

USAID/South Africa

Annual Report

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South Africa

Performance:

Background: South Africa has made considerable progress since the fall of apartheid in 1994. Major transformations of the judicial, educational, health and governance systems have been launched. Two sets of free and fair national and local elections have been held. The South African government is committed to economic freedom and has invested heavily in its people. Public expenditure in education and health in particular has increased and comprises more than 10% of the country's gross national product. Two million low-cost houses for historically disadvantaged households have been constructed between 1996 and 2001, and 85% of all households have access to clean water.

Despite these achievements, South Africa faces rising gaps in access to opportunities and services. The official unemployment rate is now 31% and even higher among black South Africans (37%). South Africa also has one of the largest income disparities in the world with over 50% of the total population, mostly black South Africans, living below the poverty line. Two-thirds of total income is concentrated in 20% of the population, leaving the poorest with only 2%. Women and children suffer the most. Women earn 55% less income than men and the infant mortality rate is 61 per 1,000 live births. Life expectancy at birth is estimated at 52 years. The adult literacy rate is 85% but only 8.4% of the total population has received higher education. Although primary school enrollment is 90%, there are still

To date, economic growth has been insufficient to lower South Africa's rising unemployment and poverty rates. Real Gross Domestic Product (GDP) growth in 2003 was lower than expected at 2%, compared to 3% in 2002. Export growth also declined in 2003 primarily due to a stronger currency and weak global economy as well as adverse weather conditions. Privatization of state owned enterprises is continuing at a slow but steady pace and is expected to boost investment and reduce South Africa's debt burden, currently estimated at \$24 billion. Real capital spending by private businesses in South Africa is relatively high and growing.

South Africa has more people living with HIV/AIDS than any other country in the world. Adult HIV prevalence is estimated at 26.5% among pregnant women. There are an estimated 660,000 HIV/AIDS orphans in South Africa today; a figure that is expected to grow to over 1.25 million by 2005 and to over 1.7 million by 2010. By 2005 it is estimated that 23% of the skilled and 32% of unskilled workforce will be infected. It is estimated that five to seven million people will die from the disease in 2010 without treatment. In FY 2003 South Africa announced its plan to undertake broad scale HIV/AIDS treatment plans through public sector health clinics. Notably, the public sector program will be financed through South Africa's own budgetary resources, providing a strong basis for a long term sustainable program.

South Africa has one of the highest murder rates in the world. Convictions rates in South Africa are also one of the lowest in the world. These factors have conspired to undermine investment and public confidence in a democratic government. Rapid influx of people into urban areas, including immigrants, has compounded the crime problem. Sixty percent of South Africa's 45 million inhabitants live in urban areas. Public perception of corruption has increased given recent allegations of fraud and bribery in government. Nevertheless, Transparency International recently ranked South Africa 36 out of 102 countries on its index of corruption. The next national elections are scheduled to take place in April 2004, with local elections in December 2005. Although support for political parties is strongly divided along racial lines, the 2004 elections are expected to be democratic and relatively peaceful. Provision of goods and services is one of the key election issues.

U.S. Interest and Goals: South Africa remains critical to US foreign policy interests and plays a key economic and political role in Africa bilaterally and regionally as an active member of regional bodies,

such as the African Union and the New Partnership for Africa's Development. South Africa has been actively engaged in efforts to peacefully resolve conflicts in Angola, the Democratic Republic of the Congo, Mozambique, Rwanda, and Burundi and most recently in Zimbabwe. South Africa remains by far the most important U.S. trading partner in sub-Saharan Africa, excluding Nigeria, a major oil exporter.

USAID provides strategic assistance in six areas: health and HIV/AIDS, education, urban environment, employment generation, economic policy development, and democracy and governance. These objectives support national efforts to reduce disparities between historically privileged and disadvantaged groups and builds the capacity of local governments, now mostly in place, to deliver services. USAID assistance in the health sector is focused on expanding HIV/AIDS prevention, care and support in support of the U.S. Presidential Emergency Plan for AIDS Relief initiative, as well as the management of primary health care services. The education program supports the host country government's efforts to increase access to quality education and training. USAID's urban environment program supports policies conducive to improving the quality of life in informal settlements and improved access to energy-efficient housing and basic municipal services through public-private partnerships. These activities meet U.S. Government priorities in clean energy, climate change, and water. USAID programs also foster the growth and development of small and emerging agribusinesses by providing linkages that did not exist or were constrained under apartheid. Furthermore, USAID programs support South African's efforts to address high rates of crime and perceptions of corruption.

Donor Relations: USAID is the largest bilateral donor and second largest overall donor in South Africa. The largest donor is the European Union (health, education, criminal justice reform, and community water projects). Other major bilateral donors and their principal areas of focus include the United Kingdom (health, private sector development, democracy and governance, labor and criminal justice); Germany (democracy and governance, education, health and economic policy); and Sweden (democracy and governance, labor, and poverty alleviation). USAID is working closely with several bilateral governments, as well as the European Union and the United Nations (UN), on an HIV/AIDS research and a poverty alleviation initiative. The UN Country Team, which includes 13 different agencies, focuses on HIV/AIDS, rural development, and regional integration. The European Commission will soon launch a major initiative in local government in South Africa.

Challenges: Since 1994, the South African government has been striving to address the injustices of the past and to meet the basic needs of all South Africans. Despite its relative wealth and a well-developed, modern economy, the new South Africa remains plagued with widespread poverty and high levels of inequality. Between 45% and 55% of the South African population live in various degrees of poverty and still experience insufficient access to basic services, overcrowding in informal settlements, malnutrition, limited economic resources and opportunities, insecure tenure of land, spatial isolation, social exclusion, joblessness, and feelings of powerlessness and indignity. The formulation of an adequate strategy to reduce poverty remains one of the biggest challenges, especially in a context of slow economic growth and high unemployment. As a result of the political transformation in South Africa, many municipalities are in the middle of large scale organizational change, and the limited capacity of municipalities to effectively administer services, engage private and community resources in planning and managing services, and to attract financing for capital investment projects remains a significant barrier to improved services for the majority of South Africans. There is a backlog in the extension of local government services to historically disadvantaged communities, and the cumulative arrears in the payments that make up local government revenues are fast approaching the total amount of annual local government revenue. In addition, South Africa's health system faces the daunting challenges of dealing with a dramatically high and still increasing HIV/AIDS prevalence (estimated at 26.5% among pregnant women) and the need to ensure equitable access to quality health services for the vast majority of South Africans who lacked health care under apartheid.

Key Achievements:

Democracy and Governance: Through the Democracy and Governance SO USAID supports efforts to address high rates of crime, inadequate local government capacity to deliver municipal services and weak civil society participation in governance. USAID assistance to the South African Department of Justice's

court restructuring program in integrated case flow management system and the decentralization of court support services resulted in a \$2.7 million saving in court expenditures in one province, and a 22% reduction countrywide in the backlog of criminal cases from 133,556 in FY 2000 to 104,112 in FY 2003. USAID has made significant progress in improving the capacity of municipalities to deliver services, helping 94 of South Africa's 284 municipalities improve planning skills and community participation. Local government capacity has further increased through USAID support to the design and launch of a learning network of 16 of South Africa's 47 district municipalities and at Web-based newsletter through which local governments share best practices. In FY 2003 USAID support to an NGO-led program to strengthen the financial viability of the civil society sector contributed to an increase in the number of tax exempt NGO activities from 22 to 49 and a 90% increase in the number of registered non-profit organizations that qualified for tax benefits and government grants.

Housing and Municipal Services: In FY 2003 USAID assisted almost 200,000 historically disadvantaged households to access new or improved housing, water and sanitation and/or solid waste management services, in large part due to \$83 million leveraged from the public and private sectors. USAID advisory services were instrumental in the passage of the Municipal Finance Management Bill which contains the legal framework for municipal borrowing in South Africa and establishes the legal processes for assisting municipalities with financial difficulties. USAID technical assistance contributed to the development of the Financial Services Sector Charter, which provides the policy framework for the private banking sector to invest in economically depressed communities. Implementation of the charter is expected to significantly increase access to housing and infrastructure finance for lower income households. Housing finance remains out of reach for the majority of South Africans and to address this problem, USAID assisted the Department of Housing (DOH) in preparing a 10-year policy and research agenda on delivering basic housing to historically disadvantaged households. Through the Social Housing Foundation USAID assisted 19 NGOs over the past five years, leveraging more than \$3 million for housing finance. USAID assistance also contributed to developing South African Government initiatives for inner-city revitalization, improving the quality of informal housing, introducing energy efficiency in low income housing projects, and extending finance to investors in inner-city residential property markets. The limited capacity of municipal officials to effectively administer services, engage private and community resources in planning and managing services, and financing for capital investment projects remains a significant barrier to improved services for the majority of South Africans and through direct technical assistance, facilitation of public private partnerships, and support to training and professional institutions, USAID helped local governments to provide services and better link planning objectives with financial resources.

Primary Health Care and HIV/AIDS: In FY 2003 USAID's HIV/AIDS program continued to make good progress toward preventing HIV infection, with more than 44,000 clients receiving comprehensive Voluntary Counseling and Testing (VCT) services through USAID-supported clinics. USAID's pilot treatment program provided AIDS treatment to more than 900 patients, provided more than 18,000 employees with access to treatment benefits, and trained over 1,000 doctors in anti-retroviral (ARV) therapy. Through a network of over 20 local NGOs and faith-based organizations, USAID has provided regular care and support to more than 46,000 orphans and vulnerable children in three poor provinces and Soweto. In 2003, USAID's partners made over 300,000 home-based care visits; assisted the Department of Health in establishing home-based care and nutritional guidelines for HIV infected households, and supported hospice services. In primary health care, USAID's support created the first public-private partnership to renovate and manage a public hospital in the Eastern Cape, one of the country's poorest provinces. Over 90 % of the 700 clinics in the Eastern Cape now offer all basic primary health care (PHC) services five days a week; 84% of the clinics have key PHC drugs available; 64% of the 11,000 nurses in the Eastern Cape are trained to provide all basic PHC services; and in 2002-03 there were more than 15 million visits for PHC services in the Eastern Cape, an average of 2.5 visits per person per year. Based on initial assistance from USAID in the Eastern Cape, South Africa now has a single national health information system, a standard guideline for supervising health care providers that is used by all provinces, and a system for district level health planning and budgeting that Treasury now requires all districts in the country to maintain.

Employment: USAID seeks to create employment for historically disadvantaged people by promoting the growth and development of small, medium and micro-enterprises (SMMEs) and agribusinesses. In FY

2003, by successfully linking previously disadvantaged firms and established businesses, USAID programs expanded the number of value of business transaction and jobs created by these firms. To date, as a result of USAID programs in the SMME sector, 8,500 jobs have been created and over \$440 million in business transactions have been concluded. In FY 2003 USAID support to microfinance activities leveraged approximately \$137,000 in short-term cash loans (averaging \$110/loan) to micro-entrepreneurs, 90% of whom were women. In the agribusiness sector USAID supported programs helped small-scale agribusiness generate more than \$116 million in sales from over 23,500 business deals, and created or sustained 10,000 jobs through the transfer and/or sale of public and privately held agribusinesses and assets to emerging farmers.

Increased Access to Quality Education and Training: Under this SO USAID supports activities that extend quality education and training to South Africa children and adults who were denied a decent education under apartheid and who need skills to participate in the post-apartheid economy. As a result of USAID supported skills development and management programs, student achievements in literacy and numeracy increased by 9% above the baseline at targeted primary schools since 2001. Nationally at the grade 12 level, the average math score improved from 47% in 2001 to 56% in 2002 and Physical Science from 69% in 2001 to 76% in 2002. The 102 USAID-supported math and science high schools in historically disadvantaged areas continued to perform below the national average, but are closing the gap. Through continued USAID support, students and teachers in 665 schools located in the poorest provinces received box libraries; 13,894 teachers were trained on how to utilize the materials, and 346,000 books were delivered to these schools, resulting in significantly improved literacy levels. In FY 2003, through USAID technical support, the Department of Education published its first e-education policy, which provides a new framework for the collaboration between the South African Government and the private sector in the provision of information communication technologies to education. USAID also contributed to the completion of the National Education Management Information System (EMIS) policy, which will contribute towards a systematic collection and analysis of improved data on students, teachers, and resources in all education sectors. A USAID supported school management program, implemented in 5,970 schools in the KwaZulu-Natal province, was institutionalized by the KwaZulu-Natal Department of Education and Culture, and has resulted in improved management practices at schools, administrative efficiency and successful curriculum implementation.

Economic Capacity Building: USAID assistance to the South African Government for research on the impact of HIV/AIDS on the economy contributed to the South African Government's decision to roll-out anti-retroviral (ARV) drug treatment and led South African-based manufacturers to reduce ARV drug prices by 50-90%. As a result of USAID support to the National Treasury, substantial savings to the government were generated by contracting out government commercial functions to the private sector. USAID capacity building and technical assistance to South Africa's Competition Commission led to limitations on the anti-competitive actions of South Africa's fixed line telecommunications monopoly, and reduced price collusion activities of health and legal services. In addition USAID support to the Micro-Finance Regulatory Council resulted in a 24% increase in net credit to poor South Africans. Through USAID's parliamentary training program 40 parliamentarians completed their certificates and diplomas in economics, improving their ability to understand macro-economic policy and the budget implications of new legislation. USAID support to the Department of Economics at the historically disadvantaged University of the Western Cape (UWC) resulted in that department being one of the few departments to expand the number of full-time equivalent students. The USAID funded "bridging" course at UWC, designed to bring marginal students into mainstream classes, also serves as a model for other South African universities.

Regional HIV/AIDS Program: Countries participating in USAID's Regional HIV/AIDS Program (RHAP) for Southern Africa include Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. Through the RHAP program USAID seeks to increase access to comprehensive HIV/AIDS services at high transmission cross border areas; improve capacity of countries within the region to respond to HIV/AIDS; and reduce transmission of HIV/AIDS in non presence countries. In FY 2003 through USAID-supported activities, over two million people received information on HIV and education on safe sex practices, over four million female and male condoms were distributed, and nearly 5,000 people received treatment for sexually transmitted infections.

Trade Capacity Building: In FY 2003 USAID provided support to the African Institute for International Affairs (SAIIA) to analyze proposed free trade agreements and to help develop the capacity of Historically Disadvantaged Businesses to conduct these types of analyses. USAID provided assistance to Trade and Industrial Policy Strategies (TIPS) to offer South African government departments, NGOs and researchers courses in trade analysis (impact of tariff changes) and analysis of trade trends. USAID helped develop a master's degree in trade at the Universities of Stellenbosch, Cape Town and Kwazulu-Natal with scholarships provided to historically disadvantaged South Africans and limited funds for staff development. USAID also provide assistance to NALEDI (National Labor and Economic Development Institute), the think tank of the labor movement, to analyze trade issues. Through USAID's program which supports trade activities under the Africa Growth and Opportunities Act, some 32 businesses benefited by exporting \$8,266,997 in goods and services to the United States. In addition, a new component of the program financed under the Africa Bureau TRADE initiative is assisting emerging businesses to export to other countries across Africa. After the first year of a pilot program, USAID-assisted firms sold some \$4.4 million in goods and services in Tanzania, Zambia and Botswana.

Gender: Gender considerations are integrated into all USAID programs. USAID addresses gender concerns by helping women owned businesses increase sales and access finance; promoting the participation of women in economic policy analysis and decision making; improving access to justice for women and children victims of violent crimes through direct support, by providing training for women to become judges; promoting the role of women in housing development and municipal management. In the education sector USAID seeks to increase the number of women teachers in the fields of math, science and technology, and awards student scholarships in all fields of study where women are under-represented. USAID health activities focus on expanding the availability and quality of HIV/AIDS and primary health care (PHC) services, including the prevention of mother to child transmission (PMTCT) and orphans and vulnerable children (OVC) programs.

Alliances: In FY 2003 the global development alliance between USAID, the International Intellectual Property Institute, the Southern African Research and Innovation Managers Association, private South African firms, the South African Department of Science and Technology, and the Centre for Scientific and Industrial Research developed a way for South African research institutions to secure royalties from the commercialization of research, and developed a list of indigenous flora, fauna and indigenous knowledge that needs intellectual property right protection. An alliance with Australian and British donor agencies, UNDP, the Kellogg and Wellcome Foundations, and South African private firms helped establish a research consortium to coordinate research on the economic and governance impact of HIV/AIDS. The trilateral partnership between USAID, Business Against Crime (BAC) a nonprofit association of major South African corporations, and the South African Department of Justice (DOJ), continued to support the DOJ initiative to improve the effectiveness of the criminal justice system. In FY 2003 USAID signed a partnership agreement with Microsoft, Telkom (South African telephone company) and Multichoice, the largest provider of pay television in Africa, to support teacher training in math, science and technology.

Presidential Initiatives: In response to the Presidential Water for the Poor Initiative, USAID continued to support the transfer of water service delivery from national to local responsibility through its pilot activity in the municipality of Bushbuckridge. The model is expected to assist other local authorities in restructuring water system operations, build constituent relations and ensure efficient and equitable water service delivery. USAID commenced an Anti-Corruption Initiative program to provide training to the Department of Justice (DOJ) to improve its forensic auditing skills and to support the expansion of a system of specialized commercial crime courts. Under the Prevention of Mother to Child Transmission (PMTCT) Presidential Initiative, USAID and the U.S. Centers for Disease Controls worked in collaboration with the Department of Health to develop a detailed plan to roll out PMTCT services across South Africa.

Country Close and Graduation:

Results Framework

674-001 Democratic Consolidation Advanced

SO Level Indicator(s):

Percentage of a nationally representative sample preferring democracy over all other forms of government.

- 1.1 A more effective and accessible criminal justice system.
- 1.2 Effective and Democratic Local Governance
- 1.3 Strategic CSO/Government Partnerships Strengthened for Improved Policy Development and Service Delivery

674-002 Increased Access to Quality Education and Training

SO Level Indicator(s):

Performance of Grade 3 students in USAID-sponsored primary schools

- 2.1 Improved Capacity to Develop and Implement Curricula
- 2.2 Improved Quality of Teaching through Teacher Education
- 2.3 Improved Management and Governance of Educational Institutions
- 2.4 Mitigate the Impacts of HIV/AIDS on Education

674-004 Improved Capacity to Formulate, Evaluate and Implement Economic Policies

SO Level Indicator(s):

Full-time equivalent students.

Number of directorates strengthened.

Number of historically disadvantaged people completing on term advanced degrees and placed in jobs as economists.

Number of quality studies produced.

Weighted average of all IR indicators.

- 4.1 Strengthened human resources in economics and policy
- 4.2 Strengthened government departments that deal with economic policy matters
- 4.3 Strengthened think tanks to formulate and deal with economic policy options
- 4.4 Strengthened centers of economic excellence in teaching and research at historically disadvantaged Universities

674-006 Increased Access to Shelter and Environmentally sound Municipal Services

SO Level Indicator(s):

Rand value of municipal services*

IR 6.1 Improved policy environment for facilitating access to shelter and urban services**

IR 6.2 Previously ineligible households, developers/builders, and municipal service providers obtain access to credit

IR 6.3 Increased non-credit forms of assistance made available to historically disadvantaged populations

IR 6.4 Improved capacity to apply sustainable participatory environmental management principles to local-level urban development

674-008 Increased Use of HIV/AIDS and Other Primary Health Care Services

SO Level Indicator(s):

Immunization rates: percentage children under 5 years fully immunized

National percentage of women who received PMTCT services in the last calendar year

Percentage of antenatal clients receiving post-test HIV test result during antenatal care

IR 8.1 HIV/AIDS prevention measures strengthened

IR 8.2 Management of STIs improved

IR 8.3 Treatment for TB and AIDS improved

IR 8.4 HIV/AIDS care and support expanded

IR 8.5 Selected primary health care systems and services improved

674-009 Increased Market-Driven Employment Opportunities

SO Level Indicator(s):

Net Change In Private Sector Employment By USAID Assisted Enterprises

IR 9.1 More Rapid Growth of Existing Small Medium and Micro Enterprises

IR 9.2 Increased Commercial Viability of Existing Small and Medium Agribusinesses

674-010

674-xxx Regional impact of HIV/AIDS reduced