africa is making substantial progress toward the achievement of its Strategic Objectives. Pipeline management and reduction strategies, which have been a key theme of Mission management over the past three years, have yielded dividends with the overall pipeline projected to be approximately 13 months of expenditures by the end of FY 2003. USAID-supported programs are achieving notable success, boosting South Africa's economy and growth potential and in providing expanded health, education and municipal services to more South Africans. However, much remains to be done; the impact of HIV/AIDS affects all sectors and aspects of our program and despite concerted efforts toward a multi-sectoral approach and integration of HIV/AIDS into mission-supported activities, there will be negative impacts on program progress. South Africa has a strong macroeconomic policy framework in place, but has not been able to deliver needed jobs in sufficient quantity to its previously disadvantaged population. Similar challenges exist in building capacity, particularly at the local level to implement programs and take advantage of sound policies. This paper presents only a few of the highlights and continuing challenges facing South Africa and the USAID program. The Mission looks forward to more in-depth discussion of key issues in the sectoral roundtable discussions.