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Strengthening Health Outcomes
through the Private Sector

South Africa

Private Health Sector Assessment



Summary: This brief summarizes the *South Africa Private Health Sector Assessment* conducted by the Strengthening Health Outcomes through the Private Sector (SHOPS) project in June through August 2014. As the South African government has successfully increased its own HIV care and treatment efforts, the U.S. Agency for International Development (USAID) mission in South Africa has begun planning how to transition its local partners away from PEPFAR funding and toward self-sufficiency. The assessment outlines ways these partners in Gauteng and Western Cape provinces could diversify their income base, reduce their dependence on donor funding, and improve their financial sustainability. By doing so, these organizations could continue to deliver essential HIV services and contribute to South Africa's successful national HIV response beyond PEPFAR. Sean Callahan prepared the brief, which discusses the assessment methods, findings, and recommendations.

Note: This brief, its findings, and its recommendations present a snapshot of South Africa's private health sector landscape at the time of the assessment and do not address any changes in the health sector since 2014.

Keywords: South Africa, PEPFAR transition, sustainability, HIV and AIDS, NGO sustainability, private sector assessment, private sector health.

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Cover photo: Monash Clayton

Project Description: The Strengthening Health Outcomes through the Private Sector (SHOPS) project is USAID's flagship initiative in private sector health. SHOPS focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning and reproductive health, maternal and child health, HIV and AIDS, and other health areas through the private sector. Abt Associates leads the SHOPS team, which includes five partners: Banyan Global, Jhpiego, Marie Stopes International, Monitor Group, and O'Hanlon Health Consulting.

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South Africa Private Health Sector Assessment

The Republic of South Africa has experienced continued economic success and persistent health challenges in the post-apartheid era. The country has the second-largest economy in sub-Saharan Africa and an upper-middle income status. Despite its prominence as a regional economic powerhouse, South Africa faces a number of serious health challenges that more often characterize lower income countries. Most pressing is its HIV epidemic. As of 2013, the number of people living with HIV in South Africa was higher than in any other country. Through a combination of donor support and, more recently, strong government efforts, the majority of eligible people currently receive lifesaving antiretroviral therapy. As the South African government continues to scale up its own efforts and expand access to treatment, many international donors are making plans to reduce financial support. As part of the planning for this transition, the U.S. Agency for International Development (USAID) mission in South Africa tasked the Strengthening Health Outcomes through the Private Sector (SHOPS) project with conducting a private health sector assessment.¹ The assessment helped USAID and its President's Emergency Plan for AIDS Relief (PEPFAR)-funded partners to develop financial sustainability strategies so the partners can continue to provide lifesaving HIV services. This brief summarizes the assessment's methods, findings, and key recommendations.

Since 2004, PEPFAR has invested more resources in South Africa than in any other country. This support has helped millions of people living with HIV to gain access to testing, care, and treatment services through NGOs and other local partners. Before 2008, the government's HIV response was largely characterized by AIDS denialism and limited commitments. Since then, the government has become increasingly involved and dedicated to controlling the HIV epidemic. The country now has a largely self-financed, country-owned HIV response with PEPFAR serving in a technical assistance role.



Monash Clayton

Given the government's increased role, many donors who have supported South Africa's HIV response have begun reducing their financial contributions even though many NGOs, which are critical to sustaining programs for underserved populations, still rely on them for funding. USAID/South Africa has begun planning how it can help its local PEPFAR-funded partners sustain their HIV programs without donor support. Currently, the government and private sector in South Africa offer many opportunities for these NGOs to achieve that goal. The assessment includes recommendations for how NGOs can seize those opportunities to help bridge the financing gap that will be left by donor withdrawal.

¹ Cooper, Ansulie, Mark Robertson, Ilana Ron Levey, Sean Callahan, Pam Riley, and Christina Kramer. 2014. *South Africa Private Health Sector Assessment*. Bethesda, MD: Strengthening Health Outcomes through the Private Sector Project, Abt Associates.

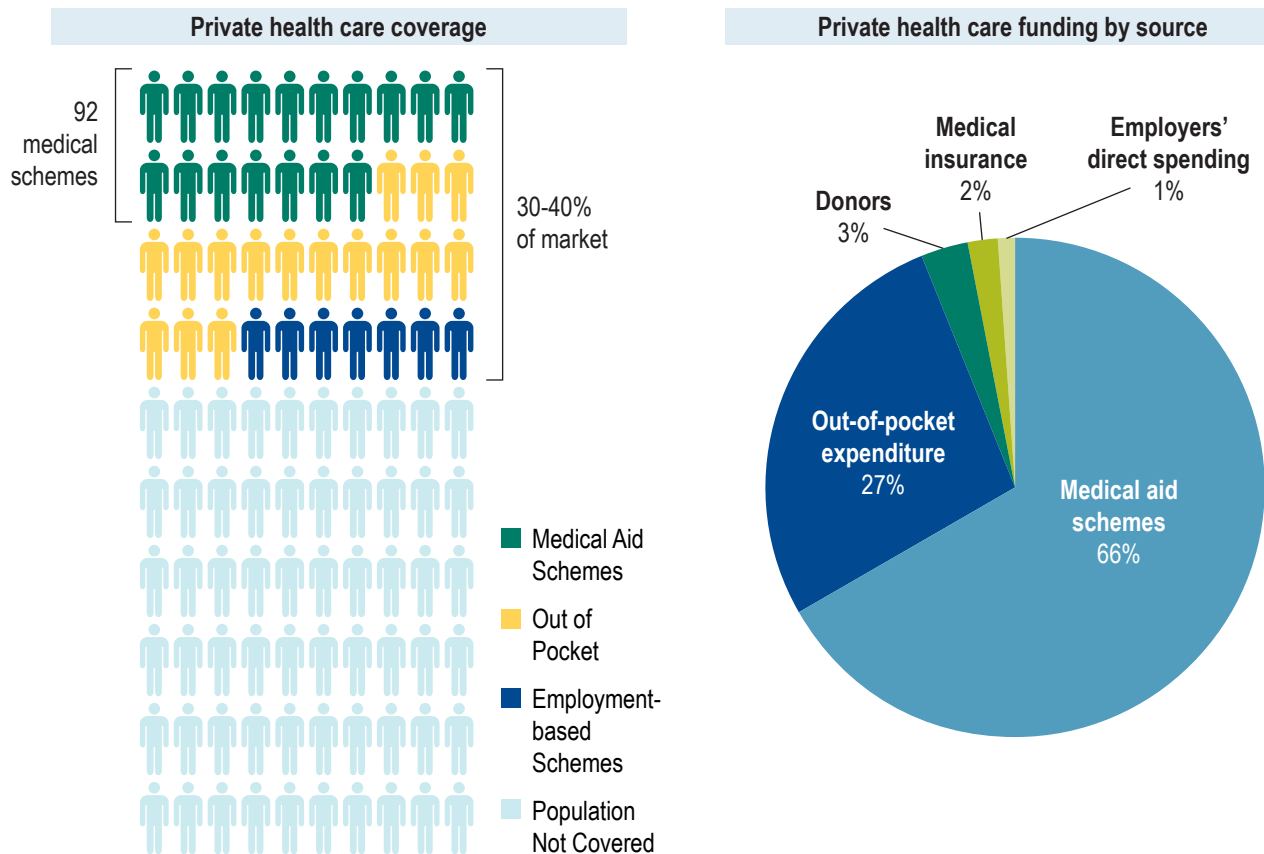
Background

The Republic of South Africa, with a population of approximately 52.3 million, is an economic outlier in sub-Saharan Africa. It has the second-largest economy in Africa, largely fueled by mining and services industries. Over the past 20 years, the post-apartheid government has invested substantial resources in improving governance and infrastructure across the country. However, significant inequality persists. Twenty-five percent of the workforce is unemployed and 31 percent of the population lives below the poverty line. This economic inequality is reflected in South Africa's health indicators and breaks down along racial lines. Significant health challenges include high HIV incidence and prevalence, high maternal and infant mortality rates, and rising rates of non-communicable diseases. In 2013, South Africa had the world's fourth-highest HIV prevalence and the

highest number of people living with HIV, accounting for 17 percent of the global HIV burden (UNAIDS, 2014). These challenges place significant strains on South Africa's health system.

South Africa has a primarily country-owned health sector that is equally financed and supported by public and private financial and human resources. This high level of domestic financing supports one of the world's most effective and sustainable HIV responses. Over the past decade, public financing for HIV and AIDS response increased tenfold, and the number of eligible patients receiving antiretroviral therapy increased from 47,500 to 2.5 million. The private sector and civil society have supported efforts by delivering vital HIV services, including testing and counseling, antiretroviral therapy, care services, and prevention campaigns.

Figure 1. Private health care coverage and funding



Significant health care obstacles still remain. The private health sector is characterized by high quality, technically advanced health care, but it is heavily concentrated in the most populated and wealthy provinces. Approximately 40 percent of South Africans access health services in the private sector, largely financed by the country's well-developed medical aid industry and out-of-pocket payments (Figure 1). Although they serve the majority of the population, public health facilities generally offer lower quality services and suffer staff shortages. This divide perpetuates a two-tiered health system. In response, the government has begun developing plans for a national health insurance (NHI) program to reshape the country's health system.

As donor funding declines and the details of NHI implementation emerge, opportunities and challenges for the private health sector also emerge. The main objectives for the NHI reforms, as outlined in a 2011 green paper (National Department of Health, 2012), include improving access to quality health services, improving equity and social solidarity, controlling key financial resources, and strengthening the public health sector. The reforms focus on re-engineering primary health care to improve outcomes and lower costs. The government plans to phase in NHI over 14 years, beginning with pilot programs in 11 districts that will inform future efforts to engage public and private health sector stakeholders. The green paper's minimal details have raised a number of questions, largely around administration, human resources, and technical capacity. As a result, the private health sector is wary of participating. Addressing these concerns is paramount, as the government will need the full support of both the public and private sectors to leverage new opportunities under the NHI reforms to maintain and expand quality HIV and AIDS care.

South Africa's active civil society is another key part of the country's health system. As of 2012, there were more than 85,000 NGOs active across the country, mainly in social service, development and housing, and religious programs; only 11 percent of NGOs focus on health activities. These organizations have played a critical role since the beginning of South Africa's HIV response, preventing infections and delivering services to underserved populations. NGOs were especially important before

2009, as donors channeled funds through them as part of an emergency response to help control the HIV epidemic.

Another important player in South Africa's health system is the corporate sector. Since the end of apartheid, businesses have actively worked to address social problems through corporate social investments (CSI). These expenditures are concentrated in Gauteng, Western Cape, and Kwazulu-Natal provinces and generally focus on education, social and community development, and health. Within health, there is a strong legacy of HIV and AIDS programs for employees and the community. These efforts have helped expand access to prevention efforts, HIV testing, care and treatment, and other support services.

Domestic and international donors are also key stakeholders in South Africa's HIV response. South Africa has a large and active donor community, including private philanthropists and high net worth individuals (HNWI). Key international donors include PEPFAR; the U.K. Department for International Development; and the Global Fund to Fight AIDS, Tuberculosis, and Malaria. These organizations channeled significant resources in the early 2000s for South Africa's HIV response. Since the government began increasing resources for HIV and AIDS in 2009, donor funding has plateaued and PEPFAR contributions have begun



Penn State

to decline. Currently, donors provide only a small portion of South Africa's health expenditures, yet PEPFAR's role and contributions still hold historic and symbolic importance for South Africa's health system and HIV programs.

Moving forward, PEPFAR/South Africa's role is changing from direct human resource support for health and HIV treatment to more focused technical assistance. As part of this transition, PEPFAR funding is expected to sharply decline

over the next several years. Because PEPFAR invested significant funding and expertise in supporting local partner NGOs over the past decade, declining PEPFAR funding may weaken these organizations and potentially limit South Africa's future efforts to combat HIV and AIDS. To complete a sustainable transition, USAID/South Africa tasked the SHOPS project with identifying new opportunities for its PEPFAR partners (NGOs that receive funding through USAID) to improve their financial sustainability.



Kelsie DiPerna

Scope

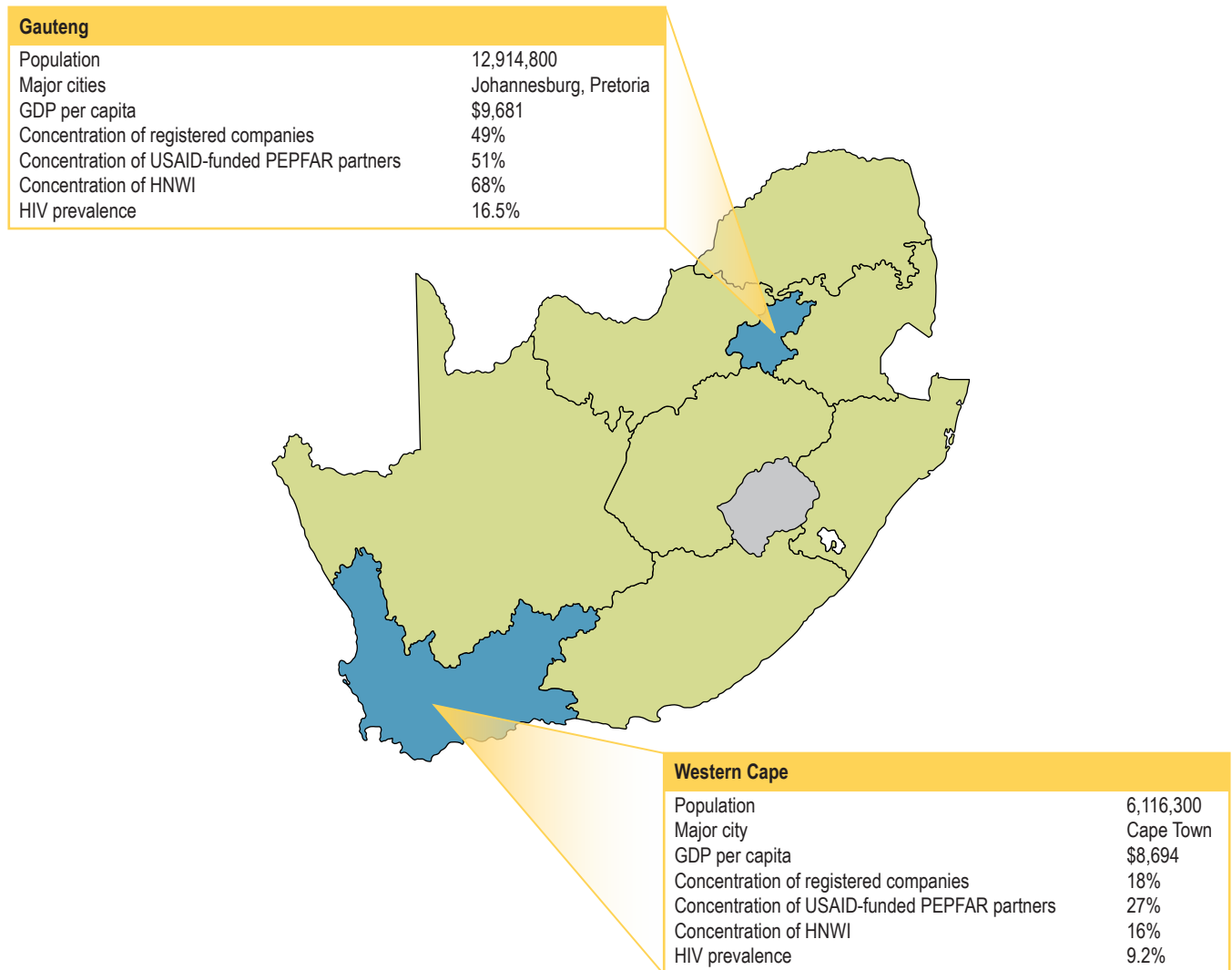
After an extensive dialogue with USAID/South Africa, the assessment team focused on the following research questions:

- What are the private sector opportunities and alternative revenue sources for PEPFAR partners?
- What is the future of health-focused CSI and private philanthropy in South Africa? What opportunities do South African companies and private philanthropists have to sustainably collaborate with PEPFAR partners?

- Does the government's vision for public health care, including NHI, offer new opportunities and non-PEPFAR funding sources for PEPFAR partners in South Africa? If so, what are these opportunities, and what assistance is needed to actualize this potential revenue source?

Based on a confluence of factors, USAID/South Africa requested that SHOPS focus the assessment on its partners in Gauteng and Western Cape provinces where, hypothetically, private sector opportunities would be greatest.

Figure 2. Assessment focus provinces



Methods

SHOPS' six-person assessment team included four U.S.-based and two South Africa-based private sector health experts. To conduct the assessment, the team undertook a two-stage data collection process. The first stage consisted of a systematic review of available published and grey literature to gain a deeper understanding of South Africa's legal and regulatory framework for the private health sector, CSI, NHI reforms, and the larger context of the PEPFAR transition. In the second stage, the team members based in South Africa, with support from the U.S. staff, interviewed key stakeholders that they had identified through the literature review and with guidance from USAID/South Africa. The team used an interview guide that SHOPS had developed through its previous private sector assessment and tailored it to the specific actors interviewed. Team members met with representatives from the public and private (for-profit and nonprofit) sectors to research and identify opportunities, challenges, and potential solutions for assuring financial sustainability for USAID/South Africa's PEPFAR partners.



Jessica Scranion

Findings



FINDINGS

SHOPS' analysis of the information collected yielded findings regarding: (1) South Africa's legal and regulatory framework, which affects how NGOs operate and manage their businesses; and (2) opportunities for NGOs to diversify their sources of income.

Legal and Regulatory Framework

South Africa is a global leader in corporate social responsibility and CSI. In 1994, the government began developing a comprehensive legal and regulatory framework to motivate corporate participation in CSI. Many of these policies are voluntary "soft laws," including the King Reports, the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, the Companies Act of 2008, and the Johannesburg Stock Exchange Socially Responsible Investment (JSE SRI) Index (Table 1 summarizes these regulations). Collectively, these documents set forth guidance and benchmarks to steer companies toward ethical and commercially prudent practices and set a tone for good corporate citizenship in South Africa, encouraging businesses to contribute to community development.

The B-BBEE Act of 2003 is the most relevant legislation for PEPFAR partners. It seeks to redress apartheid-era laws and policies that disadvantaged black (defined as African, Colored, and Indian) South Africans and to promote social investment in and empowerment of these communities. The law instituted a scorecard for verifying corporate social responsibility activities, especially with regard to how those activities help historically disadvantaged South Africans. Through an audit, companies are assessed and validated in terms of Black Economic Empowerment (BEE) Codes of Good Practice. Companies are scored and ranked according to their BEE levels, from Level 1 (best) to Level 8 (worst). B-BBEE criteria include company ownership, management control, skills development, enterprise and supplier development, and socioeconomic development. A high recognition level increases chances for public contracts and enhances reputation with other stakeholders. The B-BBEE Code applies to PEPFAR partners as well as to for-profit companies.

Table 1. Summary of key corporate social responsibility requirements

Policy	Key relevant compliance metrics
KING Reports	Encourages public reporting on companies' strategies for promoting employee health and risk mitigation
B-BBEE Act	Created scores based on companies' contributions to black empowerment, especially through enterprise development, skill building, and ownership or management role
Companies Act	Authorizes a social and ethics committee to monitor and report on corporate social responsibility
JSE SRI Index	Mandates that companies have employee HIV and AIDS prevention, education, and awareness programs and access to voluntary HIV counseling and testing; and that they sponsor and support community-based prevention, education, and awareness programs

The B-BBEE framework presents a number of important implications for PEPFAR partners in South Africa. First, the code does not emphasize HIV and AIDS or any other health activity. Second, while not formally required, a BEE certificate—specifically a good BEE profile—is beneficial for an NGO looking to win government contracts or to access CSI, as it speaks to organizational competence and credibility. Finally, B-BBEE provides incentives for companies to offer organizational development to black-owned micro- and small enterprises, which could benefit PEPFAR partners with black ownership or links to community-based organizations.

In addition to the policies mentioned above, NGOs in South Africa are regulated by the Non-Profit Organization Act of 1997 and the Companies Act of 2008 (Schedule 1), which specify how NGOs can make a profit and engage in market and non-market activities. In general, South African policies recognize the financial pressures under which nonprofits operate and permit activities needed to sustain such organizations. PEPFAR partners are therefore free to pursue corporate or government fee-bearing contracts. As traditional

NGOs with social missions explore options for commercial services, each organization needs to determine how to best structure dual social and commercial activities. Registering as a public benefit organization is one strategy for accessing tax-exempt opportunities. An alternative option may be to create separate for-profit subsidiaries for commercial trading activities.

The CSI environment in South Africa is unique, as it is intrinsically tied to the transformation agenda of the B-BBEE Act of 2003. For large South African companies, compliance with the B-BBEE codes is a fact of doing business; corporate incentives for supporting health and HIV programs will be much stronger if companies can link that support to other priorities, including empowering black South Africans. NGOs seeking corporate contracts or donations will enhance their status as preferred partners by improving their BEE profile in line with the transformation objectives of the B-BBEE framework. However, these partners cannot rely on South African law or regulation to compel companies to invest in HIV and AIDS services.



Masroor Hamid

Table 2. Sustainability opportunities for PEPFAR partners

Opportunity category	Opportunity	Description
Grants and subsidies	Donors, foundations, agencies	Assistance in the form of contracts and agreements, as well as traditional grants from international donor organizations
	Private philanthropy, including high net worth individuals	Grant funding from local private donors
	Corporate social investments	Grant funding from South African companies; B-BBEE Codes stipulate that 1% net profit after tax should be spent on socioeconomic development
	Government subsidies	Grant funding from government departments—primarily but not exclusively from the Department of Health and the Department of Social Development—and government bodies and programs
Investments	Impact investment	Debt or equity investment intended to generate social and environmental impact alongside a financial return
	Internal/external development trusts	Investment vehicle that uses dividends to fund social impact activities; can be run by NGOs themselves, or NGOs can tap into trusts run by other entities
Revenue generation	Contracting to government	Commercial service provision to government, including training, capacity building, systems strengthening, disease management, prevention, or clinical services
	Contracting to private health care	Commercial service provision to private health care and medical aid schemes, including training, capacity building, disease management, prevention, or clinical services
	Medical aid network provider	Provision of services as a registered provider submitting claims to medical scheme for services rendered
	Employer-based health and wellness provider	Provision of health and wellness services to corporate or government buyers on a fee-for-service basis
	Mid- to low cost consumer health care	Provision of quality, affordable health care to consumers who are able and willing to pay, but unable to access current private health care options
	Non-core commercialization	Provision of services outside core HIV and health care operations on a commercial basis

Opportunities for PEPFAR Partners

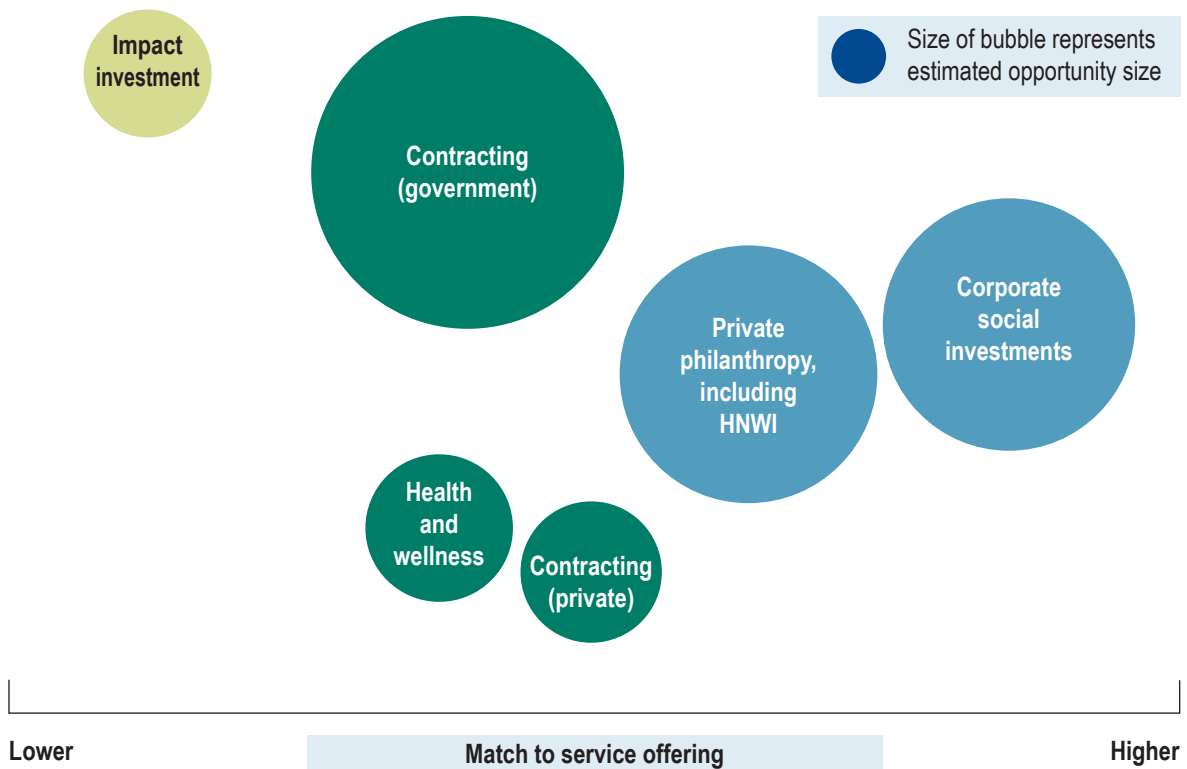
SHOPS identified 12 opportunities for PEPFAR partners in Gauteng and Western Cape to diversify their income sources (see Table 2). These opportunities fall under three general categories:

- Grants and subsidies: to leverage external financial donations to support the organization's operations.
- Investments: to attract internal or external financing to strengthen the organization by offering the possibility of a financial return.
- Revenue generation: to increase the organization's income through the sale of a good or service.

SHOPS evaluated the 12 options based on the estimated opportunity size (i.e., available funding), the match to PEPFAR partners' core HIV services, and the perceived demand for this type of opportunity. The analysis yielded six priority opportunities (below and Figure 3):

1. Private philanthropy, including HNWI
2. Corporate social investments
3. Impact investment
4. Government contracts
5. Private health care contracts
6. Employer-based health and wellness services contracts (health and wellness contracts)

Figure 3. Six key opportunities for PEPFAR partners



Private philanthropy, including high net worth individuals

Private philanthropy from HNWI represents a potential source of grant funding for PEPFAR partners. Compared with other African countries, South Africa's private philanthropic sector is robust. Data suggest that the average gift size is small, but most HNWI make regular repeated donations over their lifetimes. Almost 75 percent of HNWI have supported the majority of their beneficiaries for more than five years. Over time, these repeat contributions can amount to a predictable, significant income source if PEPFAR partners are able to form mutually beneficial relationships with multiple HNWI.

Giving by HNWI is primarily motivated by humanitarian or community-rooted concerns, which generally align well with many PEPFAR partners' social missions. Yet, health is only the fourth most-popular area for HNWI giving. Most HNWI follow five main criteria in deciding which organizations

to support: alignment with personal interests; reputation; proven impact; demonstrated good governance; and sound financial management. PEPFAR partners often fare well in the latter four dimensions, but they may lack personal relationships to attract the interest of HNWI. Having a relationship with HNWI is key, involving a circumstantial "in the right place, at the right time" dynamic.

Unlike other prospective funders, HNWI prefer to retain some distance from their recipients. Most do not designate their funding for specific uses or set spending restrictions, and in general they have light evaluation requirements. In this case, PEPFAR partners' sophisticated monitoring and evaluation systems do not provide them with the comparative advantage that they would with other donors. Currently, only 13 percent of PEPFAR partners indicated that they receive funding from HNWI, although 62 percent are considering HNWI funding as a future sustainability option.



Thomas Sly

Corporate social investment

South Africa has the most developed and robust CSI industry and infrastructure in Africa. In 2012–2013, South African companies—primarily in the mining, financial services, and retail sectors—spent \$780 million on CSI. This source of funding is relatively stable and likely to endure over the long term given the incentives provided under the B-BBEE codes and other legislation. South African CSI funding is concentrated among the top 100 largest companies, and there is fierce competition for it. Although total CSI spending is increasing, health is a declining priority as education and community development initiatives grow in importance. Within health, companies are increasingly moving away from initiatives focused strictly on HIV and AIDS. Still, given rising levels of CSI spending in South Africa and a relatively stable regulatory framework, CSI funds are an important income diversification opportunity for PEPFAR partners.

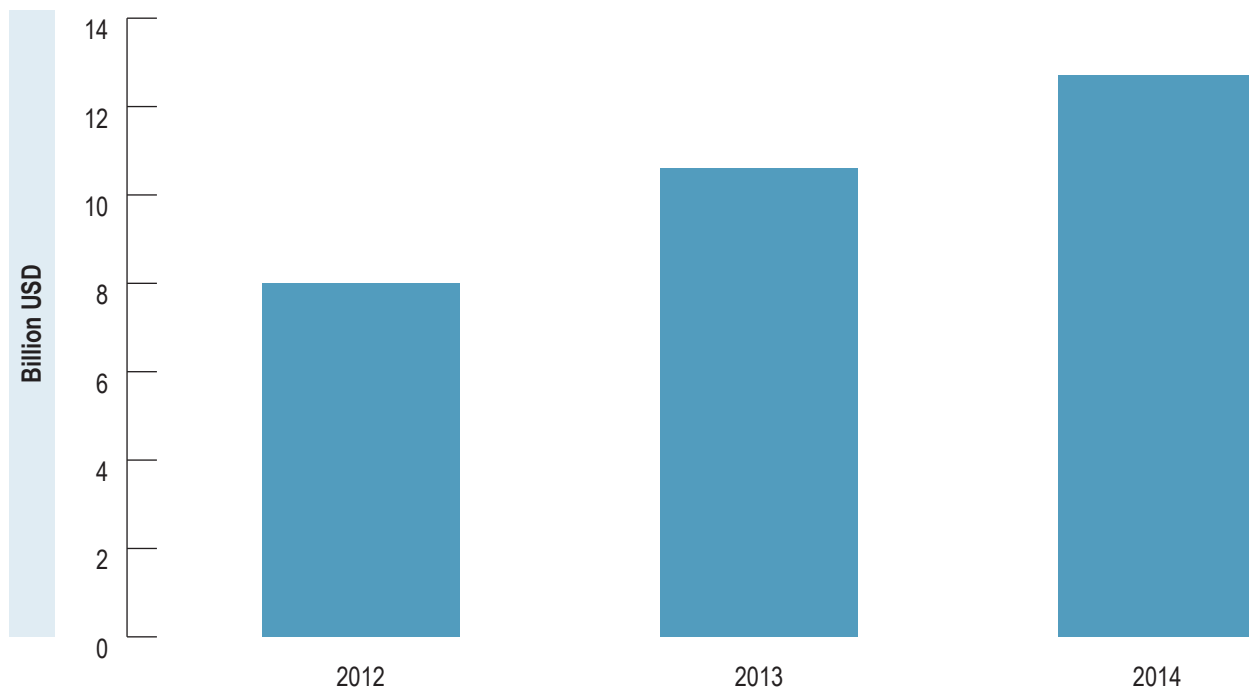
For these partners, realizing CSI opportunities requires intense effort, because most CSI funding is one time and project specific. PEPFAR partners,

therefore, need to develop multiple relationships with corporate funders in order to build a significant and sustainable CSI income base. Companies are looking for partners who have taken the time to build a relationship with them before seeking CSI funds. Strong B-BBEE profiles and clear stories that demonstrate the NGO’s impact are the keys to developing these relationships. Half of PEPFAR’s partners currently access CSI funds and 80 percent are considering pursuing them as part of their sustainability planning.

Impact investment

Impact investment is a new but rapidly growing investment class that refers to investments made with the intention of generating financial as well as social and environmental returns. Although this field is still a nascent one, there are significant opportunities for PEPFAR partners. Based on 2014 data, impact investors—including the Kellogg Foundation, the Tony Elumelu Foundation, and Acumen—have committed approximately \$12.7 billion worldwide, with an estimated 15 percent allocated to sub-Saharan Africa.

Figure 4. Global funds committed to impact investing (2012–2014)



Source: Saltuk and El Idrissi (2014)

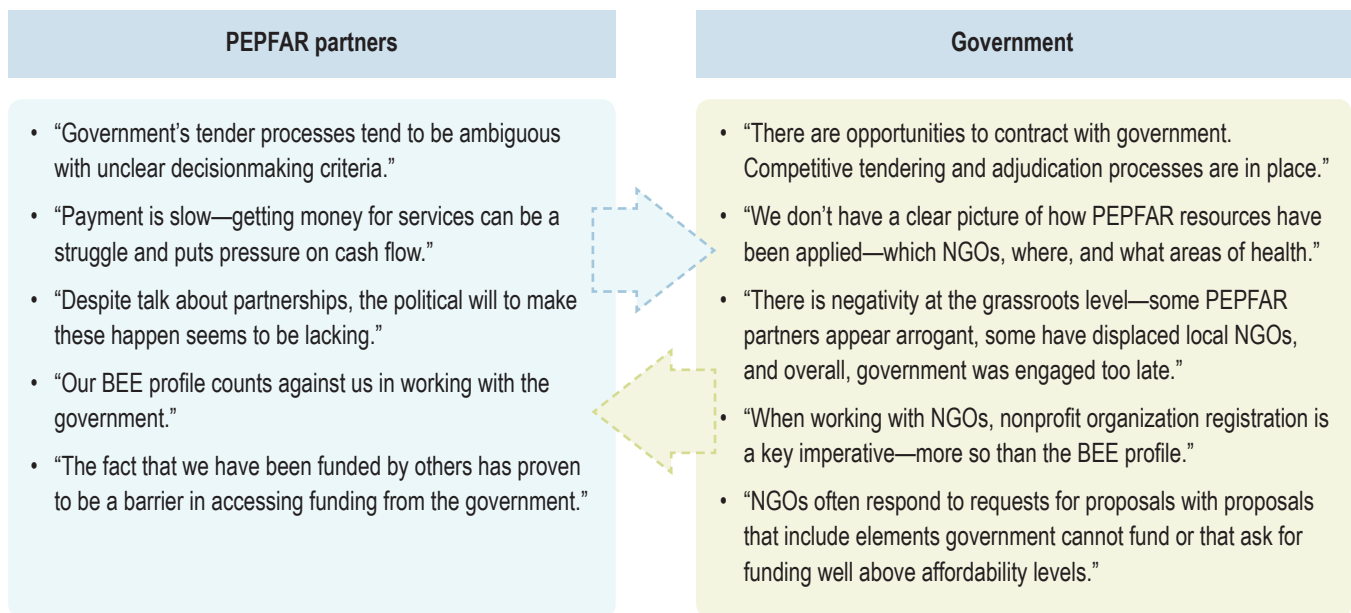
Investors generally prefer established entities and they look for competitive, market-based returns. Impact investors are keen to find new investment opportunities, especially those that provide innovative approaches to challenging social problems. Additionally, health care is receiving a growing proportion of impact investment funds. As such, impact investment mainly presents a potential opportunity for more established PEPFAR partners, with their good reputations, strong financial management skills, and monitoring and evaluation capabilities.

Few PEPFAR partners are familiar with impact investment, which is not surprising given the newness of the field. Currently, none of the partners interviewed in Gauteng and Western Cape receives impact investment funds and only one is considering this option. Creating more awareness of this opportunity and improving the visibility of PEPFAR partners as potential investments are key steps toward addressing the opportunity. PEPFAR partners will require support to position their organizations to take advantage of available impact investment funding.

Government contracting

Government contracting is a significant opportunity for PEPFAR partners for many reasons. South Africa’s public health system is one of the largest and best funded in sub-Saharan Africa. Over the past decade, the government has increased its funding of health care in general and of HIV and AIDS services specifically. Well-documented quality and coverage issues in the public health sector, especially related to HIV and AIDS, have inspired the government to investigate private sector solutions, including partnering and contracting with external service providers to support government efforts to meet health targets. Given their capacity for innovation and expertise in research and development, PEPFAR partners are well placed to address a number of health care challenges, including those related to HIV care and treatment. In addition, the NHI reforms include several developments that bode well for contracting opportunities: an emphasis on primary health care; increasingly decentralized HIV and tuberculosis services; and a shift in the government’s role from direct service delivery for HIV and AIDS to financing and management of these services. Since many PEPFAR partners are already targeting low income and at-risk populations, they are well placed to deliver services on the government’s behalf.

Figure 5. Differences in PEPFAR partner and government perceptions



PEPFAR partners recognize that government contracting is an important opportunity. Only 38 percent of the partners interviewed in Gauteng and Western Cape have active contracts, but almost all of them view the government as the foundation for their future sustainability. However, a number of barriers hinder these contracts, primarily based on past interactions between the government and NGOs (see Figure 5).

Taking advantage of government contracts will require that PEPFAR partners actively engage in relationship-building efforts at the national and provincial levels to build greater awareness of each other's needs and abilities. These and other challenges, including the uncertain NHI timeline and scope, must be carefully managed.

Private contracts

South Africa has a well-established and sophisticated private health care sector. Totalling approximately \$15 billion, the private sector is equal in funding size to the public health sector and

comprises a broad range of players along the entire health value chain. Private health care providers primarily serve the medically insured market, which is only 17 percent of the South African population. Both the government and private providers are keen to see an expanded, more-inclusive private health care system. PEPFAR partners can help in a number of ways:

- Offer external capacity and expertise to private players aiming to grow their client base in new, lower income markets.
- Supplement or expand the disease management offerings of private health care and medical aid providers.
- Partner with private health care and medical aid providers as third-party vendors to support the rollout of NHI.
- Commercialize their core services for private sector buyers in a way that allows them to fund mission-based activities from this revenue stream.



Andrew Ashton

Despite the service match, surveyed PEPFAR partners are less optimistic about private contracting opportunities. Twenty percent of the interviewed organizations currently have a private sector contract in place and only 38 percent are considering future private sector partnerships as part of their sustainability plans. This hesitance may be due to a perceived lack of demand for their services among private health care players or to a lack of awareness of ways to sustainably tap into the existing opportunities. Sensitizing PEPFAR partners to private sector opportunities is necessary in the short term.

Employer-based health and wellness services contracts

Increasingly, South African employers are providing health and wellness services to their employees. Employer-based health and wellness services differ in breadth and depth and can include subsidized medical aid coverage, employee wellness days,

disease management programs, on-site access to health and wellness services, and general support. A well-established base of private providers already serves most of the demand for these services. Employers tend to have long-lasting relationships and report high levels of satisfaction with their current providers. Few of the corporate representatives that were interviewed could point to underserved needs that would represent opportunities for PEPFAR partners to enter the market.

Important differences exist in the needs and approaches of white-collar and blue-collar employers, creating a niche opportunity for PEPFAR partners to consider. White-collar employers tend to view health and wellness programs as an employee attraction and retention strategy. HIV and AIDS services are frequently incorporated as part of corporate wellness days but are not treated as a standalone health priority. The health and wellness needs of these firms are met by private providers, and they have limited or no engagement with NGOs. Companies in blue-collar industries see health and wellness programs as a critical risk-management tool to address absenteeism, productivity, and costs related to worker illness. For these organizations, HIV and AIDS services remain a top priority. In the past, donor-funded NGOs often have provided HIV services, reducing the cost to companies in blue-collar industries. In many ways, these organizations represent a captive market for PEPFAR partners and a real opportunity for income diversification. Other niche opportunities for health and wellness services include offering specialized wellness services, contracting with smaller firms, and contracting to health and wellness providers to provide complementary offerings.

Very few PEPFAR partners consider health and wellness provision as a sustainability strategy. Only one of the interviewed organizations currently provides these services and only two are considering this sustainability option. Multiple challenges complicate this opportunity, including significant competition and a limited match with NGOs' current service offerings. Nonetheless, as niche opportunities might not be well known, it is important to create awareness and build the partners' ability to capitalize on these options.



Steve McNicholas

Recommendations



RECOMMENDATIONS

Based on this analysis, the SHOPS team identified government contracting, CSI funding, and private philanthropy as the three most important opportunities for PEPFAR partners. The PEPFAR partner organizations, with USAID/South Africa support, will need to implement some changes to access these prospective funding sources. For all opportunities, the right relationships with the right people are crucial. The NHI system could present numerous opportunities, but the timeline to roll out could mean that these opportunities appear after PEPFAR funding has already declined. Social investment regulations exist, but they do not compel investment in health and HIV prevention. Additionally, while just 5 out of 100 BEE points are for socioeconomic investment, the BEE profile of PEPFAR partners is far more important than officially acknowledged. PEPFAR partners will require an assortment of sustainability opportunities, but even taken together, what is available will not replace PEPFAR funding.

The SHOPS team developed the following general recommendations for USAID/South Africa and its PEPFAR partners as well as advice pertaining to specific government and private sector opportunities.

Recommendations for USAID/South Africa

To capitalize on these opportunities, the USAID mission should focus on three key actions to support its partners' sustainability planning:

1. Use its convening power to help build relationships between PEPFAR partners and public and private sector funding sources (e.g., companies and HNWI).
2. Help partners understand how they can improve their BEE profiles to increase their attractiveness for government contracts and CSI funds.
3. Keep partners up-to-date on NHI implementation so that they are aware of new opportunities and obstacles.

Implications for PEPFAR Partners

The PEPFAR partners need to be aware of how recent developments will affect their ability to access these income opportunities. As the government has increased its control over the financing and delivery of South Africa's HIV programs, PEPFAR has shifted toward a technical assistance role. Many partners no longer directly provide HIV and other health services—even though that could be a significant opportunity for getting government contracts. Restrictions on how PEPFAR funds are spent also limit partners' ability to spend time and resources on developing sustainability plans, especially for partners entirely dependent on PEPFAR funds. Since the PEPFAR partners represent a small share

of the entire South African NGO community, they need additional support and flexibility from USAID/South Africa to stand out as competitive options for government contracts, CSI, and private philanthropy.

Government Contracting Opportunities

South African government contracts represent the largest financial opportunity for PEPFAR partners.

Many of these contracts

originate with provincial governments. Government stakeholders tend to be wary of PEPFAR partners, though, due to concerns over high costs, poor BEE profiles, or previous bad experiences. USAID/South Africa should focus its relationship-building efforts at the provincial level to help overcome these obstacles. Key steps include the following:

- Clarify the government procurement processes for PEPFAR partners, identify relevant opportunities, and build government capacity to contract with private providers.
- Provide government stakeholders at the national and provincial level with a clear and detailed map of how PEPFAR funds currently support HIV service delivery so that they know where there are opportunities to contract with private providers.

As the government has increased its control over the financing and delivery of South Africa's HIV programs, PEPFAR has shifted toward a technical assistance role.

- Demonstrate to government stakeholders how contracting out health care service delivery can cost-effectively lead to improved HIV and health outcomes.

Private Sector Opportunities

Accessing CSI and private philanthropic funding will also require significant investments in relationship-building between PEPFAR partners and private funders. USAID/South Africa can take several actions to improve its partners' appeal to companies and HNWI, including the following:

- Create a “deal book” that highlights the potential added value of PEPFAR partners, especially regarding how these organizations can support increased adherence to HIV treatment and patient retention.
- Help partners gain and maintain nonprofit organization registration to make them more attractive to HNWI and CSI.
- Alert partners to niche opportunities for employer-based health and wellness services, especially concerning voluntary medical male circumcision, orphan and vulnerable children, and women’s health services.

Cross-Cutting Recommendations

USAID/South Africa also can take several steps to improve its partners' access to income diversification opportunities, regardless of whether the opportunities originate in the public or private sector. These actions include the following:

- Encourage partners to take steps to improve their BEE scores and to pursue B-BBEE certification.
- Adopt more flexible rules for how partners can spend PEPFAR funds to plan for the upcoming transition, either by allowing greater latitude in how funds are spent or by loosening intellectual property regulations to allow partners to market PEPFAR-funded products to external funders.
- Provide training and interventions to individual PEPFAR partners that are tailored to their specific needs and opportunities.



Jan Truter

CONCLUSION

PEPFAR funding in South Africa has saved a great number of lives while helping the country develop one of the most successful HIV responses in the world and supporting high quality partner organizations. Between 2004 and 2014, the PEPFAR program, South Africa's national HIV response, and the overall health system changed dramatically. As PEPFAR and the government scaled up access to antiretroviral therapy, the government took on increased financial responsibility and thousands of new NGOs emerged to deliver essential HIV services. Moreover, South Africa's post-apartheid transformation supports a vigorous CSI agenda and places increasing emphasis on BEE scores and profiles. South Africa's ambitious new NHI agenda is still in a nascent stage but may open new opportunities for PEPFAR partners in the public and private sectors if it is successfully rolled out.

In this context of change and uncertainty, many PEPFAR partners will have a role in the country's HIV response well into the future. Short-term critical PEPFAR investments could help position its partners to realize these future opportunities. USAID/South Africa can best support its partners' sustainability experimentation and pilots by extending its mandate into critically important new areas: building relationships with national and provincial governments; facilitating relationships with the appropriate public and private sector decisionmakers; and alleviating structural barriers around the use of PEPFAR funds for sustainability planning.



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