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# Alliance Assessment and Strategy for USAID/South Africa

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This report was authored for the United States Agency for International Development by Emilie Kornheiser of SSG Advisors LLC under IQC Number REE-I-00-07-00027-00.

## DISCLAIMER

The author's views expressed in this report do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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**Acronym List**

AHI	Afrikaanse Handelsinstituit (Business Association)
APS	Annual Program Statement
ART	Anti-retro Viral Treatment
BBBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
CBO	Community Based Organization
CDC	Centers for Disease Control and Prevention
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DCA	Development Credit Authority
DG	Democracy and Governance
DoS	Department of State
EU	European Union
FDA	Food and Drug Administration
FDI	Federal Direct Investment
FET	Further Education and Training (Community Colleges)
GDA	Global Development Alliance

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GDP	Gross Domestic Product
HCT	HIV Counseling and Testing
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HPV	Human Papillomavirus
HR	Human Resources
IR	Intermediate Result
IT	Information Technology
KZN	KwaZulu Natal
MOU	Memorandum of Understanding
NGO	Non-governmental Organization
NRM	Natural Resource Management
USAID/ODP/PSA	Office of Development Partners/Private Sector Alliances
OVC	Orphans and Vulnerable Children
PEPFAR	[US] President's Emergency Plan for AIDS Relief
PPA	Public-Private Alliance
PPP	Public-Private Partnership
PTSD	Post-traumatic Stress Disorder

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ROI                      Return on Investment

SABCOHA                South African Business Coalition on HIV and AIDS

SAIBL                    South African International Business Leadership (NGO)

SAG                      South African Government

SME                     Small and Medium sized Enterprise

SMS                     Short Message Service

TA                        Technical Assistance

TOT                      Training of Trainers

USAID                    United States Agency for International Development

USG                      United States Government

WHO                     World Health Organization

## **I. INTRODUCTION TO THE PUBLIC VERSION**

This version of the South Africa Alliance Assessment and Strategy has been edited for public release. Any information that could be deemed either confidential or procurement sensitive has been removed. Please contact Lauren Marks, USAID/South Africa or Emilie Kornheiser, SSG Advisors if you require a copy of the original report.

## **II. EXECUTIVE SUMMARY**

The principal focus of this alliance assessment and strategy is twofold: 1) to explore the development of public-private alliances that intersect with USAID/South Africa priority program areas and the key interests of the private sector in the region, and 2) to provide management options for the Mission as it pursues a more strategic approach to alliance building (the management section has been removed from this document before being released to the public).

As a core element, the assessment analyzes the interests, challenges, and issues facing the private sector and other potential alliance partners in South Africa in order to determine high value themes for collaboration and partnership. While the assessment has not restricted the types of business sectors examined, the team considered the Mission's anticipated focus and funding for specific development priorities.

In addition to identifying high value alliance themes, the USAID/South Africa Alliance Assessment also categorizes a number of ways in which USAID can make decisions about prioritizing *how*, *when*, and *what* alliances can be pursued. The objective here is to provide a clear understanding of the ways in which alliances can best be integrated into the Mission's strategic planning process – i.e. pathways for identifying the most strategic alliances according to the Mission's own needs – and where the private sector can provide the greatest additional value in achieving key development outcomes. The assessment provides a series of tools and steps to assist USAID in navigating this process. The team found several excellent opportunities to engage the private sector in a meaningful way to achieve more than a traditional development project could accomplish on its own.

### ***Strategic Alliance Highlights***

The assessment and strategy are designed to help USAID to direct partnership efforts away from discrete individual, short-term activities to partnerships which are strategic and obtain long-term systemic and sustainable program impacts in the sectors where USAID currently works. The assessment team met with business leaders from manufacturing, retail, the extractives industry, IT, business services, insurance, agribusiness, and health care in order to canvas the private sector to analyze the interests, challenges, and issues that intersect with the Mission's priority development goals. The overall objective of this component was to identify potential areas or themes that would be ripe for collaboration and partnership between USAID and the private sector.

The assessment team focused on finding and analyzing key intersections between private sector issues/interests and USAID/South Africa's development priorities.

The principal focus of the assessment addressed the following concerns:

- Identifying where gaps and opportunities exist for Alliance program intervention.
- Finding synergies that exist between priority sectors and programs that are being implemented, plus tangible suggestions made for collaboration and/or sustainability.
- Engaging in scenario planning, that is, the probability of the need to expand key GDA programs as well as assure sustainability of key activities in GDA alliances that are ending.
- Undertaking a mapping exercises, specifically identifying key opportunities that may exist to engage in sectors that are not currently covered by GDA alliances.
- Assessing how effective Alliances have been in promoting or realizing USAID/South Africa's strategic objectives and determining whether we lose focus on our primary objectives in an effort to build alliances.

A few best practices and lessons learned emerged from company interviews.

Notably:

- Global partnerships need to be ground-truthed for local conditions.
- Both parties should establish their respective limits early in the negotiation process.
  - USAID staff expressed frustration with partnerships that failed after they had spent many hours in relationship negotiations.
- The most effective relationships are when each party pushes the other.
  - Partnerships where each party brought their core competencies to the table had the greatest chances of sustainability and growth.
- USAID can also serve as a catalyst to broker relationships between the SAG and the private sector. PPPs which include SAG, particularly the relevant technical department, have a greater chance of achieving sustainability and program impact.

Results of these company interviews are included in Annex A<sup>1</sup>. The reports present each of the interview results in detail, describing the full range of challenges and interests facing the company in question, while also highlighting the potential leverage a company would bring to an alliance as well as previous experience in working with USAID and with CSR practices.

Through this analysis, the assessment team identified a number of key alliance themes that could serve as the focus for strategic alliance building. The following table lists the alliance themes.

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<sup>1</sup> Annex A contains confidential information and has been redacted for public circulation.

<b>Alliance Themes</b>
<b>Short Term- Quick Wins</b>
Geo-Mapping of Existing Programs and Interventions across Public and Private Sectors
Shopping Center HCT
Medical Male Circumcision ROI
Community Development Partnership Initiative
<b>Medium Term</b>
Medical Information Systems Strengthening
DCA Franchising Program
Accessing Families for HIV intervention
Clean Cook Stove Initiative
<b>Long Term</b>
Work Force Training Institutes

A summary description of each alliance theme can be found in the body of this report.

### *Strategic Direction for Management and Implementation of Alliances*

Beyond highlighting strategic opportunities, this report includes a series of steps designed to assist USAID/South Africa in its decision-making process related to alliance building and alliance management. Together these steps offer the Mission a roadmap towards the identification and implementation of high value alliances as it defines its new strategy. They are designed to address recognized missing elements of the assessment process, provide criteria for the prioritization of alliance themes and opportunities, offer models for engaging private sector companies and turning alliance ideas into action, assist the Mission in choosing the right alliance mechanism for implementation, and present a framework for understanding the management implications of each implementation type. The steps are as follows:

- Step 1 (**Filling the Gaps**) will add to or confirm assessment findings by addressing companies and geographies missed during the assessment process.
- Step 2 (**Prioritizing Alliance Themes**) gives the Mission a list of tools, including value and procedural criteria, with which alliances can be prioritized, including: increased scale, improved effectiveness, increased efficiency, increased sustainability/replication, systematic change, risk, staff intensity, and time horizon.
- Step 3 (**Engaging Potential Partners**) offers effective and proven approaches to jointly developing alliances with the private sector, through the following

approaches: a) leverage public-private dialog platforms; b) develop USAID value proposition to market to the private sector; c) organize thematic roundtables and working groups; d) convene strategic meeting with senior company leaders; and e) conduct one-on-one meetings as necessary.

In conclusion, an alliance screening tool is introduced that demonstrates how the Mission can identify key *strategic* opportunities to pursue. The screening tool prioritizes alliances by their fulfillment of: Mission goals, Appropriate Impact, Involvement Level, and Private Sector Interest.

### *Next Steps and Recommendations*

The following are recommendations and next steps to be undertaken for developing USAID private sector alliances and other activities to support alliance building in South Africa.

- *Conduct a gap analysis of assessment findings.*
- *Prioritize themes using decision-making criteria.*
- *Develop a communications piece/information package to both communicate internally and to market externally USAID's comparative advantages.*
- *Where appropriate, include the SAG in partnership formation.*

USAID/South Africa now has the opportunity to continue to build on its past successes with alliances. This assessment has identified a handful of areas where the Mission will be able to achieve significant development impacts by working in partnership with the private sector.

## **III. ALLIANCE ASSESSMENT OVERVIEW**

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In June of 2010, USAID South Africa began an Alliance Strategy process. In September, USAID/South Africa in collaboration with USAID/ODP/PSA assembled a team to draft an Alliance Assessment and Strategy. The assessment and strategy are designed to help USAID to direct partnership efforts away from discrete individual, short-term activities to partnerships which are strategic and obtain long-term systemic and sustainable program impacts in the sectors where USAID currently works. The strategy development process began with an Alliance Assessment, which examined how key development challenges within the Mission's portfolio can be addressed by sustainable and long term partnerships, which will contribute to systematic changes with high impact.

The bulk of USAID/South Africa's program is concentrated in the health sector – specifically HIV/AIDS, though the Mission also funds programs in economic growth, democracy and governance, education, and the environment. The assessment covered the

full USAID/South Africa bilateral strategy. The South Africa Mission also houses regional programs throughout Southern Africa. Regional initiatives and partnerships, while a very fruitful ground for partnership, are outside the scope of this assessment and strategy.

The principal focus of the assessment included but was not limited to addressing the following concerns:

- Identifying where gaps and opportunities exist for Alliance program intervention.
- Finding synergies that exist between priority sectors and programs that are being implemented, plus tangible suggestions made for collaboration and/or sustainability.
- Engaging in scenario planning, that is, the probability of the need to expand key GDA programs as well as to assure sustainability of key activities in GDA alliances that are ending.
- Undertaking a mapping exercises, specifically identifying key opportunities that may exist to engage in sectors that are not currently covered by GDA alliances.
- Assessing how effective Alliances have been in promoting or realizing USAID/South Africa's strategic objectives and determining whether we lose focus on our primary objectives in an effort to build alliances.

Some last minute shifts in how the assessment staffing was to be procured resulted in a comparatively late start for the preparation work for the field portion of the assessment. In addition, the planned participation of the lead strategy writer was pushed to the last few days of the assessment field work. As a result, the team had to take a more *ad hoc* approach, both in terms of defining the parameters of the assessment and regarding the availability of both firms and USAID/SA staff and implementing partners. As such, the assessment report findings should be viewed with this limitation in mind. Nonetheless, the team was able to meet with a wide range of companies in the following industries: extractives, IT, financial services, agriculture, retail, and health care. In addition, the team was able to receive valuable input from both USAID/Washington/Global Health and USAID/South Africa Technical Teams, as well as the Secretariat, CDC, and implementing partners.

To conduct this assessment, the team relied on USAID/ODP/PSA's *Alliance Assessment Framework* as the basis for its methodology. The framework incorporates the experience garnered over the last decade of alliance-building and is designed to enable USAID Operating Units to identify strategic alliance opportunities within a Mission's existing or forthcoming strategic plan. The assessment approach focuses on identifying key economic sectors relevant to USAID's given strategy, identifying representative companies within those sectors, and then conducting 1-hour interviews with company representatives. Interviews were structured to focus on key business challenges and opportunities, so as to identify where USAID's development objectives may intersect with a company's business interests. Given that this is an assessment and not an alliance-building exercise, great care is taken to structure the interviews so as not to raise company expectations or imply any

interest from USAID regarding a possible alliance. Alliances constructed at the intersection of business challenges and USAID development goals are more strategic, and effective. Overlaps identified through the assessment reflect potential alliance activities and examples of possible quick wins for USAID/South Africa. While the assessment team was able to meet with more than 20 companies and business associations, there are gaps in the findings in this report regarding the nuances of how specific sections of the private sector view development and the report findings should be viewed in light of this limited sample set.

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### ALLIANCE DEFINITION

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During the course of consultations with USAID/South Africa's technical and program offices, the team heard differing definitions and expectations with regard to PPPs. The following section will establish a shared definition and explain the commonalities between the differing definitions to date.

At their most rudimentary level, USAID alliances are defined as agreements between the Agency and at least one private sector actor that define and address a specific development priority. Since the launch of Global Development Alliance (GDA) model in 2001, USAID has evolved its approach to building and defining alliances that provide the most value to USAID and its development objectives. USAID/ODP/PSA defines *strategic alliances* as those that most effectively and successfully combine resources and share risks in pursuit of common objectives. Strategic alliances deliver greater development impact through the combined strengths of multiple stakeholders. Strategic alliances are possible where private sector interests share a degree of overlap with a USAID strategic objective or planned result. Alliances then become a mechanism by which USAID Operating Units tap into additional resources in support of strategic objectives, and for-profit resource partners enlist USAID's development expertise in support of their direct and indirect business interests. Alliance partners are expected to bring new resources, ideas, technologies, and/or other partners to address particular development challenges. Conversely, an alliance should not be understood as a matching grant or an activity sponsorship.

Alliances are distinguished from other public-private partnerships and traditional development interventions by a number of key criteria. They are a *market-driven approach* to partnerships between the public and private sectors to address *jointly defined* business and development objectives. Alliances are *co-designed*, *co-funded*, and *co-managed* by partners so that the risks, responsibilities, and rewards of partnership are equally shared. In addition, each partner is viewed as bringing a unique resource or talent to address a common challenge in a manner that is bigger, better, and/or faster than each partner could achieve on its own.

In addition, the key to these relationships is the identification of on-the-ground social entrepreneurs, and partnerships with local governments to ensure that the solutions make sense for, and are owned by, the communities.

To date USAID/South Africa has operated with either PEPFAR or GDA definitions of partnership (both definitions can be found in Annexes B and C), both of which require a 1:1 match of resources. It is important to clarify that the term GDA and the corresponding need to match funds are a specific USAID mechanism designed to facilitate partnership. It is possible for an alliance to be strategic while still not realizing the 1:1 leverage ratio.

The following are critical core elements of Alliances:

- **Coherence with country strategy and goals:** Alliances must help advance programs and reach targets.
- **Added value:** Alliances have a synergistic effect, creating greater impact than either party would act independently.
- **Sustainability:** South African Alliances should include transition strategies that will allow for the integration and mainstreaming of program activities within the host country infrastructure, e.g., health care systems.
- **Effective monitoring and evaluation:** Alliances project a favorable ratio of inputs to impacts. Monitoring and evaluation plans are expected to ensure cost-effectiveness and accountability.
- **Resources Leveraged:** Alliances by definition must include resource inputs from USAID and from private sector partner(s). These resources can be financial, human, infrastructure, or knowledge based.

#### **IV. MISSION CONSIDERATIONS**

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The assessment team's initial meetings with Mission management and personnel provided other essential information for the alliance assessment. Additionally the team met with a DoS commercial officer, the Secretariat, CDC staff, and select implementing partners. The following program goals and issues were distilled from these discussions:

- USAID/South Africa's funding is primarily (98%) PEPFAR funds but these funds are not limited to the health office. PEPFAR funds are also dispersed through the Democracy and Governance office towards gender based violence programs. USAID is implementing procurement reform measures which advocate for the dispersal of funds and increased capacity of local non-profit implementers.
- Economic growth has an established and successful SME development program that taps into BBBEE codes to assist small businesses and corporations with subcontracting and supply chain development.

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- The education program recently obtained funding. This new education program plans to leverage limited funds to partner with the private sector.
- The NRM program is looking towards future climate change funds and concerned about water scarcity issues.

The following outlines the specific programs and initiatives under each office. By clearly describing the objectives of a program, we can assure that we are building alliances adapted to the specific goals of USAID/South Africa.

### **Health:**

- *President's Emergency Plan for AIDS Relief (PEPFAR)*: South Africa hosts the largest PEPFAR program globally, working on prevention, care, treatment, and health systems strengthening to address the HIV/AIDS epidemic in South Africa.
- *Tuberculosis*: USAID's programs closely link with the Mission's HIV/AIDS programming and target the expansion of treatment, improvement of home-based care, and the development of information systems.
- USAID/Southern Africa also provides access to family planning and reproductive health services and improved quality of health facilities and care for mothers and children.

### **Economic Growth:**

- *South Africa International Business Linkages (SAIBL)*: This business linkages program aims to build the competitiveness of black enterprises through management strengthening, use of modern technology, improvement of productivity and quality, and linking businesses to domestic and international markets through sustainable relationships.
- *Financial Sector Program*: Improves access to financial services for small and medium enterprises by improving the internal management systems and processes of financial intermediaries, developing new products, stimulating credit, supporting the enabling environment, and assisting in improving the bankability of small and medium enterprise via improved financial literacy and the provision of more appropriate financial business development services.
- *Workforce Development Program*: This program aims to increase employability of students and create a better match between skills offered by the FET colleges and those needed by future employers.

### **Agriculture:**

- USAID is in the process of developing a program that strengthens South African public and private institutional capacity to assist the region with food security concerns.

### **Education:**

- USAID is developing a new basic education program that will likely focus on one or more of the following areas: 1) teacher development, 2) implementation of activities in support of inclusive education, and 3) stakeholder engagement.

**Democracy and Governance:**

- *Women's Justice and Empowerment Initiative:* Provides integrated assistance to victims of sexual assault through a network of Thuthuzela Care Centers and strengthens the capacity of the legal system to prosecute and adjudicate cases of sexual assault.
- USAID/Southern Africa is in the process of developing a program that will allow for South African institutions to support electoral commissions throughout the continent through training on election management.
- Judicial Strengthening Program will support the Court Administration Unit in the Office of the Chief Justice on the judicial case flow management and will provide technical support to the newly established Judicial Education Institute.

**Trilateral Assistance:**

Through this program, USAID partners with the South African Government (SAG) to provide demand-driven expertise and services to other African countries, ultimately enhancing the SAG's capacity to deliver foreign assistance and improving inter- and intra-ministerial SAG cooperation.

To date the USAID/South Africa Mission has engaged in more than 26 Global Development Alliances and PEPFAR is currently involved in at least 18 partnerships with more than 40 partners. While the team did not gather enough information, nor is it within the scope of this document to do a thorough assessment of past partnerships, there are a few best practices and lessons learned that emerged from the interviews. Notably:

- Global partnerships need to be ground truthed for local conditions.
- Both parties should establish their respective limits early in the negotiation process.
  - USAID staff expressed frustration with partnerships that failed after they had spent many hours in relationship negotiations.
- The most effective relationships are when each party pushes the other.
  - Partnerships where each party brought their core competencies to the table had the greatest chances of sustainability and growth.
- USAID can also serve as a catalyst to broker relationships between the SAG and the private sector. PPPs which include SAG, particularly the relevant technical department, have a greater chance of achieving sustainability and program impact.

## **V. COUNTRY ALLIANCE ANALYSIS**

As a core component to the assessment, the team canvassed the private sector to analyze the interests, challenges, and issues that intersect with the Mission's priority development goals, which are outlined in the previous section. The overall objective of this component was to

identify potential areas or themes that would be ripe for collaboration and partnership between USAID and the private sector. Prior to arrival in country, the team identified a number of key business sectors that were primary drivers in the economy. The team then singled out leading companies and associations in each sector, based on market share, growth rates, etc. The team placed particular emphasis on speaking with major South African based Multi-National Companies, from any sector, with the assumption that they would have a vested interest and an understanding of the specific development concerns of South Africa.

In all, the assessment team conducted over 20 private sector interviews (formal and informal) with multiple representatives from companies and associations representing priority business sectors during a two-week period. The goal of the interviews was to explore a company's business interests and commercial or operational challenges that might overlap with development interests. Due to the limited time available to the team both in terms of lead time and time on the ground, the findings discussed below do not contain the sum of all possible conclusions. In fact the team recommends follow-up with the telecom and tourism sectors.

The following sections review major findings; each section summarizes the businesses interviewed, presents the issues and challenges identified during the interviews, and identifies strategic themes of potential partnership. The alliance themes themselves represent the most strategic areas of partnership identified by the assessment team, in which significant business challenges or issues and Mission priority development goals are each being addressed through collaboration.

In addition to the alliance themes that follow, specific company interview findings are further elaborated in Annex A<sup>2</sup>. The reports present each of the interview results in detail, describing the full range of challenges and interests facing the company in question, while also highlighting the potential leverage a company would bring to an alliance as well as previous experience in working with USAID and with CSR practices.

In conclusion, an alliance screening tool is introduced that demonstrates how the Mission can identify key *strategic* opportunities to pursue. The screening tool prioritizes alliances by their fulfillment of: Mission goals, Appropriate Impact, Involvement Level, and Private Sector Interest.

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### *SOUTH AFRICAN CONTEXT*

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The development of South Africa into a fully sustainable strategic partner is a key component of USG foreign policy in Africa. As Southern Africa's economic, political and military powerhouse, South Africa's success is essential to the region's development. As a result, the USG's foreign assistance policy priority is to help South Africa complete its transformation from its apartheid history into the region's beacon of stability, prosperity, and democratic inclusiveness.

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<sup>2</sup> Annex A contains confidential information and has been redacted for public circulation.

South Africa, the only African member of the G20, is an emerging economy with impressive economic growth; however, the recent global financial crisis has weakened the country's economic performance. GDP emphasizes the service sector (65%) with manufacturing/industry at 26% and agriculture composing only 9% of the economy. Compared to other African nations the informal sector is relatively small, comprising only 16% of employment. South Africa receives significant FDI as well as being one of the only countries where USAID operates with significant "Out Investment." Many multinational corporations are traded on the Johannesburg Stock Exchange and most companies operating in Sub-Saharan Africa use South Africa as their jumping point for work on the continent.

Long-standing issues that precede the crisis also have a great effect on the country's ability to maintain or improve its status. Displays of wealth in the country's cities give the impression of widespread affluence, but the country's historical inequities still affect the majority of South Africans. Unemployment hovers above 25 percent and 50 percent of South Africans live below the poverty line. Public education has not recovered from the legacy of Apartheid and South Africans remain undereducated for the demands of their economy. Despite reparative laws such as BBBEE codes and land redistribution programs, South Africa has the worst income inequity in the world.

The country's HIV/AIDS epidemic compounds these problems. More than 5.7 million South African's are infected with the virus. HIV/AIDS takes its toll not only by cutting lives short, but also by draining the country's workforce, placing a huge burden on the public health system, and diverting large sums of public resources away from other needs. Tuberculosis further strains the health system, killing more HIV-infected South Africans than any other disease. Unless they are confronted, these economic and social issues will impair South Africa's undeniable potential. As a result, USG foreign assistance is targeted to help South Africa overcome these obstacles.

Accompanying global trends, Corporate Social Responsibility (CSR) programs in South Africa are on the rise. BBBEE (Broad Based Black Economic Empowerment) codes encourage community development, employee training, SME strengthening, and ownership by previously disadvantaged people. In fact BBBEE mandates that 1% of profits be utilized for CSR initiatives.

Major business conferences have focused on this theme and leaders of South Africa's business community have publicly agreed that South Africa's striking inequality in a context of strong economic growth represents a potential liability that may curtail growth in the near future. Based on this analysis, there is a strong interest on the part of businesses to address persistent poverty, exclusion, and income inequality and there is a growing interest in strategic sustainability strategies within South Africa.

### ***Business Issues & Challenges Identified***

The assessment team met with business leaders from manufacturing, retail, the extractives industry, IT, business services, insurance, agribusiness, and health care in order to canvas the private sector to analyze the interests, challenges, and issues that intersect with the Mission's priority development goals, which are outlined in the previous section. The

overall objective of this component was to identify potential areas or themes that would be ripe for collaboration and partnership between USAID and the private sector. Prior to arrival in country, the team identified a number of key business sectors that were primary drivers in their economies. The team then singled out leading companies and associations in each sector, based on market share, growth rates, etc. The goal of the interviews was to explore a company's business interests and commercial or operational challenges that might overlap with development interests.

### Businesses Interviewed by Sector

Business Sectors	Companies Interviewed
Extractives	<ul style="list-style-type: none"> <li>AngloAmerican</li> </ul>
Agribusiness	<ul style="list-style-type: none"> <li>DOW Agro-sciences</li> <li>John Deere</li> <li>PG Bison (wood products)</li> </ul>
Food/Beverage	<ul style="list-style-type: none"> <li>SAB Miller</li> <li>Nandos</li> </ul>
Manufacturing/Automotive	<ul style="list-style-type: none"> <li>BMW</li> </ul>
Retail	<ul style="list-style-type: none"> <li>Foschini (clothing)</li> <li>Engen (energy)</li> </ul>
Financial Services	<ul style="list-style-type: none"> <li>Nedbank</li> </ul>
Health Services	<ul style="list-style-type: none"> <li>Discovery Health (Insurance)</li> <li>Netcare</li> <li>Medi-clinic</li> </ul>
IT	<ul style="list-style-type: none"> <li>EOH</li> </ul>






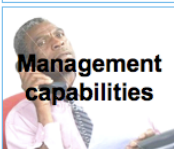



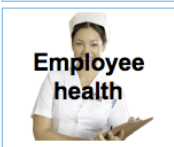
The team met with businesses in the Johannesburg/Pretoria area and the Western Cape but did not have time to travel to Durban, a major manufacturing and shipping hub, and would recommend that the Mission follow up there. The team also spoke with a number of associations representing different, and often divergent, business interests: American Chamber of Commerce, SABCOHA, AHI, Business Unity South Africa, and SAIBL.

## *RESULTS*

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The following sections review major findings; each section summarizes the businesses interviewed, presents the issues and challenges identified during the interviews, and identifies strategic themes of potential partnership. The alliance themes themselves represent the most strategic areas of partnership identified by the assessment team, in which significant business challenges or issues and Mission priority development goals are each being addressed through collaboration.

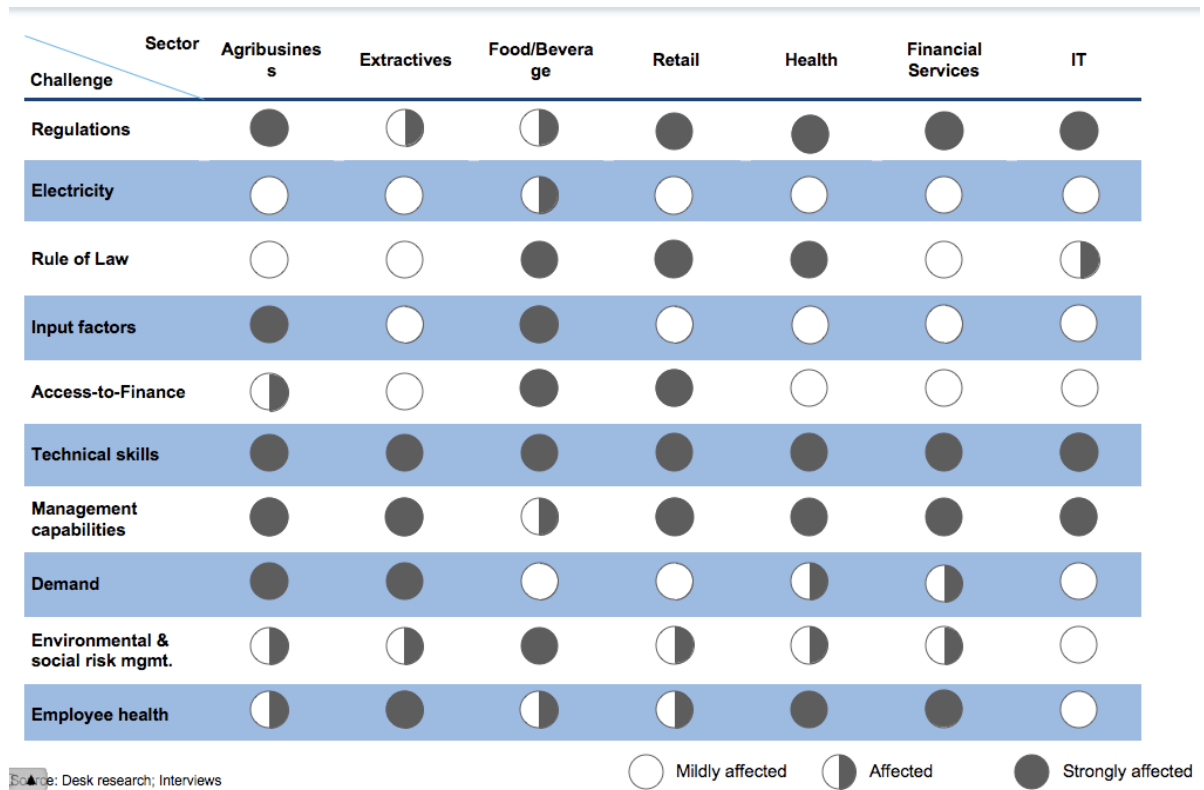
Additionally, 15 detailed interview reports are included as Annex A<sup>3</sup>. The reports present interview results in detail. Each report describes the full range of challenges and interests facing the company in question, while also highlighting the potential leverage a company would bring to an alliance as well as previous experience in working with USAID and with CSR practices. The most prominent challenges reported overall were:

 <p><b>Regulations</b></p>	<ul style="list-style-type: none"> <li>• Strong unions prevent firing</li> <li>• BBBEE</li> <li>• SMEs laws do not differentiate from corporations.</li> </ul>	 <p><b>Access-to-Finance</b></p>	<ul style="list-style-type: none"> <li>• High commercial lending rates</li> <li>• High government bond rates</li> <li>• Banks are strongly risk averse</li> <li>• Strong federal regulations on citizen banking requirements.</li> </ul>
 <p><b>Electricity</b></p>	<ul style="list-style-type: none"> <li>• High cost per Kwh</li> <li>• Coal dependent</li> <li>• Recent shortages led to increasing investment in infrastructure</li> </ul>	 <p><b>Technical skills</b></p>	<ul style="list-style-type: none"> <li>• Low literacy and numeracy rates</li> <li>• Lack of technical training</li> <li>• Skills gap lags behind BBBEE.</li> <li>• "Entrepreneurship" crisis</li> </ul>
 <p><b>Rule of Law</b></p>	<ul style="list-style-type: none"> <li>• High crime rates: armed robberies, murder, theft</li> </ul>	 <p><b>Management capabilities</b></p>	<ul style="list-style-type: none"> <li>• Lack of local management cadre</li> <li>• Absence of business skills</li> <li>• SMEs lack contracting skills in corporate dominated environment.</li> </ul>
 <p><b>Input factors</b></p>	<ul style="list-style-type: none"> <li>• Changes in landownership effecting agricultural production.</li> </ul>	 <p><b>Demand for South African Products</b></p>	<ul style="list-style-type: none"> <li>• Strong relationship with EU market and corresponding expensive regulatory environment.</li> </ul>
 <p><b>Environmental &amp; social risk management</b></p>	<ul style="list-style-type: none"> <li>• Very nascent awareness, water scarcity will become an increasingly important issue.</li> <li>• Efficiency is driven by short term cost concerns.</li> </ul>	 <p><b>Employee health</b></p>	<ul style="list-style-type: none"> <li>• HIV/AIDS. can cause                             <ul style="list-style-type: none"> <li>– High absenteeism</li> <li>– Loss of productivity</li> <li>– Loss of skilled worker</li> <li>– High treatment costs</li> </ul> </li> </ul>

A number of key conclusions are worthy of emphasis. First, all challenges listed above proved to be inherently cross-industry in nature, shared by sectors as varied as health services, agribusiness, and IT. Chief among these were government capacity and technical skills.

Next by overlaying challenges by sector, the assessment team was able to highlight the most prominent of all challenges-- namely employee health, technical and literacy skills, rule of law, and regulations. The team was also able to understand that the same business challenges both affect each sector differently and are handled quite differently. The graphic below illustrates the highly cross-industry nature of South Africa's challenges.

<sup>3</sup> Annex A contains confidential information and has been redacted for public circulation.



### Cross Cutting Challenges

Strict *Regulations*, one of the strongest cross-cutting business issues, encompasses a range of business challenges:

- strict labor laws governing hiring and firing,
- strict anti-trust laws,
- consumer protection laws,
- limited differentiation between SMEs and Corporations, and
- Broad Based Black Economic Empowerment (BBBEE)

BBBEE’s affect on the landscape of partnerships can not be underestimated. BBBEE is a comprehensive government strategy to “contribute to the economic transformation of South Africa and bring about significant increases in the numbers of black people that manage, own, and control the country’s economy, as well as significant decreases in income inequalities. BBBEE mandates a rating system measuring each company’s contribution to Black Economic Empowerment-- companies with high ratings are able to compete for government contracts, and the rating of a corporation’s clients, suppliers, and subsidiaries affects that corporation’s own rating. The ratings are disaggregated by seven factors: ownership, management, employment equity, skills development, preferential procurement, enterprise development, and socio-economic development. Thus it changes

the way business responds to such issues as supply chain weaknesses, philanthropy, employee training and promotion, and responses to consumer demand.

Businesses are highly interested in any programs or partnerships that assist with their BBBEE ratings. Essentially while BBBEE is costly to business, the regulations result in business engaging in a range of development activities as part of their core business: supply chain strengthening, workforce training, and service provision to BoP populations. Conversely any economic or human development partnership should closely examine its relation to BBBEE codes.

*Technical Skills and Management Capabilities* are closely related to BBBEE and other regulatory issues. Strong unions and affirmative hiring practices strongly promote internal promotions, and dissuade hiring of Whites; employers have initiated internal training programs, university support, and external training academies to mitigate the local skills gap.

*Employee Health*, specifically HIV/AIDS, affects all South Africans; however with the widespread use of ARVs (due in a large part to PEPFAR's success) many businesses consider HIV/AIDS as a cost of doing business and prevention as merely a mode to contain that cost. Health insurance plans include testing and treatment, and prevention is rolled into HR programs. For businesses, the issue has been largely depoliticized, deradicalized, and destigmatized. Corporations often are already working with Non-profits, Associations, and Bilaterals on this issue and emphasize the need for government to come to the table. This issue is often a gateway for partnership work, as it is the first CSR or USAID engagement that a company observed an ROI on.

### **Sector Specific Challenges**

*Rule of Law*, specifically high rates of violent crime, poses a larger challenge to retail based businesses than management, manufacturing, or service industries. Hijacking, violent thefts, and even murders are a daily occurrence for large franchises. In addition to the financial toll from inventory losses, both retail companies interviewed established PTSD hotlines and counseling for their employees who were victims of violent crimes. Employees often restrict work hours to travel during day light hours and crime prevention is a sizeable cost to households and businesses alike.

*Access to Finance* poses a challenge for corporations looking to expand via a franchise model or for SMEs looking to expand. Banks are extremely risk averse and some companies buy down the risk of franchisees themselves. This "risk portfolio" is difficult for a publicly traded company to justify to shareholders.

While the overall course of decision-making for USAID presents challenges by industry or business sector, it should be noted that cross-industry challenges embody comprehensive alliance-building opportunities for USAID. In certain cases, USAID can choose to focus on addressing challenges in a more wide-ranging fashion, choosing, for example, to partner on improving technical skills that generate workforce development across a multitude of unrelated industries.

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*STRATEGIC ALLIANCE THEMES*

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As discussed above, the private sector in South Africa engages in a robust range of community development and regional strengthening activities. The Strategic Alliances that follow identify relationships and activities that take advantage of this opportunity to scale up, coordinate, and add value to both these interests and USAID goals. The assessment team was able to distill individual challenges identified by the team within key industries into potentially high-value alliance options. In all, 9 opportunities are presented here in table form, and an additional 4 opportunities for scale-up of existing partnership are discussed in the narrative. The assessment team has divided the potential alliances into three categories: *short-term*, *medium-term*, and *longer-term*. Each category is defined by the amount of time and effort required from USAID to develop the proposed alliance. Moreover, each category effectively correlates with the development impact predicted. The longer-term opportunities are generally expected to result in large-scale impacts, while the shorter-term opportunities would generate lesser-scale results.

### Long Term

<b>Opportunity</b>	Workforce Training Institutes – NOTE: This is consistent with USAID’s FET program.
<b>Sector(s)</b>	IT, Manufacturing, Retail, Food and Beverage
<b>Illustrative Companies</b>	Cisco, BMW, Foschini, Nandos, EOH
<b>Development Challenges</b>	The educational system in South Africa has not yet recovered from the inequalities, pedagogy, and underfunding of the Apartheid era. Enrollment rates are between 70 and 80% and many schools still don’t have plumbing or electricity. South African education does not prepare citizens for a developed economy.
<b>Business Interest</b>	Despite an unemployment rate of 35%, employers express difficulty in hiring qualified workers for entry-level positions due to literacy, for manufacturing positions (trades/craft), and for management positions (entrepreneurship, creativity). Many businesses have either partnered with private educational institutions or manage private training academies in their own HR departments. Companies across a range of business sectors expressed a need for employees with basic literacy, financial, and human resource skills. Often employees switch companies once trained resulting in a wasted investment for the company.
<b>Potential Private Sector Resources</b>	In order to create economies of scale, coordinate resource overlaps and gaps, and reduce the cost of employee loss, employers can invest their facilities, trainers, mentors, and technical needs in shared training programs. These South African companies, and African Subsidiaries of Multi-national corporations, are already investing and invested in this

	<p>effort.</p> <p>The Financial Sector Program (FSP) will soon be launching a “Guide to Small Business Finance for SMEs” aimed at improving the financial literacy of SME business development service providers. FSP has also developed a training program called “Successful Financial Management for SMEs” to help SMEs manage their cash flows including money coming into their businesses as loans. The training has been piloted with Blue Financial Services and ABSA Bank, and could possibly be rolled out at FET colleges.</p>
<b>USAID Resources &amp; Value</b>	<p>USAID’s tremendous coordinating capacity, convening power, and existing relationship with the FETs, in addition to technical assistance, would tie government educational programs to the needs of employers—for TOT, job training, and basic higher education.</p>
<b>Constraints/Risks</b>	<p>Training programs need to omit proprietary information if they are shared by numerous employers in the same sector. Additionally the USG should be wary of overinvesting in an initiative that companies are already operating in successfully. The USG’s role can be of coordinator and convener across sectors—not funder or initiator.</p> <p>Additionally, existing FET programs are limited in their geographic reach. A mapping exercise could identify FET capacity and private sector geographic interests.</p>

**Medium Term**

<b>Opportunity</b>	Information Systems Strengthening
<b>Sector(s)</b>	Health
<b>Illustrative Companies</b>	<ul style="list-style-type: none"> <li>○ AngloAmerican</li> <li>○ DiscoveryHealth</li> <li>○ BMW</li> </ul>
<b>Development Challenges</b>	<ul style="list-style-type: none"> <li>• Health Service Delivery in South Africa is composed of a range of providers and stakeholders: public hospitals, company clinics, private independent medical providers, private hospitals, and PEPFAR. Each of these stakeholders uses a separate mechanism for monitoring their programs and patients with no common set of norms or necessary</li> </ul>

	<p>information.</p> <ul style="list-style-type: none"> <li>• Health information systems enable the transfer of patients from provider as well as the ability to monitor and track illness and medications.</li> <li>• National government recognizes the competing monitoring plans and announced a plan to select one monitoring system to be used by all licensed healthcare facilities.</li> </ul>
<b>Business Interest</b>	<ul style="list-style-type: none"> <li>• Corporations that provide medical services, either as their core business or as care for employees, have already invested resources in building and buying information management systems and fear that a government mandated system will be both less effective and more costly than their existing systems.</li> <li>• Additionally medical information companies are interested in seeking procurements in this growing market.</li> <li>• Many stakeholders fear that the government will mandate one system that won't be suitable or compatible with their organizations existing systems. These companies are willing to work together and with government in order to both mitigate a regulatory burden and protect existing investments.</li> </ul>
<b>Potential Private Sector Resources</b>	<p>A number of companies have developed medical information systems for their own uses and are open to sharing both the systems and the technology with government in order to facilitate the development of either a system of standards or a flexible technology that each stakeholder could then adapt their existing system towards.</p>
<b>USAID Resources &amp; Value</b>	<p>USAID's authority in the HIV/ AIDS space is considerable due to PEPFAR funding, training, capacity strengthening etc. USAID/South Africa's power as a convener in this sector would serve to begin a mutual sharing of technical knowledge and information management needs.</p>
<b>Constraints/Risks</b>	<p>USAID must operate within the guidelines of the National Department of Health (NDOH). If NDOH mandates the use of certain systems, it would not be prudent for USAID to invest funding and resources into alternative competing systems.</p> <p>Since a few companies are actively engaged in seeking procurements related to this issue, it will be challenging to include all stakeholders without giving preferential treatment.</p>

<b>Opportunity</b>	DCA Franchising Program
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<b>Sector(s)</b>	Retail Food and Beverage
<b>Illustrative Companies</b>	Nandos, Engen, SAB Miller
<b>Development Challenges</b>	As with many Economic Development programs, USAID/South Africa focuses on SME development. However, with an unemployment rate of 25-50%, entrepreneurs struggle to enter the market.
<b>Business Interest</b>	Many private sector companies expand via franchising. This model has a number of benefits to business: reducing risk and management burden while increasing profits, and raising BBBEE ratings by increasing the number of SMEs that they contract with. Successful franchisors receive applications in excess of capacity and run extensive screening and training programs for potential franchisees. However, South Africa's conservative banking sector is hesitant to back these fledgling entrepreneurs whom often have little to no collateral, so private businesses often negotiate deals with banks to buy down risk – this large risk portfolio is unsustainable for a publicly traded firm.
<b>Potential Private Sector Resources</b>	The private sector has opportunity, screening practices, and the entrepreneurship training to offer to the relationship.
<b>USAID Resources &amp; Value</b>	USAID's DCA office via an existing loan portfolio guarantee agreement with Blue Financial Services can buy down the risk for banks to invest in entrepreneurs.
<b>Constraints/Risks</b>	USAID should be wary of being partial to any one franchisor while exercising diligence to opening the program too widely.

<b>Opportunity</b>	Accessing Families for HIV Intervention
<b>Sector(s)</b>	Extractives, Manufacturing, Professional Services
<b>Illustrative Companies</b>	AngloGold BMW Deloitte
<b>Development Challenges</b>	In April 2010, the SAG initiated a nation-wide HIV testing campaign, which aims to mobilize 15 million South Africans to test their status before June 2011. There is little understanding at this

	point over what “success” of this program would mean for the nation’s health infrastructure – namely thousands, possibly millions, more people with a positive status seeking treatment.
<b>Business Interest</b>	The business sector's plan for realizing the HCT targets has committed South African companies to testing two million of the 15 million targeted by Government. This includes employees, dependents, and members of local communities. However many businesses are reluctant to push the issue of testing too far for the reason described above – more positive statuses means more people to treat, and larger health expenses.
<b>Potential Private Sector Resources</b>	Corporate testing programs often agree to matching patients- for each employee or spouse tested, USAID tests one friend or community member; a similar guarantee could be struck with the private sector, with businesses extending benefits to spouses.
<b>USAID Resources &amp; Value</b>	USAID can then coordinate with SAG to provide counseling and treatment to the matched community member.
<b>Constraints/Risks</b>	<ul style="list-style-type: none"> <li>The “success” of the SAG testing campaign could turn out to be tremendously costly.</li> </ul>

<b>Opportunity</b>	<b>Clean Cook Stove Initiative</b>
<b>Sector(s)</b>	Energy
<b>Illustrative Companies</b>	Engen Shell
<b>Development Challenges</b>	Secretary of State Hillary Clinton has announced that the United States will contribute \$50 million over five years to the Global Alliance for Clean Cook-stoves, a group planning to provide 100 million new stoves to poor families in Africa, Asia, and South America. Replacing the simple polluting cook-stoves that are the centerpiece of poor households can yield enormous benefits for both local health and the global environment. The soot from cook stoves leads to respiratory problems, primarily in woman and children who spend time indoors. It warms the atmosphere and settles on glaciers, where it contributes to melting. Cutting down trees to fire primitive cook stoves is also a cause of deforestation.
<b>Business Interest</b>	<ul style="list-style-type: none"> <li>The reductions in emissions achieved by clean cook-stoves can also create revenues from carbon credits. Stove companies can use this revenue in many ways, for example</li> </ul>

	<p>to reduce the stove price (thus making these products more affordable to poorer consumers), or to expand into new markets.</p> <ul style="list-style-type: none"> <li>• More broadly, the entire clean cook-stove supply-chain should be a source of economic opportunity and job creation at the local level. In all cases – central mass-production or local production – local business partners will be needed for distribution, sales, and service of stoves, as well as supply of processed fuels, where appropriate. A thriving global industry for clean cooking solutions will provide these benefits on a sustainable basis, providing jobs to many thousands of individuals.</li> </ul>
<b>Potential Private Sector Resources</b>	<ul style="list-style-type: none"> <li>• Engen currently engages with the public with regard to cook-stove safety issues.</li> <li>• The Nando's family is building low-income housing with safe stove technology.</li> </ul>
<b>USAID Resources &amp; Value</b>	USAID's upcoming climate change program could work with fuel suppliers towards safe and efficient programs, providing technical assistance to firms who express interest in serving as incubators of emerging technologies.
<b>Constraints/Risks</b>	Using USAID funding and technical assistance to stimulate business incubators could be interpreted as the <i>subsidization</i> of business.

### Quick Wins

<b>Opportunity</b>	<b>Geomapping of Strategic Initiatives</b>
<b>Sector(s)</b>	All
<b>Illustrative Companies</b>	BMW, Anglo-Gold
<b>Development Challenges</b>	USAID's funding and projects are limited to specific geographic regions with the highest HIV/AIDS prevalence; often potential partners do not have a strategic interest in this region.
<b>Business Interest</b>	Private sector companies want to focus their development/partnership efforts in those regions where they will most directly reap the rewards. These geographic areas include those where production or sales occur or where the majority of the workforce resides.
<b>Potential Private</b>	Companies and USAID can come together to identify potential overlaps, opportunities for regional cooperation, or any areas of the

<b>Sector Resources</b>	country that aren't receiving assistance.
<b>USAID Resources &amp; Value</b>	
<b>Constraints/Risks</b>	<p>Private sector partners might step back from their investments as they perceive others are covering a region they previously operated in.</p> <p>One party, probably USAID, would need to take a labor intensive leading role in coordinating the information for this partnership.</p>

<b>Opportunity</b>	<b>Shopping Center HCT</b>
<b>Sector(s)</b>	Retail
<b>Illustrative Companies</b>	Foschini, Pick n Pay, Clicks,
<b>Development Challenges</b>	HIV/AIDS counseling and testing campaigns are a cornerstone of prevention efforts. Workplace programs in office buildings and factories have long been a key method of private sector involvement and outreach, but over 50% of South Africans are unaware of their status.
<b>Business Interest</b>	Retail establishments have not been involved in the bulk of these efforts because reaching economies of scale is difficult when each store has less than ten employees.
<b>Potential Private Sector Resources</b>	Leading retailers have recently formed a coalition to share resources and promote testing and counseling in shopping centers and malls.
<b>USAID Resources &amp; Value</b>	Retailers are encountering a few barriers to the national rollout of these programs that USAID could mitigate: identification of an NGO with the capacity to roll out HCT nationally; administrative capacity or technical assistance to transfer the coalition from a human resource taxing activity to a sustainable initiative.
<b>Constraints/Risks</b>	Private sector partners might step back from their investments as they perceive PEPFAR's resource availability.

<b>Opportunity</b>	<b>Medical Male Circumcision ROI</b>
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<b>Sector(s)</b>	Insurance
<b>Illustrative Companies</b>	Discovery Health
<b>Development Challenges</b>	USAID is transitioning to biomedical interventions: medical male circumcision reduces HIV/ AIDS transmission rates by approximately 60%.
<b>Business Interest</b>	Private businesses have happily invested in previous prevention efforts, clearly understanding the bottom line savings - however medical male circumcision is both a costly surgical procedure and necessitates a two week recovery process, resulting in many lost work days.
<b>Potential Private Sector Resources</b>	Certain insurance companies have identified the positive actuarial data with regard to employee time and ROI of medical male circumcision procedures.
<b>USAID Resources &amp; Value</b>	USAID's extensive experience promoting prevention behaviors can be leveraged to transmit this ROI data.
<b>Constraints/Risks</b>	<ul style="list-style-type: none"> <li>Cultural norms with regard to male circumcision do not match WHO best practices for the procedure.</li> </ul>

<b>Opportunity</b>	<b>Community Development Partnership Initiative</b>
<b>Sector(s)</b>	Manufacturing, Extractives, Agriculture
<b>Illustrative Companies</b>	BMW, AngloAmerican, Nandos, SAB Miller
<b>Development Challenges</b>	As with many other countries that USAID operates in, development challenges in South Africa are intertwined- HIV/ AIDS, crime, low education levels, unemployment, and nutrition. PEPFAR programs, especially OVC programs, incorporate a number of community interventions from employment generation to nutrition programs. Because funding for "community development" flows through PEPFAR, programs are limited to areas with dense infection rates.
<b>Business Interest</b>	Corporations where the majority of employees originate from one geographic area such as mining communities and large factories often engage in comprehensive health, nutrition, and education CSI programs. These companies have recognized the limited impact of initiating health or education programs to only their employees and not their families. However with their limited resources, they have

	limited these community programs to their immediate geographic vicinity.
<b>Potential Private Sector Resources</b>	Existing community engagement programs: lessons learned, pilots Access: employees, families.
<b>USAID Resources &amp; Value</b>	With so many agencies and communities engaged in complimentary projects in overlapping geographic regions, USAID can convene a conference to begin opportunity mapping by geographic region and intervention activity, <b>which might include</b> creating a regional strategy, sharing best practices, and recognizing geographic overlaps.
<b>Constraints/Risks</b>	<ul style="list-style-type: none"> <li>• Participants might step back from their engagements if they realize that someone else is taking care of the problem.</li> <li>• Conferences and roundtables need to be followed by tangible actions.</li> </ul>

In addition to the opportunities listed above, USAID/South Africa has a number of opportunities to expand on existing partnerships, or add components to some of the alliances listed above. These include the following activities:

- **Expand the SAB Miller relationship:** PEPFAR could share SAB Miller contacts with EG to leverage agricultural technical assistance and SME technical assistance programs; with DG for gender based violence prevention in bars; and with NRM regarding SAB Miller's need for clean water and NRM's work in water scarcity. SAB Miller sources from small and historically disadvantaged farmers throughout Africa and from SMEs in South Africa.
- **Expand Standard Bank Relationship:** Standard Bank's loan of financial management and insurance professionals for technical assistance could serve implementing partners in every program area of the Mission especially the financial sector reform program.
- **Financial literacy training:** A number of businesses expressed a need among both customers and employees for financial literacy training. This type of initiative could be folded into workforce training, distance learning, and/or FET development. This literacy training would target BoP and middle class citizens, providing basic home economics training.
- **Rape crisis coordination:** Private hospitals in South Africa often provide rape crisis services free of charge to the general public. Coordinating these services with existing USAID initiatives would support both parties, and strengthen local governments' relationship with the private sector.

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*ABSENT THEMES*

Additionally there are a number of themes that did not lend themselves towards a strategic synergy.

In some cases, the development themes that interested the private sector did not correspond with USAID's current portfolio such as Rule of Law described below:

- **Rule of Law:** South African businesses and South Africans personally cite crime as the greatest challenge facing the country. At this time, Rule of Law is not a development priority, nor has the private sector begun to tackle it. The assessment team was not able to meet with any representatives from the Security sector.

Conversely there were themes of interest to USAID, either as part of the current or upcoming portfolio that weren't a priority to the private sector, such as climate change:

- **Climate Change:** Globally, climate change programs have established a number of relationships with the private sector around issues of carbon trading, bio-fuels, regulations, water quality and scarcity, remediation, and biodiversity. However South African businesses are not presently concerned with environmental issues. One international entrepreneur summarized the issue for the team: "In the UK recycling and efficiency are a top priority for us but in South Africa there are other issues that are more important – such as crime, housing, and education."

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## VI. NEXT STEPS FOR IMPLEMENTATION OF ALLIANCES

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The previous section highlights the assessment team's major findings regarding the potential areas and directions in which USAID/South Africa could pursue alliances. These findings are essentially based on identifying major private sector interests and challenges that overlap with USAID/South Africa's priority areas of focus. With such a sophisticated private sector, USAID/South Africa faces the issue of not how to find opportunities but *which* of many opportunities to pursue. Going forward, USAID will need to make decisions on choosing both the alliances to build and how they can be built. The most strategic alliances infuse both significant resources as well as unique value into addressing a Mission's development objectives. In contrast, building alliances can take significant obligations of time and staffing resources from a Mission. They also involve risks that are not always self-evident. It is therefore essential that USAID understand the various types of value that can be expected from alliances in addition to the resource obligations needed for their development.

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### STEP 1: FILLING THE GAPS

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*Step 1 Goals*

- ✓ *Adding to or confirming assessment conclusions by focusing on private sector and geographic gaps*

In order to finalize the assessment and strategy, it is important to first fill in any missing gaps by focusing on missing sectors and geographic gaps. The Alliance Assessment is by its nature an exercise in breadth. The team had a limited time in country, as well a limited lead time to set agendas. While the interviews provide a reasonable basis for analysis, it is important to emphasize that the recommendations are far from conclusive. First, the team was only able to meet with companies that were able and willing to meet on very compressed time schedules, often no more than a handful of days. Further, one-hour introductory interviews are not sufficient to discern all the potential opportunities and challenges partnering with a particular company may represent. Given these constraints to the assessment process, there are a few sectors that the team would recommend for further analysis:

- Telecom – While interviewees suggested that this sector as fairly stagnant, there are rumors of the government issuing new licenses and opening the sector to further competition. This industry is of particular interest to the Mission as mobile technology can assist in programs across all development areas. Mobile technology, both SMS and 3G, can expand the scale of technical assistance, public information, and education campaigns. Additionally, the infrastructure established for development programs can be retooled for income generation activities for an existing program or community, leading to greater sustainability.
- Tourism – Tourism in South Africa operates in rural areas where often there are few other economic or partnering opportunities present. Opportunities for partnership may exist with school/community gardens, artisans, or educational opportunities for staff.

There are sectors of the economy that might not have emerged as key sectors to the overall economy or the full Mission portfolio. However they are keenly relevant to a specific program or initiative. The private education industry is one such example-

- Private education - Beyond the IT sector's distance learning initiatives, there is a robust private educational practice in South Africa. This sector surely has best practices to share and should be engaged by the new education office.

These program specific sectors are just as important as the dominant and emerging sectors that the Assessment team examined. When engaging with new business sectors, technical and program officers should take the time to map the overlaps between the sectors' business challenges, and specific program goals. By pursuing partnerships at the convergence of

both parties' strategic interests, USAID increases the chances of both parties' investment in shared outcomes.

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*STEP 2: PRIORITIZING ALLIANCE THEMES*

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**Step 2 Goal**

- ✓ *Using select criteria to choose which alliance themes have the most value for the Mission*

Alliances are resource intensive and not the best solution to every development challenge. In deciding which alliances to pursue, USAID/South Africa should determine more than the theme type and potential resource partners. In addition it needs to assess the *incremental value* that any single alliance can add to a development objective. Such incremental value can be briefly summarized as the range of expected impacts an alliance would have in achieving a particular development objective; in particular, those impacts that could not have been achieved with a traditional development intervention. For example, an alliance could add to the sustainability of a development objective by building in long-term resources through private sector contributions that go beyond the USAID project cycle. Alliances also tend to be labor-intensive and often require substantial USAID resource contributions. Moreover, they can involve potential risks for USAID. It is therefore critical that Mission management understand the tradeoffs regarding the possible development benefits associated with a proposed alliance.

With each possible assessment, the Mission should consider the following overarching criteria:

- (1) Identification of common/compatible interest at the strategic level between USAID/South Africa and the firm's core business interest;
- (2) Identification of common aim for the PPP that unite business goals of business and development challenges/priorities of USAID; and
- (3) Do USAID and the firm have compatible working approaches concerning program feasibility and program social, environmental and financial/economic development impacts and the involvement of stakeholders in PPP development?

The assessment team has identified a number of *prioritization criteria* that will help USAID/South Africa determine the incremental value, the level of risk, and needed resource contributions for each alliance theme or opportunity. It should be noted that this assessment does not propose to compare and prioritize all alliance themes presented in the country alliance analysis section. Rather, the assessment team uses the proposed theme of primary education administration as an example to outline the ultimate generated value across several criteria as well as the time and effort expected build and execute it.

**Prioritization Criteria: Incremental Value**

- **Increased Scale** refers to expanded impact as measured through expanded number of beneficiaries or the geographic or sector reach through the alliance.

Example: A mobile IT training program for school administrators can reach more administrators in more rural areas than a standard TOT activity.

- **Improved Effectiveness** denotes an improved technical approach and results program as a direct result of the private sector unique knowledge.

Example: IT companies providing cutting edge technologies and expertise could help improve school pedagogy and technical knowledge for teacher and student training.

- **Increased Efficiency** implies a cost or time savings to the alliance effort simply as a result of partner contributions.

Example: IT companies investments in the education and training alliance would result in a significant decrease in cost due to the reduced spending on both trainers and technology compared to USAID launching the program on its own.

- **Increased Sustainability/Replication** seeks to define whether activities or impacts of the alliance can continue after USAID support for the alliance may end. Replication refers to how feasible it is for USAID or private sector partners to reproduce a successful alliance activity in other contexts.

Example: The training and education initiative would expect to continue and expand for decades as a result of the systematic need for pedagogical improvements in rural areas and among education administrators. Additionally the increased BBBEE rating for private sector partners and the income generating potential for communities, provides both parties with a continued incentive to engage and utilize the project.

- **Systemic Change** refers to whether the alliance has the potential to make a substantial positive impact on a development challenge or an industry-wide bottleneck.

Example: The training and education alliance would address major early education shortfalls in the country as employers struggle to find employees with up to date knowledge and skills. Additionally by bringing the SAG into the partnership, USAID would set the stage for continued communication about skills and pedagogy between administrators and teachers.

**Prioritization Criteria: Mission Contributions & Risks**

- **Risk** refers to both development and reputational risk that USAID may face as a result of the alliance.

Example: USAID should exercise due diligence in technology GDAs to avoid dependencies on software and hardware that are unsustainable at market prices.

- **Staff Intensity** refers to the level of USAID/Mission staff involvement that may be required to bring an alliance to fruition and oversee its successful implementation.

Example: Building the education innovation alliance will require existing USAID staff to focus significant time to meet with potential IT partners, implementing partners including universities & institutes, and government officials.

- **Time Horizon** defines the amount of lead-time required to take the proposed alliance opportunity from its present form to the point at which actual alliance activities are underway.

Example: As the education office has made partnerships a priority, building the education innovation alliance will require approximately 12 months to build and commence activities.

The prioritization criteria listed above are essential in determining the value to USAID that any single alliance theme or opportunity would provide in addressing development objectives. The factors also qualify the real constraints and limitations facing the Mission including the potential risks, staff intensity needed, and time expected for brokering and managing the partnership process.

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*STEP 3: ENGAGING POTENTIAL PARTNERS*

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**Step 3 Goal**

- ✓ *Choosing the right methods for engaging potential private sector partners*

Having defined strategic alliance themes, the next stage will be to develop and implement a plan for building strategic alliances that the Mission has identified as high priority. This involves two stages: *furthering private sector engagement* and then *moving from agreement in principle to an alliance in action*. Building on successful efforts in other Missions,

USAID/South Africa and its regional offices can draw on a number of approaches to engage the private sector.

*a. Leverage Public-Private Dialog Platforms*

In South Africa, there is an emerging political space to allow for public-private dialogue on a range of issues, ranging from HIV/AIDS to education and workforce skills. The Business Unity South Africa and South African Business Coalition on HIV/AIDS bring together key stakeholders from industry, donors, and government. USAID was instrumental in establishing many of these platforms and can now leverage them for building consensus among multiple companies or across industries.

*b. Development of USAID value proposition to market to the private sector*

Private business speaks the language of products and services and profitability. From interviews with companies, it was not evident that business understands what it is that USAID is offering. USAID/South Africa has technical knowhow, knowledge of civil society, development program expertise, reputation, and influence. When these assets are packaged properly, USAID/South African can market itself in a way that will help business to understand the value added in partnering with USAID at a strategic level, especially to address its sustainable development issues.

USAID should develop a business solutions package for approaching businesses under this proactive PPP strategy. USAID staff will need to understand how the profit motive of business is legitimately integrated with social concerns and how this influences the development of PPPs and the negotiation process. PPPs can achieve positive results through shared core capabilities and business motivation, and meet the individual organizational goals of the partners. Such partnerships allow considerable leveraging of each partner's resources and unique strengths, and results are often attained in less time, at lower cost, and with greater sustainability than efforts by any single partner. Sector teams can work with the Mission Department of Communications, in consultation with the DCA point person, to develop information packages that appeal to business.

USAID can take this opportunity to reach an internal consensus on what to bring to the private sector, including both strengths and weaknesses. USAID/ODP/PSA has a number of training materials for assistance in the brokering/ relationship management phase.

*c. Organize Thematic Roundtables and Working Groups*

USAID can organize thematic roundtables and working groups on key alliance themes focused on defining potential alliance activities and partners. The goal here is to enable the business community to self-select regarding potential participation in an alliance and to begin to define an outline of what an alliance might look like. Often these events can be organized and managed by implementing partners, but USAID should have a seat at the table.

In 2006, USAID/South Africa conducted a two-day Private Sector Forum focused on three promising alliance themes: HIV in the workforce, Black Economic Empowerment (BEE), and innovations in municipal finance. USAID/South Africa, with support from implementing partners, organized panel discussions and roundtables around each topic. The event attracted more than 90 companies and enabled the Mission to identify key potential partners in these areas highly relevant to USAID's strategy.

*d. Convene Strategic Meeting with Senior Company Leaders*

USAID/South Africa can be a thought leader, influencer, convener, and facilitator in the PPP sphere with business, SAG, labor, and NGO coordinating bodies. South Africa is a large economy with a large potential for PPPs. USAID will only minimally touch this potential through direct partnerships. Its greatest impact will be achieved by using its influence and convening power to bring together business, government, and NGOs into PPPs and promoting innovative engagement on national priorities in the PPP opportunities gap.

In certain strategic cases, USAID/South Africa can convene senior company leaders in order to garner 'buy-in' and commitment for a particular alliance. Typically hosted by the Ambassador or Mission Director, the purpose of these events is to get senior management to commit – at least conceptually – to partnering with USAID in an alliance. While the organizational details of such events can be left to implementing partners, it is critical that Mission staff be actively involved in defining the agenda and goals of these events. Implementing partners can also help manage the details. It is absolutely critical that these events be designed in such a way that there is a clear expectation for a result emanating from the event. This requires considerable advance work to ensure that all parties are on the same page.

In a successful example from another mission, USAID/Sri Lanka identified rural access to information as a key Mission priority. The Mission organized a roundtable of IT business leaders hosted by the ambassador on promoting rural Internet access. The event secured commitments from leading companies, including Microsoft, QUALCOMM, and Dialog Telekom to partner with USAID to promote rural Internet access through the creation of a network of rural Internet café micro-franchises. Companies participating ultimately contributed more than \$600,000 in funding, technology, and expertise to the partnership.

*e. Conduct One-on-One Meetings as Necessary*

In cases where USAID wants to forge a relationship with a single company, i.e. to leverage a company's specific proprietary information or technologies, USAID/South Africa will need to conduct one-on-one meetings with companies to define a partnership. In cases where there is a good match up with an existing activity, implementing partners can often be tasked with these meetings. The goal of these consultations should be to define the parameters of a potential partnership, possible resources, and activities.

## **VII. NEXT STEPS & RECOMMENDATIONS**

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Private sector companies throughout South Africa are eager to engage in development partnerships with USAID. From discussions with South African firms during the assessment process, the alliance team concluded that alliances would constructively support the long-term development goals of USAID/South Africa. The following are recommendations and next steps to be undertaken for developing USAID private sector alliances and other activities to support alliance building in South Africa.

- ***Conduct a gap analysis of assessment findings.*** Due to limited time on the ground, the assessment team’s findings were restricted by the number of meetings and the inability to travel to certain locations. USAID/South Africa should spend some time and effort triangulating alliance assessment findings by arranging meetings with companies unavailable during the assessment.
- ***Prioritize themes using decision-making criteria.*** Once the alliance assessment findings have been finalized, USAID/South Africa should initiate a decision-making process on which general themes and opportunities it would like to pursue using the incremental value and contribution criteria presented in Section VI, and follow-up on those that are appropriate. When evaluating opportunities, it is important to implement the criteria contained herein for evaluating PPPs.
- ***Develop a communications piece/information package to market USAID’s comparative advantages*** (technical knowhow, knowledge of civil society, development program expertise, reputation, and influence) to the private sector to help business understand the value added in partnering with USAID at a strategic level, especially to address its sustainable development issues.
- ***Where appropriate, include the SAG in partnership formation.*** In some cases, USAID can serve as a catalyst to broker relationships between the private sector and SAG. When the relationship is between USAID and the private sector, it is advisable to obtain buy-in and support from SAG in order to ensure sustainability.

## **VIII. AVAILABLE ALLIANCE TECHNICAL SUPPORT**

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ODP/PSA has structured mechanisms to support the development of private sector alliances at the Mission level. The ultimate responsibility for these activities remains at the various Missions. USAID/South Africa has an active interest and commitment as demonstrated by its history and the existence of performing and effective alliances. The current efforts with IT systems are expected to result in an additional and substantive alliance. Other suggestions to strengthen the alliance effort in USAID/South Africa include:

- ***ODP/PSA, Washington and Region:*** Personnel in the Washington office are prepared to lend assistance and support, including capacity building and skills development TDYs to train USAID staff and implementers, to advance alliance development.
- ***Other Mission Experience:*** Use the GDA database and guided research support from ODP/PSA to examine and learn from relevant alliance experience in other

USAID Missions. USAID/South Africa can draw from USAID's vast experience in partnerships across all development sectors and many industry types. ODP/PSA has developed a series of sector guides that provide alliance models across development sectors (e.g. DG, EG, humanitarian assistance) as well as industry types (e.g. an extractives partnering guide). All guides are freely available through the ODP/PSA web site.

- ***Online Resources Developed for Alliance Builders:*** ODP/PSA developed the [Tools for Alliance Builders Guide](#) for understanding the nuts and bolts of basic alliance building. The Building Alliances Series Sector Guides provide ideas and examples for alliances in 11 critical sectors: Agriculture, Democracy & Governance, Economic Growth & Trade, Education, Emergencies, Energy, Extractive Industries, Health, Microfinance and Microenterprise, Water, and Workforce Development.
- ***The FSN Rotation Program:*** ODP/PSA arranges and co-funds a two-month rotation to USAID/Washington to work alongside ODP/PSA staff to develop skills in research, due diligence, strategy development, and private sector outreach.

## SELECTIVE ANNEXES

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### *ANNEX B: GDA APS DEFINITION*

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USAID is reorienting how it sees itself in the context of international development assistance, how it relates to traditional partners, and how it seeks out alliances with new partners. While the Agency will continue to deploy resources where private funding is not available and where the governmental role is clear and pre-eminent (as in promoting policy change), it hopes, through the use of public-private alliances, where appropriate, to stimulate new investment and new development practices. USAID has much to offer with its unique mandate within the U.S. Government and long-term experience with, and access to, host-country governments. The Agency is able to capitalize on its extensive field presence and network of local development partners and technical expertise to catalyze, integrate, coordinate, and facilitate public-private alliances among development actors. USAID recognizes that effective alliances will focus on common interests and will require time and strategic planning. However, such alliances have the potential for not only mobilizing additional resources for development assistance programs worldwide but also promoting greater effectiveness of those programs and hence greater impact on the problems of poverty, disease, inadequate education, depletion of natural resources, and limited economic opportunity throughout the developing world. Alliances can also contribute to conflict prevention as well as address global threats and issues such as global warming.

In developing partnerships congruent with the GDA business model, USAID uses the following precepts:

- Alliances are expected to bring significant new resources, ideas, technologies and/or partners to address development problems in countries where USAID works. The Agency is particularly interested in innovative partnerships that address development challenges in new ways, leveraging the resources of non-traditional partners in replicable, sustainable and scalable ways.
- Alliances must initially establish how the interests and objectives of each party converge. The most sustainable and successful partnerships under the GDA model are grounded at the intersection between businesses core interests and USAID's development objective (rather than purely philanthropic activities).
- Alliances should demonstrate a minimum of a one-to-one leverage ratio of resources. At least 25% of the leverage coming from the resource partner must be in the form of cash. In addition to monetary contributions, in-kind resources such as services, property,

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volunteer time, equipment and supplies are also valuable contributions. Alliance proposals must clearly specify what each party is contributing and indicate the cash value of in-kind support.

- While alliance proposals must specify what each party is contributing at the outset, it is also recognized that lasting alliances are dynamic and changing.
- Alliances should not simply be matching grants nor should they be grants to organizations that have expressed an intention to seek third party partnerships that are not yet formed. The Global Development Alliance business model seeks relationships and resources beyond traditional assistance models.
- It is important to exercise due diligence before entering into alliance arrangements with partners.
- There is no pre-defined minimum or maximum number of partners.
- Fairness and transparency are key principles in forming alliances. Exploration of possible alliances should take place in a transparent manner and should involve wide consultation with possible partners.
- Alliance activities at the country level that actively involve local leadership and local beneficiaries in design and implementation are most likely to be successful and sustainable. Local ownership, leadership and beneficiary participation are keys to success.
- All USAID-financed programs and activities must comply with USAID's environmental procedures set forth at 22 CFR 216.

*ANNEX C: PEPFAR COP DEFINITION*

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PEPFAR defines Public-Private Partnerships (PPPs) as collaborative endeavors that combine resources from the public sector with resources from the private sector to accomplish HIV/AIDS prevention, care, and treatment goals. PPPs enable the U.S. Government and private sector entities to maximize their efforts through jointly defined objectives, program design and implementation, and through the sharing of resources, skills, risks and results. Three hallmarks of PPPs are that they help ensure sustainability of programs, facilitate scale-up of interventions, and leverage significant private-sector resources.

Matching resources can be financial resources, in-kind contributions, and intellectual property. For reporting purposes, a collaboration is considered a PPP if the ratio of private resources to PEPFAR funds is at least 1:1. In the event the private sector partner contributes resources in-kind, Operating Unit teams should monetize the contribution by estimating its market value, in coordination with the partner. While the definition of a PPP encourages a 1:1 match from the private sector, Operating Unit teams are strongly encouraged to engage with private sector entities regardless of resource inputs whenever it increases the effectiveness of programs.

A contract with a private company is not a PPP, nor is an activity that will build off an existing investment with no new money or in-kind contributions from the private sector.

*ANNEX E: SOUTH AFRICAN ALLIANCE RATING SYSTEM AND RATING TOOL*

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**1. FACILITATES THE SOLUTION OF A KEY BUSINESS CHALLENGE AND NATIONAL/SECTORAL ISSUE**

RELEVANT TO PRIVATE SECTOR: *Business Challenges as Identified in Section 5.*

**2. FACILITATES THE SOLUTION OF A KEY DEVELOPMENT CHALLENGES:**

*FACILITATES IRS OF USAID/SOUTH AFRICA PROGRAM AREAS:*

**Health:**

- *President's Emergency Plan for AIDS Relief (PEPFAR):* South Africa hosts the largest PEPFAR program globally, working on prevention, care, treatment, and health systems strengthening to address the HIV/AIDS epidemic in South Africa.
- *Tuberculosis:* USAID's programs closely link with the Mission's HIV/AIDS programming and target the expansion of treatment, improvement of home-based care, and the development of information systems.
- USAID/Southern Africa also provides access to family planning and reproductive health services and improved quality of health facilities and care for mothers and children.

**Economic Growth:**

- *South Africa International Business Linkages (SAIBL):* This business linkages program aims to build the competitiveness of black enterprises through management strengthening, use of modern technology, improvement of productivity and quality, and linking businesses to domestic and international markets through sustainable relationships.
- *Financial Sector Program:* Improves access to financial services for small and medium enterprises by improving the internal management systems and processes of financial intermediaries, developing new products, stimulating credit, supporting the enabling environment, and assisting in improving the bankability of small and medium enterprise via improved financial literacy and the provision of more appropriate financial business development services.
- *Workforce Development Program:* This program aims to increase employability of students and create a better match between skills offered by the FET colleges and those needed by future employers.

**Agriculture:**

- USAID is in the process of developing a program that strengthens South African public and private institutional capacity to assist the region with food security concerns.

**Education:**

- USAID is developing a new basic education program that will likely focus on one or more of the following areas: 1) teacher development, 2) implementation of activities in support of inclusive education, and 3) stakeholder engagement.

**Democracy and Governance:**

- *Women's Justice and Empowerment Initiative:* Provides integrated assistance to victims of sexual assault through a network of Thuthuzela Care Centers and strengthens the capacity of the legal system to prosecute and adjudicate cases of sexual assault.
- USAID/Southern Africa is in the process of developing a program that will allow for South African institutions to support electoral commissions throughout the continent through training on election management.
- Judicial Strengthening Program will support the Court Administration Unit in the Office of the Chief Justice on the judicial case flow management and will provide technical support to the newly established Judicial Education Institute.

**Trilateral Assistance:**

Through this program, USAID partners with the South African Government (SAG) to provide demand-driven expertise and services to other African countries, ultimately enhancing the SAG's capacity to deliver foreign assistance and improving inter- and intra-ministerial SAG cooperation.

**3. CREATES INCREMENTAL VALUE:**

- Increased Scale
- Increased Effectiveness
- Increased Efficiency
- Increased Sustainability Replication

**4. STRENGTHENS SYSTEMS:**

- Furthers BBBEE
- Regional market involvement
- Facilitate government (national, provincial, municipal) participation
- Exit plan/government & business involvement for sustainability

**5. APPROPRIATE LEVEL OF INVOLVEMENT:**

- Transaction costs appropriate? Staff time vs impact?
- Is the resource level appropriate to the USAID office involved?

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- Procurement vs partnership: Are there opportunities for joint concept development, planning, and monitoring and evaluation?
- Is the time horizon appropriate?

**cont.: Tool for Implementation to Rate Partnerships**

<b>PRIORITY FACTOR</b>	<b>RATING</b>	<b>COMMENTS</b>
<b>FACILITATES SOLUTION OF KEY BUSINESS CHALLENGES,</b> <i>As appropriate to specific business and/or sector.</i>		
• Creating business opportunity		
• Addressing business challenges		
• CSR/PR value		
<b>FACILITATES SOLUTION OF KEY DEVELOPMENT CHALLENGES</b> Aggregated by sub-goals, as defined by Mission in CDCS		
<b>CREATES INCREMENTAL VALUE:</b>		
• Increased Scale		
• Increased Effectiveness		
• Increased Efficiency		
• Increased Sustainability Replication		
<b>STRENGTHENS SYSTEMS:</b>		
• Furthers BBBEE		
• Regional market involvement		
• Facilitate government (national, provincial, municipal) participation		
• Exit plan/government & business involvement for sustainability		
<b>APPROPRIATE LEVEL OF INVOLVEMENT:</b>		
• Transaction costs appropriate? Staff time vs impact?		
• Is the resource level appropriate to the USAID office involved?		
• Procurement vs partnership: Are there opportunities for joint concept development, planning, and monitoring and evaluation?		
• Is the time horizon appropriate?		

*ANNEX F: BBBEE CODES***The BEE scorecard**

<b>Core component of BEE</b>	<b>Indicators</b>	<b>Conversion Factor</b>	<b>Raw Score</b>	<b>Weighting</b>	<b>Total Score</b>
<b>Direct empowerment score</b>					
Equity Ownership	% share of economic benefits			20%	
Management	% black persons in executive management and/ or executive board and board committees			10%	
<b>Human resource development and employment equity score</b>					
Employment equity	Weighted employment equity analysis			10%	
Skills development	Skills development expenditure as a proportion of total payroll			20%	
<b>Indirect empowerment score</b>					
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement			20%	
Enterprise development	Investment in black-owned and empowered enterprises as a proportion of total assets			10%	
<b>Residual 10%</b>					
To be determined by sector/ enterprise				10%	
<b>Total Score out of 100%</b>					

