

The Synergos Institute
Voluntary Sector Financing Program
Case Studies of Foundation-Building
in Africa, Asia and Latin America

The Kagiso Trust (South Africa)

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Voluntary Sector Financing Program

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- The Kagiso Trust (South Africa)

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Glossary of Acronyms

ANC	African National Congress
CBO	Community-based organization
COSATU	Congress of South African Trade Unions
EC	European Community
EU	European Union (EC after 1990)
GSP&DM	Graduate School of Public and Development Management (University of Witwatersrand)
IDT	Independent Development Trust
KT	Kagiso Trust
KTI	Kagiso Trust Investments
NGO	Nongovernmental organization
RDP	Rural Development Programme
SACBC	South African Catholic Bishops Conference
SACC	South African Council of Churches
SANAM	South Africa-Namibia Committee
TNDT	Transitional National Development Trust
UDF	United Democratic Front

Synopsis

Origins

The Kagiso Trust was born as a result of the creation of the European Special Programme for the Victims of Apartheid in 1985. Through a process of dialogue between the European Community and South African organizations, particularly the churches, this indigenous development entity was created in 1986 to serve as a conduit for official development assistance from Europe to South Africans, bypassing the apartheid government.

Financing

The Kagiso Trust funds its operations through grants from official international donor agencies and foundations. Its financing rose from just \$1.5 million to a peak of \$58 million in 1992. The European Union has been the largest donor, followed by Japanese, Canadian and Scandinavian aid agencies.

Now it faces an uncertain future due to the end of apartheid; that positive development means that international donors are increasingly channeling their resources directly to the democratically elected South African government.

The Trust is exploring the creation of an endowment with local and foreign funds from development agencies, foundations and corporations. It has been registered as a charitable organization in the US to encourage contributions to it. However, prospects for building the endowment remain uncertain.

To earn income, the Kagiso Trust recently created an investment company to support its work and simultaneously to address other vital issues such as job creation, skewed wealth

distribution and infrastructure development. One example of this is Kagiso's taking advantage of the need for new text books in post-apartheid South Africa by purchasing a major publisher of school texts.

Another recent avenue for funding is proceeds from a national scratch card lottery. In 1995 this was providing over \$130,000 per month.

Governance

A fifteen-member board is the organization's policymaking body; it includes two black women and three white men. The staff is led by an executive committee including the CEO and five other top managers. In practice, most new policy emanates from the executive committee.

The composition of the Trust's staff has changed over time as the focus of the organization has shifted more to development.

Programs

Program areas include community-based institution building and development, primary health care and AIDS awareness and prevention, micro-enterprise development, and education and training. Making a grant application to the Trust has been complicated and time consuming, due to the need for the application to not only be approved by KT staff and board, but also by the head of the EU's development ministry and other EU officials. Consequently, beneficiaries of KT have expressed frustration at the long delays in receiving money.

Between 1987-1994, the Trust channeled approximately US\$200 million from external donors to support projects in South Africa.

Preface

Background

In Africa, Asia and Latin America, citizen participation through a range of civil society organizations has become a growing and vital force. Civil society organizations have brought significant material and human resources from the community level to bear on poverty problems through donations of time, energy, materials and money.

Locally managed and controlled organizations that provide direct financial support to other organizations within their societies have been established over the last decade in many southern countries. A few were established twenty or thirty years ago. These organizations are injecting critical financial as well as technical resources into local civil society and mobilizing resources from a wide variety of sources both domestic and international for this purpose.

Few of them were created with a single large endowment, as was the case with most northern private foundations. Most of them rely on a wide range of strategies to mobilize financial resources including earned income contributions from individuals and corporations and grants from international organizations. Some managed donor-designated or donor-advised funds following the US community foundation experience.

General consensus over terminology has yet been reached; these new types of organizations are usually referred to as "foundations" or "foundation-like organizations." Though many of these organizations have adopted legal identities as foundations or trusts, others are registered as nongovernmental organizations. In general, they differ in many ways from their

northern counterparts . For example, they are more likely to mix program operation with grantmaking. Many of them act as convenors of civil society groups, as bridging institutions to other sectors of society or as technical assistance and training providers.

To distinguish this type of southern foundation-like organization from northern foundations we can use a term such as "community development foundation" or "southern foundation" or use a new term which has been proposed is "civil society resource organization" or CSRO. This term refers to organizations which combine financial assistance to community-based organizations and NGOs with other forms of support for organizations or the civil society sector as a whole. In this series of papers we will use the terms "foundation" and "civil society resource organization" interchangeably.

This expanding universe of foundations/civil society resource organizations around the world has not been systematically studied. As one of the first steps towards developing an understanding of this sector, Synergos responded to a request from a group of southern foundations. In April 1993, a group of foundations from a dozen southern countries met with northern foundations and official foreign aid agencies to discuss the emerging role of foundations in strengthening civil society in Africa, Asia and Latin America. A major outcome of the discussion was a decision to learn more about how these organizations are created, how they develop and evolve, and how they sustain themselves as philanthropic entities. The group decided on case studies and analysis as the most fruitful approach. The Synergos Institute, which works with local partners to establish and strengthen founda-

tions and other financing organizations, accepted the task of producing case studies of these organizations. These papers are one of the products resulting from this effort.

Methodology

A Global Advisory Committee of southern foundations guided the two-year effort by Synergos. The advisors selected eight geographically diverse cases from over sixty organizations identified through an initial survey. Local researchers were retained in each country and the Synergos research team worked with them and the Advisory Committee to develop a common protocol.

The protocol hypothesized four areas as key to the operational effectiveness and sustainability of southern foundations: origins and genesis of the institution; institutional governance; program evolution and management; and financing. The case researchers studied these issues via multiple data collection methods and sources. The primary method was to conduct direct structured interviews with individuals involved with each case organization, including board members or trustees, the managing director, staff members, grant recipients, and other relevant organizations. In addition to interviews, researchers gathered mission and vision statements, annual reports, operating strategies and plans, internal and external evaluations, financial plans and administrative procedure manuals. Data collected by the different methods were systematically organized into distinct databases which were the basis for each written case study. The case studies were coordinated by the Synergos research team, which then provided the funding to a cross-case analysis team for the preparation of three analytical papers. The two teams prepared condensed versions of the case studies for publication.

Use of the Studies

The eight case studies bring to light key factors that have led these organizations to be successful, and the studies document the crucial processes they have gone through to respond effectively to the needs of their national civil societies. Across the very different conditions that brought about their formation, the cases reveal that foundations/CSROs can play a central and strategic role in strengthening civil society. Their comparative advantage as resource mobilizers enables them to have a large effect both in stimulating new financing and connecting financial resources to the community-level where they can have the greatest impact. In particular, they have excelled at:

- providing seed resources for the growth of civil society organizations in their countries;
- leveraging diverse sources of financing for the projects and programs of civil society organizations;
- assisting northern foreign aid to be channeled to civil society in more sustainable and effective ways; and
- acting as an interface for public policy dialogue between civil society and the government and business sectors.

The case studies and the related analytical papers are a useful tool for those who wish to build foundations/CSROs around the world. Synergos hopes they will be widely used as a catalyst for the development and strengthening of this important group of institutions that provide financing to the voluntary sector.

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Genesis and Origins

The Kagiso¹ Trust, a major nongovernmental, nonprofit, national development agency — and the largest black-led organization of its kind in South Africa — sees the poorest and most marginalised communities as its natural beneficiary constituency. The organization was born out of a dialogue between leaders in South Africa’s “democratic movement” and members of the European Community (EC) around European foreign policy during the 1980s — a decade characterised by extreme repression and country-wide insurrection against the apartheid regime, manifested in daily confrontations between local communities and security forces. During this time a range of allied organizations, including churches, human rights groups, the alternative press and service organizations, emerged in support of the United Democratic Front² (UDF) and the Congress of South African Trade Unions (COSATU).

The EC had been involved in development cooperation in the region since the 1970s, introducing a code of conduct for EC firms operating in South Africa in 1977. In 1980 it provided financial assistance to the Southern African Development Community (SADC), an alliance of southern African countries formed, among other things, to reduce their economic dependence on South Africa. In September 1985, EC foreign ministers met in Luxembourg to design a response to the national state of emergency that had been declared in South Africa. Leaders from the UDF and the South African Council of Churches (SACC) were present, and called for the imposition of international economic sanctions against South Africa. The rationale was that sanctions would hurt the ruling party and white elite in two ways — symbolically, by isolating them from

¹ *Kagiso* is a Setswana word meaning “peace,” and the Trust’s emblem symbolizes peace.

² The UDF was formed in 1983 and constituted the first national political center to provide grass-roots movements with a vehicle to link local grievances with national political demands

the rest of the world, and financially, by curtailing investment in the country. But these leaders were also concerned about helping those who were the victims of apartheid, particularly since government development initiatives were inadequate or non-existent.

Out of this dialogue, a twin-track approach was adopted by the EC, that included restrictive as well as positive measures to “hasten the total abolition of apartheid through diplomatic and moral pressure combined with active support of the process for peaceful change within the country.” Restrictive measures included discouragement of linkages on the military, academic and sporting front, a ban on new investments and on the importation of South African iron, steel and gold coins.

Positive measures included strengthening a code of conduct and implementing the Special Program to Assist the Victims of Apartheid. This program was launched after consultation with South African church leaders, and it was decided to make European funds available to the victims of apartheid through South African conduits with strong links to the democratic movement. Three channels for transmitting European money were identified: the trade unions, the SACC, and the South African Catholic Bishops Conference (SACBC). But church and UDF leaders felt that a new, secular organization needed to be set up to administer these funds. Thus the Kagiso Trust was established in 1986. Between 1987 and 1994, the Trust channeled over R750 million of grant aid (approximately US\$200 million) into a variety of programs, stimulating many communities by providing employment, education, housing and social empowerment.

Setting up the Trust

The Trustees and leadership of Kagiso Trust (KT) had strong roots in the anti-apartheid struggle and imbued the organization with legitimacy. Ecumenical leaders played an important role in establishing the Trust and many of those individuals still remain involved as members of the Board of Trustees. European member states were nervous about UDF political connections with the exiled African National Congress (ANC) but were reassured by the involvement of respected members of the religious community in South Africa. However, most of these individuals, although experienced in running social projects implemented by the churches, lacked experience in wider development issues, given the political climate of the time.

Initial discussions with the EC had spawned the idea of setting up a “consortium.” But Yunus Mohammed, a Trustee brought in for his legal expertise, felt that this would not provide an appropriate vehicle for disbursing funds and would be legally unworkable. After further discussions, it was decided that a Trust deed would be established. This decision was determined more by the political situation at the time than by drawing on the experiences of other foundation-like organizations elsewhere. Uncertainty as to how long the Trust would even be in existence meant finding the simplest mechanism that allowed the organization to receive and disburse money. No feasibility study was conducted due to the insecure environment in which repression of community activists was rife.

In the words of Mohammed, the Trust would, “provide a legal framework for establishing a mechanism to receive funds, administer them and disburse them, whilst providing the flexibility to structure it in a way which allows [it]

to achieve [its] objectives.”

As soon as the deed was drawn up, with the advice of the auditing firm of Price Waterhouse, the founding members set about building a Board of Trustees. Once the Board was composed, a second Trust deed including all Trustees was registered with the government. While an effort was made to include individuals from education, churches, academia, and the legal profession, no “suitable” candidates were found to represent women and so space was left for additional Trustees. The composition of the first Board of Trustees seems to have relied on the existing networks of the founding members rather than making a concerted effort to ensure broad representation.

The founding members who continue as current Trustees include:

- Archbishop Desmond Tutu, Anglican Archbishop, Nobel Peace Laureate;
- Dr. Beyers Naude, former Secretary General of the SACC, currently with Ecumenical Advice Bureau;
- Fr. Smangaliso Mkhathshwa, MP, President of the Central Transvaal Civic Association,

member of the Institute for Contextual Theology;

- Dr. Abe Nkomo, MP, medical doctor, active in the civic movement;

- Dr. Max Coleman, MP, member of the Human Rights Commission;

- Rev. Frank Chikane, former Secretary General of the SACC;

- Professor Jakes Gerwel, Director-General in the

Office of President Nelson Mandela;

- Dr. Allan Boesak, former President of the World Alliance of Churches; and
- Yunus Mohammed, attorney and human rights lawyer; director of the Independent Electoral Commission; Chairman of the

Board of Directors of the Community Bank.

As a legal structure, previous and present staff and Board members, feel that a Trust has been a suitable vehicle for the work undertaken by KT. The drafting of the KT Trust Deed, however, cannot be seen as a model as it was drafted in a time of crisis. Among other things, the deed made no mention of the length of a term of office for a Trustee nor did it provide for dismissal or re-election of Trustees. Kagiso is currently reviewing its Trust deed.

Phases of Organizational Development

In its short history, Kagiso Trust has passed through two distinct phases. In the early days of its existence, political uncertainty and state repression made it impossible to fund any long-term development projects, so the focus was on championing the anti-apartheid cause and providing assistance to “victims of apartheid.” In the main, Kagiso funded educational initiatives, projects offering para-legal advice, and service-oriented NGOs engaged in providing assistance to community-based organizations and civic movements.

In 1990 — at the beginning of the transition which culminated in the inauguration of the country’s first democratically elected President in 1994 — Kagiso Trust decided to transform itself from being solely a conduit of foreign funds into a fully-fledged development agency, engaged in complementing state efforts in collaborative ventures to provide

³ For instance, the Weekly Mail & Guardian of April 1-7, 1989, reports on security police tampering with the locks on KT’s Durban office, searching through drawers, and roughing up Mohammed when he caught them.

⁴ Fundraising numbers tended to be granted only to those organizations considered friendly to the government. The Trust never received this number, but the corresponding legislation is currently under review.

new and alternative solutions to development problems. It began to play a major role in the formation of development policy through involvement, at an Executive level, in national fora such as the National Housing Forum and the National Drought Consultative Forum set up in 1992 to coordinate drought relief in South Africa.

1986-1989: The Early Years

In 1986, Ahmat Dangor, an active member of the UDF and at the time in a senior management position with an American cosmetic company, was approached by Dr. Naude to help set up Kagiso Trust. Dangor had previously been placed under a six-year banning order which ended in 1979. He became the Executive Director of Kagiso Trust and set up the office staffed, by himself and a secretary.

The organization grew rapidly. In 1987, grants received amounted to just over R3million (US\$1.5million) and, within three years, had grown to over R27.5 million (US\$10.5million). This rapid growth made regional offices and regional committees a necessity. In 1987, offices were opened in Johannesburg (covering the Transvaal, Orange Free State and Northern Cape), Cape Town (Western Cape), and Durban (KwaZulu-Natal) (see Annex 2). The Port Elizabeth (Eastern Cape) office was opened in early 1991. In its second year of operation Kagiso Trust employed twenty-six people. By 1992, staff totalled sixty-two and donor funds peaked in 1993 when R177 million (US\$54million) was received.

During this time, the white-led National Party government made repeated attempts to close down the Trust using a two-pronged strategy by harassing staff and Trustees and imposing legal constraints. Many of KT's key Trustees and staff members were detained and offices

were secretly searched by police in the middle of the night.³

In terms of legal constraints, the government failed to grant KT tax exempt status, and refused it a fundraising number, which made it difficult for KT to raise money internally.⁴ In addition, it attempted to impose certain controls on organizations receiving money from overseas under the Promotion of Orderly Internal Politics Bill, which was ditched after an outcry. A more sanitized version, the Disclosure of Foreign Funding Bill, was subsequently introduced, which required disclosure of the sources and details of how money was to be used.

Kagiso seemed set for a head-on collision with the government, as it was determined not to comply with the Act. Trustees could face criminal charges for non-compliance, a fine of R40,000 (US\$19,704 in 1987 terms), and three years imprisonment. If the Trustees were found guilty, the act gave the courts permission to send the funds back to donors, or, where these could not be verified, to a Registrar for Foreign Funds. The Registrar was entitled to forward the funds to the Minister of Finance who would decide how the money was to be spent. KT Trustees embarked on a political campaign to get the government to back off. Delegations were sent to the government, to the Europe Community, and to foreign embassies to apply pressure on the National Party to desist from enforcing the Act.

Dangor describes those early years as a roller-coaster ride. He played a role in promoting the anti-apartheid cause through many trips to Europe and the Americas and, while coping with this grueling travel schedule, also had to deal with project conceptualization and

administration.

During the early years, the EC provided all support to South African projects through European NGOs with activities in South Africa. Seamus Jefferson, previously from the EC's South Africa desk in Brussels, explains that a project had to be driven by a local NGO and generated from within South Africa. In addition, European NGOs which acted as financial agents for EC funding had to demonstrate that they were adding value to the project by being involved. The European NGOs benefited directly from the relationship as they received 5% of all the money that came into the country.

The criteria set by the EC for channeling money for projects were very broad: projects had to be anti-apartheid and to espouse non-racialism. Programs and projects were aimed at broad categories: human rights; youth; women; and education — essentially organizations involved in promoting democratic change and assisting victims of apartheid.

Working through European NGOs was seen as beneficial on a number of levels. Given the state's attempts to force disclosure, it was tactically better for money to come from more than one source. Further, an early focus of activities was organizational development and capacity building within the South African organizations that were chosen to run projects. This relationship was seen as a way to transfer organizational capacity. Furthermore, contractual arrangements were between the European NGOs and Kagiso Trust and it was the responsibility of the European NGO to provide the reporting needed by the EC. Kleinschmidt describes the process as a "very cumbersome route but it was a way to diversify the field as much as possible to make it difficult for the South African government to stop money from

coming in."

The relationship between Kagiso Trust and the European NGOs experienced some difficulties. Dangor believes that some of the European NGOs saw the Trust as nothing more than a convenient conduit of funding that they could use to work with communities and NGOs directly. He claims that several European NGOs began subtly to undermine Kagiso Trust, bypassing it, making offers to communities directly, and expecting KT to send the documents to Brussels. He attributes this to their belief that KT did not have the capability to do the job. There were, however, many European NGOs he quoted as being supportive and interested in putting a project on the ground, not in controlling it.

Given the number of European NGOs involved in South Africa, a collective vehicle needed to be established to facilitate communication between them and the EC. Secular NGOs were brought together under the umbrella of the South Africa Namibia Committee (SANAM). Protestant and Catholic NGOs each had their own collective body and all three came together in what was called the Standing Committee. Horst Kleinschmidt, currently KT Deputy Director who was in exile at the time, was a founding member of SANAM and the Standing Committee.

In 1990, the EC wished to reduce the administrative costs of sending money to South Africa and ended this arrangement, a move which caused tensions between Kagiso Trust and the European NGOs that remain unresolved even today. When the European NGOs were cut out of the cycle, there was a short time when SANAM became a facilitating body for Kagiso Trust but this, too, was eventually dissolved.

⁵ In general terms, civics are nongovernmental, community-based organizations representing their constituency in civic affairs and asserting rights to better infrastructure and services. In South Africa, the term refers to the many radical civics which emerged in the 1970s and '80s in African, Coloured (a South African term for people of mixed heritage), and Indian areas. They combined a concern on civic issues with a commitment to political change. Many civics saw themselves aligned with banned liberation movements, especially the ANC (Seekings, 1993, p. 2.)

Looking back over those early years, Dangor gives a vivid description of the difficulties facing an organization “fighting a political battle at the same time as trying to pioneer new concepts in development.” Many leading SACC and SACBC figures and community activists were in hiding or detention. The basis of KT’s operations had to be confidential. Records and documentation were kept to a minimum, with briefcases serving as mobile filing cabinets (Seekings: 1993, p.9). Dangor describes incidences of destroying computer disks and documents in airports and during flights in case he was caught by the authorities with information on him. In his words:

State institutions, from Foreign Affairs to Finance to Treasury to provincial government to the police, did everything they could to make life difficult for us. Sometimes our projects couldn’t function. They were shut down, their funds were confiscated. We ended up with enormous legal battles against the government....The drain on our energies was great.

He feels that expectations and a “culture of entitlement” developed among some communities and organizations who thought their anti-apartheid credentials entitled them to receive money. He expresses concern that dependency developed within the NGO community and empires were built which are now in trouble.

Nevertheless, Dangor looks back with a sense of achievement. “What we achieved...was, in a sense, to introduce to South Africa and to South African communities the sense that we could determine our destiny in development terms.” He also feels that Kagiso Trust was able to play an important role in sustaining the

anti-apartheid struggle at a time when political leadership was being crushed and driven underground. The development and survival of “civics”⁶ was possible through KT resources and other resources Kagiso identified for them. The greatest difficulty during those early years was that, while the rest of the developing world was tackling development, South Africa was still struggling with political reform and Kagiso Trust was never able to be primarily a development organization. In the words of Nkululeko Sowazi, currently Deputy Projects Director:

Most of the organizations we funded...were assisting communities in keeping their heads above water as far as apartheid structures impacted on them. There was no classically developmentally funded project focus at that time, because there was no political space to do that...

⁶ SACC and SACBC set up JEP because they were concerned that the popular struggle against ‘Bantu Education’ would destroy the culture of learning. JEP provided creative skills programs in art, drama

1990-1995: The Road to Democracy and Development

In December 1989, Kagiso Trust hosted a conference entitled “From Opposing to Governing: How Ready are We?” During that conference Trevor Manuel, a prominent UDF activist, posed the probability that in five years the democratic movement would be in power. He said it was time to stop thinking like people in the opposition and begin thinking like people who would govern.

Events, however, moved much faster. The very next year proved to be a watershed for South Africa with the unconditional release of Nelson Mandela in February 1990. The new political space held out the possibility for real development to take place in the “new South Africa.” Resistance was no longer an appropriate strategy and NGOs found themselves needing to reorient their activities to meet the emerging challenges of development.

Kagiso Trust began a deliberate evolutionary process away from being a covert funder of apartheid victims towards becoming a non-governmental development agency. The decision marked a shift in mission and approach from the earlier, more adversarial commitment to abolish apartheid towards the promotion of community-based initiatives and empowerment. The move was also perceived as important in moving the organization away from dependence on external financial support to the “mobilization of development resources (financial and technical) and development facilitation” achieved through “complementing state efforts [as well as] engaging in collaborative ventures that provide new and alternative solutions.” (Kagiso Trust Review 1994/95).

An important event during this period was a leadership change, with Trustee Eric Molobi

becoming Executive Director in 1991. Molobi had been chosen as a Trustee in 1986 by the founding members because of his experience in education. Dangor, by his own admission, had become quite a controversial figure in South Africa during the years that Kagiso Trust engaged primarily in anti-apartheid activities. Dangor explains:

“The concept [of a development agency] had reached maturity and the time had come... to give momentum to this whole new development direction and Eric was ideally suited to that....In a way this did two things: it removed the controversies and the arguments centered round me for many years so that the British government, for example, suddenly withdrew its opposition to Kagiso Trust. And secondly, it allowed us to introduce the development focus unambiguously...”

Molobi had been imprisoned on several occasions between 1970 and 1989 by the Nationalist Party government and was incarcerated for eight years on Robben Island. In 1986 he was one of the first South Africans to meet with the ANC in exile, calling on it to use its influence to persuade pupils to end the school boycotts.

He played a leading role in the NECC (National Education Crisis Committee/ later the National Education Coordinating Committee) and he worked in the Joint Enrichment Programme (JEP).⁶ The NECC was formed in 1985 in an attempt to ensure that children and students were educated in an appropriate context and manner, a task abrogated by the State which was still committed to the concept of Bantu (ethnically-based) education.

New Challenges

⁷ The IDT dates from 1990, when R2 billion of the 1989/90 fiscal year surplus was set aside to address the plight of the very poor. After in-depth consultations with a wide spectrum of individuals and interest groups to ascertain community development needs and priorities, by November 1991 the IDT had identified a comprehensive list of projects relating to education, housing and health and R1 600 million were set aside for these projects.

The period since 1990 has seen vast changes in South Africa. NGOs find themselves in a fluid and complex environment where competition for resources has increased as the range of actors in the development field has expanded. Some of the ensuing issues impacting KT's existence and operations are:

EU's In-country Presence and Government Links

In 1991, the European Commission (now known as the European Union or EU) set up its own Programme Coordination Office in Pretoria, seeking to be more directly involved in identifying, assessing and monitoring projects. This effectively ended the historical relationship of European NGOs and KT in channeling funds into South Africa and removed the exclusivity of the four South African channels (the SACC; SABC; KT, and the Trade Unions). But despite the *de facto* loss of status, this relationship continued *de jure* for some time because the EU office did not have the administrative capacity to deal with a large volume of project proposals, while Kagiso Trust did. In 1995, however, the EU normalized relations with the Mandela government and established bilateral funding agreements.

The Reconstruction and Development Programme

In 1994, the new government adopted the Reconstruction and Development Programme (RDP) as the national development policy framework after months of consultation within the ANC, its Alliance partners, and other mass organizations. In its own words, the RDP seeks to mobilize the people and resources of South Africa towards the "eradication of apartheid and the building of a democratic,

non-racist, and non-sexist future." This raises some delicate challenges for nongovernmental development organizations like Kagiso Trust since the RDP is now touted as synonymous with development and anything happening outside its structures is likely to be regarded with suspicion. KT has thus had to redefine itself in terms of the RDP.

The Transitional National Development Trust

Since its election, the new government has wanted to establish a single grantmaking institution — the Transitional National Development Trust (TNDT) — and has sought help from Kagiso and the Independent Development Trust (IDT).⁷ According to Kleinschmidt, KT's response is to say:

Let us address what it is that the government wants to achieve, by creating a suitable structure to which Kagiso and the IDT can second part of their structure or staff. That does not mean that you have to take away the purpose of either structure. Both of them have a distinctive culture with very strong programs in the field and to merely take that away would actually be quite destructive.

The TNDT is envisaged as a separate body, with both KT and the IDT contributing to its formation. The CEOs of KT and the IDT will be seconded to the TNDT, becoming the CEO and Deputy CEO respectively. KT and the IDT will contribute five members each to the Board of Trustees, which will also include representatives from NGOs, CBOs (community-based organizations), and government. The TNDT will be the direct link to the RDP office for these two organizations.

This new Trust will become the major national funding agency making KT's role in this respect redundant. While both IDT and KT will fulfill existing contractual obligations, there is a sense of urgency for KT to focus and define its expected new role as an implementing agency.

Governance

Mission and Vision

As already indicated, changing times have prompted a changing mission and vision of possibilities for Kagiso Trust and other development-oriented NGOs throughout South Africa. The lack of a single mission statement in KT's current publications points to the transition that the organization is undergoing.

While the activities of Kagiso Trust are well known through word of mouth, the reformulated mission and vision is being communicated to the public via official brochures as well as through actual funding practices and decisions. An organizational pamphlet describes the

Trust as:

...a nongovernmental, leading edge, South African development finance organization. It is non-partisan in nature, encourages the maximum participation of the most marginalized and contributes to reconstruction and development. It strives for an equitable, united and democratic society that is free from poverty. Kagiso Trust aims at contributing meaningfully to strategies, programs and projects that seek to overcome the legacies of apartheid.

The 1994/95 *Kagiso Trust Review* says that the Trust aims to:

- Contribute to the planning and implementation of the RDP;
- Promote and facilitate projects enabling

communities to achieve self-sufficiency;

- Build integrated development programs at grassroots level that can be sustained and replicated elsewhere;

- Provide those disadvantaged by apartheid with access to skills and resources;

- Help create a vibrant nongovernmental

sector, working constructively with government and the private sector;

- Entrench environmental sensitivity as an integral part of the development process; and

- Consciously promote gender sensitivity,

especially the rights of rural women.

At this point in Kagiso's program evolution, focus seems to be of paramount importance. Deputy Director Kleinschmidt explains:

If we do not have a focused approach to development and say this is what we are doing and this is what we are not doing — we will probably lose ourselves along the way completely. Within that focus we will have certain priority areas. So that is one shift from having received applications from the entire spectrum to saying we are going to specialize. Secondly that we develop a vision of developmental programs rather than projects.

Accordingly, KT has decided not to fund hundreds of small, independent projects but rather to focus on funding programs, which as Molobi puts it, "might be bigger, more profound development work or might consist sometimes of some of the small ones contributing to the whole."

The changed relationship with the EU has meant that KT has had to streamline its interventions and programs. It now describes its primary development function as "the provision of financial and technical resources to

community based development initiatives and service-oriented nongovernmental organizations.” In addition to its role in mobilizing development resources, Kagiso Trust will engage in collaborative ventures that provide new and alternative solutions to development problems and which complement state (RDP) efforts.

Executive Director Molobi explains: “The European Union is eager to fund what is perceived to be correct by government So we have to touch base with what government is doing and see where the gaps are and take the gaps and inform government and sit down with the European Union to design projects.”

Deputy Projects Director Sowazi says that the Trust is aiming to concentrate in two areas — supporting local initiatives in specific sectors and “model building.”

The first aim is...a facilitation and capacity building effort...to assist at a very local level, those small fledgling, struggling initiatives around specific sectors. What we mean by “model building” is to really engage in what we would call joint-venture type projects with other relevant stakeholders....Typically what you would have here is a project or program that seeks to provide an alternative, innovative, creative solution to a development problem, usually in an area of mass need and this can be replicated or taken on or learnt from by other bigger, more impacting players, like the state or the private sector.

Since 1990, when its Trustees saw the potential to finally “do development,” the Kagiso Trust’s mission and vision has been largely determined by Executive management at the head office in response to changes in the political arena and feedback they receive from the project officers and fieldworkers who are

in touch with communities. To support the Executive Director, staff with development experience were recruited including Deputy Projects Director Sowazi, who holds a development degree from UCLA, Deputy Director of Planning Thabiso Ratsomo, and Deputy Director Kleinschmidt. This group serves as the agent that drives changes in the broad strategic thrust of KT and in redefining its vision.

They claim that they rely on their team of field workers, who visit communities that have applied to Kagiso Trust, to articulate the vision and thus to determine program priorities. Field workers feed their experiences and ideas to top management via seminars and workshops. Drawing on the information gained from this process, Kleinschmidt and Sowazi drew up a document outlining KT’s vision for the future. When they handed this document to KT field workers, the response was apparently favorable. A small team of Trustees who, in the words of Kleinschmidt, “have the space and who are energetic enough” are being drawn into the process to refine the vision.

Community groups are not directly involved in articulating the priorities, mission or vision of Kagiso Trust and have little influence in decision-making. Nor have national and local government structures, but this is likely to change given the new environment in which donors would rather see money going directly to government structures.

Board of Trustees

KT’s fifteen-member Board of Trustees is the official policy-making body, and plays a role in fundraising and in maintaining political relations. But Trustee Hylton Appelbaum says it is unusual for a Trustee to introduce a major new

⁸ The NHF represents diverse interests, including political organizations; financial institutions; trade unions; development institutions; mortgage lenders; insurance companies; construction and building consortiums; civic organizations and the Government. In the words of Molobi, “Prior to the formation of the NHF, there was no national housing strategy; only an ethnic one.” KT has secured R2.5 million from the EU for the NHF.

⁹ In April 1996, Mr. Naidoo was transferred to the Ministry of Broadcasting, and the RDP was temporarily shutdown for restructuring and discussions on which Ministry or office it

policy direction. Policy emanates from the executive management team which discusses recommendations broadly with KT staff at all levels in all regions and with Trustees.

Of the fifteen Trustees, two are black women and three are white men. In addition to the nine founding members referred to earlier, the Board includes:

- Bongiwe Njobe, assistant director of the Post Graduate School of Agriculture and Rural Development at the University of Pretoria and director of Fedlife Assurance Ltd.
- Zanele Mbeki, director of the Women's Development Bank and trustee of the President's Fund.

- Rev Zwoitwaho Nevhutalo, Evangelical Lutheran Church pastor, and chair of the Institute for Contextual Theology.

- Hylton Appelbaum, executive director of Liberty Life Association of Africa Ltd., director of Liberty Investors Ltd., executive

trustee of Liberty Life Foundation and trustee of the President's Fund.

- Dr. Mangaliso Maqhina, community doctor in Port Elizabeth.
- Rev. Mazwi Tisani, Anglican Archdeacon of King William's Town.

KT holds trustee meetings every two months at which Executive management is always present. When trustee meetings are about projects, projects management also is represented. As with many South African NGOs — where Board members hold positions on several different Boards — KT trustees are often unable to attend meetings and send proxies. In addition, since the 1994 elections, three KT Board members have been elected into Parliament.

Given the changing nature of the Trust's activities, perhaps the biggest challenge facing

Table 1: Kagiso Trust Staffing Pattern

	% Female	% Black	% Asian/Colored	%White
Overall	49	79	13	7
Senior staff	18	73	0	27
Mid-level & management	25	83	10	7
Support staff	93	79	21	0

Kagiso Trust with regard to governance issues is the need to clarify trustee involvement. When Kagiso Trust was formed, Trustees were chosen because they could act as a buffer and protect the organization from the State. Their affiliation to the Church also gave the Trust respectability, particularly in the eyes of the EU. Trustees are now expected to liaise with, and report to, relevant ministers in government with regard to KT program priorities.

Kleinschmidt, who has been tasked with revamping the KT Trust Deed, says that South African NGOs would benefit from a common understanding of the concept of “good trusteeship” which delimits the boundaries of trustee responsibility. Kleinschmidt would like to see Trustees taking a greater interest in the finances of the organization and playing a more active role in fundraising but not in day-to-day management.

The revamped version will specify the terms of office as well as how Trustees are selected — an issue which has been the subject of ongoing debate within the Kagiso Board and management. Those arguing against the election of trustees maintain that one of the strengths of the Trust is the independence of the trustees. Founding Trustee Mohammed expresses concern over the idea:

The difficulty becomes...who would elect [trustees]? We found that you couldn't have the recipients of money electing trustees because that would negate the very purpose because you would lose your integrity and independence and be subject to a whole lot of lobbying and canvassing....

Levels of Management

The six top managers of the organization constitute the Executive Committee. Current incumbents are: CEO Molobi, Deputy Director Kleinschmidt, Projects Director Mogane, Deputy Projects Director Sowazi, Deputy Director/Planning, Thabiso Ratsomo; and Human Resources Manager Fran Boma. There is currently no post for a Financial Director, and Kleinschmidt fills that role.

This group is responsible for the day-to-day management of the head office which is operationally responsible for fundraising, program funding, sectoral strategies and institutional linkages. This work involves managing three different types of relationships:

- A collaborative relationship with the private sector;
- A fundraising relationship with the donor community; and
- Political collaboration with state structures.

The head office also oversees regional operations which are in direct contact with communities and NGOs through Program Officers who provide technical support and assistance with funding requests. Members of the Executive Committee share responsibility for daily liaison with regional directors and for producing project reports for submission to trustee meetings.

The Chief Executive Officer is appointed by the Board of Trustees and has the primary say in appointing senior and mid-level staff. (Trustees are not involved in this process.) Staff report to the Executive Committee which reports to the Board of Trustees. Reporting

structures are outlined in Appendix Four.

In addition to heading up Kagiso Trust, Molobi serves in a number of other capacities including Chairman of Kagiso Trust Investments (Pty) Ltd., Chairman of Kagiso Publishers, Chairman of Khulani Supervision Services, Chairman of the National Housing Forum (NHF),⁸ Chairman of the Investment Development Unit, Chairman of Futuregrow (subsidiary of Southern Life). He also serves on the following Boards: Telkom; Lotteries and Gambling Board; Financial and Fiscal Commission; First National Bank; Southern Life; Independent Development Trust; Mvula Trust; International Advisory Board of Argus and serves as an advisor to the Joint Education Trust.

The CEO plays a major role on a policy level and in keeping the lines of communication open between KT and other stakeholders such as government and foreign agencies and is very much involved in collaborative relationships with both the private sector and state structures. He has acted in an informal advisory capacity to Jay Naidoo, Minister without Portfolio who is responsible for the RDP, on foreign aid and general institutional restructuring. He is also on the RDP Fund Management team representing the Ministry of RDP.⁹

Financial and administrative responsibility lies with the Deputy Director who also plays a key role in determining policy. He deals with development programs in which KT fulfils an executive role. For instance, Molobi is a trustee of Mvula Trust, but Kleinschmidt acts as his proxy and chaired Mvula Trust in 1995. His responsibilities relate to the day-to-day affairs of the organization but are not written in a job description.

In addition to the Executive Committee at head office, there is a National Management

Committee which consists of the five regional directors plus the Executive Committee. This committee meets every six weeks to debate and develop the project approval system. Then there are the program managers who are responsible for specific programs which may be regional or national. Kagiso Trust used to have representative advisory bodies in the form of Regional Management Committees, which were set up to advise on projects. These are no longer operational as it made the chain of approval too long.

Kagiso Trust Staff

Kagiso Trust currently has seventy-four staff members countrywide, of whom 42% are in the head office. The following table presents the breakdown of staff according to gender and race. Whilst Kagiso employs about an equal number of men and women, female employees are clustered at the lower levels of the organization.

After the 1990 decision to transform Kagiso Trust into a full-fledged development agency, there was a substantial change in the staff composition both at head office and in the regions. During this period, KT drew in many more professional staff with experience in development, and many of the old staff who were from the “struggle” movement left. Kagiso offered a voluntary retrenchment package which Kleinschmidt describes as a way for people who did not feel comfortable with the uncertainty in KT, to leave.

Mohammed describes KT’s staffing approach:

In terms of institutional development, one of the major issues has been that we started off by dealing with victims of apartheid and our primary staffing strategy for the first five or six years had been to look at people who had an affinity to those communities and...came from that background. When you move into a development-oriented direction, you need people with more technical professional skills who are more project-oriented and I think at this juncture that this transition has caused us problems. We have addressed this in two ways — in the new staffing policies [where] we are looking for slightly different kinds of combinations and [in] upgrading skills [of existing staff].

While KT claims that there was an effort to train existing staff and that they were given a fair chance, there have been criticisms leveled against it for not doing enough to retrain existing staff.

The Administration of Funds

Professional standards and internal control over administration of funds is determined by systems and procedures insisted on by donors, particularly the European Union, but, says Molobi, “It is enforced by our own way of thinking that we must be as transparent and professional as possible — so I had to go out and recruit qualified people in that area.” Kagiso Trust engages the services of independent auditors, Price Waterhouse, to ensure funds are not mismanaged. In addition, its main donor, the EU, imposes stringent reporting mechanisms.

There have been questions raised about how the European Union has handled the flow of money to organizations. An article in *Business Day* (Nov. 15, 1994) claimed that the European Court of Auditors had attacked the way Brussels officials had handled aid paid into the Kagiso Trust Bursary Fund, a sum of some R85 million (approximately US\$23 million). The EU’s Program Coordination Office in Pretoria, now a diplomatic mission, is partly blamed for failing to provide Brussels officials with information to monitor and control the program. The report said that “there was no evidence that independent checks had been made on the 1992 and 1993 programs to determine that the students receiving bursaries actually existed.”

A few days later in the same newspaper (*Business Day*, November 18, 1994), CEO Molobi countered the allegations saying that spot checks on European Union Kagiso Trust projects, including the bursary program, had been carried out recently and no irregularities had been found.

Program Operation and Evolution

Since the 1980s, Kagiso Trust has undergone major changes that are reflective of the broader changes in South Africa. In the transition years, the biggest difficulty facing Kagiso Trust in formulating program priorities has been, and still is, the uncertainty brought about by the changing political situation and the insecurity about continued funding. The adoption of the RDP as the national development framework and the formalization of the European Union's relationship with the South African government through bilateral funding agreements has meant, in essence, that Kagiso Trust has had to define for itself a new role.

Programs in Operation

Over the last three years, close to 350 new community institutions have been supported by the Kagiso Trust, which outlined the following focus programs for 1995:

CBO Support Program

Conceptualized by Kagiso Trust and primarily funded from EU sources and the Open Society Foundation, this program was established to strengthen institutional development and technical and administrative capacity among CBOs. The pilot phase of the program was run through the University of the Witwatersrand Graduate School of Public and Development Management (GSP&DM). The general aims of the CBO Support Program are to:

Assist CBOs to develop their own vision, mission, goals and strategies;

Assist CBOs to develop fundraising strategies and acquire technical assistance in their efforts to achieve their program goals; and

Provide skills training around administrative systems and structures they require to effectively capture, control and account for resources.

Microprojects Program - Pilot: Eastern Cape

The MPP directs support to communities around small infrastructural activities, including the building of bridges, clinics and community centers. Assistance is determined by the communities own investment which is usually between 10-15% and in poorer areas usually in the form of sweat equity. An evaluation of this program is currently underway to determine the future direction and changes necessary if it is to be implemented nationally. Kagiso Trust has a contractual obligation to oversee this program, but it runs independently with its own Board of Trustees.

Bursary Program

This program aims to ensure that the necessary academic support is available to students from disadvantaged backgrounds. Financial support is provided to students according to specified criteria such as gender, income, fields of study, and academic performance and contracts are signed with the institution. Current financial commitment to this program stands at R90 million (US \$25 million), on an annual basis, spread through 72 tertiary institutions. Just over 22,000 students selected on

the basis of a means test are currently on the program in any one year. With the emergence of a state vehicle for student support, KT will probably downsize the program to target students in highly specialized fields and post-graduate studies.

Education and Training Program

Most resources secured by Kagiso Trust have been allocated toward education and training activities. Initiatives supported include: vocational and technical training support; post-secondary access and support; adult basic education and literacy; and Educare support. Future focus areas are to be community-based Educare initiatives, support to ABE/Literacy and community initiatives working with a nationally or regionally coordinated framework.

Water and Sanitation in Rural Areas

All rural water and sanitation projects are funded through the Mvula Trust set up by Kagiso, IDT, and the Development Bank of Southern Africa. KT is represented on the Mvula Trust's Board.

Urban Reconstruction and Development Program

Support in this area has been focused primarily on service organizations and model building with no long-term intervention envisaged. Areas supported include:

- Urban Service Organizational Support
- Housing Model Building and Research
- Organizational Development Program

**Table 2: Donor Funds Received
(from inception to Dec. 1994)**

Year	Rands	Exchange Rate	US Dollars
1987	3,042,098	2.0368	1,491,225
1988	15,993,537	2.2732	7,045,611
1989	27,553,001	2.6220	10,516,413
1990	50,476,158	2.5882	19,488,864
1991	88,282,537	2.7612	31,986,426
1992	164,788,891	2.8519	57,820,663
1993	177,157,201	3.2669	54,176,514
1994	105,812,996	3.5490	29,890,676
Total	633,126,419		212,416,392

Microenterprise Development Program

Support has gone towards small-scale income generating initiatives, run mainly by rural women, and to organizations involved in business skills and training. Also supported are initiatives such as sewing, brick-making, furniture-making, and two chemical factories, manufacturing soaps and detergents in Soweto and Alexandra townships.

Grantmaking

KT does not actively seek to advertise its services to communities. They wish to portray themselves as professionals with a sound agenda and criteria and have therefore produced a brochure which shows people what they have done and outlines broad criteria for funding. According to the *Kagiso Trust Review*:

Kagiso Trust responds to requests and proposals from communities and non-governmental organizations based throughout South Africa. Kagiso Trust grants complement local resources for self-help programs and projects that benefit and involve people of low income and limited opportunities. Project activities should be sustainable beyond the period of Kagiso Trust's grant and offer promise for demonstration, expansion or replication in other settings.

Over the years, making a grant application to Kagiso Trust has been a complicated and time-consuming affair. The key requirement is that the application come from a community organization, after which a field worker spends time determining whether the community has the capacity to handle the project. This process can take months and involves collecting

information on:

- Organizational details — a description of the community or organization that will implement the program, including its history and current activities, structure and staff, sources of financing and relationships with other institutions;
- Project/program background — including origins, objectives, and the significance of the problems it would solve;
- Project activities — including the time frame and intended beneficiaries; and
- Budget — including the amount requested from the Trust as well as funds available from the organization itself and other sources.

The project is then referred to the regional office where there is a team that decides whether the project meets the requirements. This may entail more work on the part of the fieldworker. Regional offices send the applications to the national office. All projects are vetted on a national scale to see that they meet national criteria and are approved by the trustees, who are organized in subcommittees to deal with the large volume of applications. After the trustees approve the application, it goes to the EU office in Pretoria to be looked at by a group of field workers and program people. If they approve it the application goes to a committee of embassy staff of the member states of the European Union in Pretoria who then vet it.

The application finally is sent to Brussels, where it is reviewed by the desk officers of the special program, then a committee of experts representing the foreign ministries of member states. Once they have approved the project

the application requires the signature of the head of the EU's development ministry, after which it goes to the EU Treasury, where the contract is designed and the money released. At any stage of this process, an application can be thrown out or thrown back for further investigation. Experience has shown that the Trust's promised wait of three to four months before an informed decision can be made on project support is overly optimistic.

When a project/program is approved, Kagiso Trust enters into a formal and legal agreement with the recipient that confirms the activities to be conducted, and the financial and administrative procedures to be followed. The Trust requires financial and narrative reports on project activities every six months and periodic audits. Kagiso Trust also guarantees that a Trust representative will visit the project site to assist, assess or appraise the project holders' activities supported by the Trust and frequently arrange evaluations.

Grant Disbursement

Money is released in three stages: 60% on initial acceptance; a further 30% on receipt of a financial report and a narrative report; and the final 10% after audited financial statements are received. Every time a report is received it goes up the same ladder, right back to the desk-officers in Brussels.

"If a project still has enough energy after that," says Kleinschmidt, "if they want money for Year 2, they have to go through the whole rigmarole again...The turnaround rate is between six and eight months."

The delay in receiving funds poses tremendous problems for grantees and KT in grant monitoring and evaluation as there is a lag in project implementation. According to Molobi,

the money is often received three months after the project beginning date, at which time the NGO's planned activities may already have been adversely affected by delays, or the NGO may have incurred debts in trying to stick to its original schedule.

Beneficiaries of Kagiso Trust express frustration at the long delays experienced in receiving money and the absence of clear reporting guidelines. Colleen Purkis of the GSP&DM, which has been funded by Kagiso Trust since 1992, explains that delays in cashflow mean that the school has to borrow money from other sources to sustain the academic program. Purkis also complains that there are a number of unanswered questions in terms of financial reporting, for instance the use and accounting of surplus funds which the organization is unable to spend in the year because of delays in receiving money or of interest earned on money received. And now that the EU has an in-country office, there is sometimes a duplication of requests for information — from KT and the EU office.

As "accountability" rises higher on the agenda in South Africa, funding documents are becoming increasingly more complicated and ways have to be found to assist communities to cope with the documentation. The challenge facing all donor agencies is to convey information on complex funding requirements, in a user-friendly way in order not to alienate needy communities.

Kagiso Trust is working on a draft document which outlines the grantmaking procedures and other aspects such as field worker conduct in the communities and information to which the communities are entitled. But uncertainty as to where the EU is going in terms of funding means that the document can only be seen as a work in progress. And

the usefulness of a detailed manual alone is questionable, even in Molobi's eyes: "Yes we [may] give them a manual, but...the book is not very useful because [many of the people] can't read or write...Some of the people want to run projects which cost \$3-4 million, but they have never in their lives seen more than R5,000. You've got to be careful to set up committees to ensure that these people are helped."

Beneficiaries of Kagiso Trust have differing experiences of how much technical and administrative assistance has been provided by Kagiso staff, and this is probably largely due to regional differences.

Mervin Ogle is the Director of the English Language Education Trust which was funded by Kagiso Trust in 1992 and 1993 for two projects in the Natal midlands. They had applied in 1986/87 and, she says:

"...we were turned down on the basis that we were not sufficiently relevant or subversive. We were working in KwaZulu schools, so in order to get access...we had to share offices with the local government, with school inspectors and so on. So it was felt that we were not sufficiently critical of this so we were turned down. We applied again in 1990 and presented the same rationale in our proposal and for some reason they then became less doctrinaire about peoples' political position...we were surprised to find that our proposals were accepted but we were quite happy..."

In 1994, the group was again turned down by the Durban office, which advised them to apply to the EU office directly; "which we haven't done yet because although I managed to get the forms from the EU, they are so complicated that I'll need someone to help me work out the whole system."

Ogle has not been left with a good impression of Kagiso Trust in the Natal province. "I always had the sense that all they did was play a kind of bureaucratic administrative role. There was no sense of a concern for development...only with political transformation," he says.

Financing KT

Kagiso Trust's financing rose from US\$1.5 million to a peak of US\$58 million in just over six years (see Table 2, below), largely due to the influence of a single donor. Initially Kagiso Trust was financed solely by the European Union as part of a two-pronged strategy to "hasten the abolition of apartheid through economic, diplomatic and moral pressure, combined with financial support for the victims of apartheid" (*KT Review* 1994/5). The European Union is South Africa's biggest single overseas donor and has, in the past, been Kagiso Trust's biggest contributor.

The EU's assistance is followed by the Japanese, Canadian and Scandinavian governments. From an initial US\$100,000 in 1987, Japan's aid increased to US\$4.5 million in 1994. The Japanese focus has been on small business development, but more recently it has incorporated a number of rural development and urban reconstruction programs. Kagiso Trust does receive some support from the South African business community but the lack of a fundraising number (official status as nonprofit) has made this difficult. According to its publication, *Sustainable Development*, this support comes mainly in the form of:

...collaborative ventures and association which best utilize the existing infrastructure. For example, Engen (formerly Mobil) - one of the largest oil companies in the country - has channeled its budget for student scholarships through Kagiso Trust's bursary program. And the mega-corporation Digital has introduced its internationally successful "Program Reach," a support system for students, through the Trust.

Historically, Kagiso Trust did not actively

fundraise because the constant flow of EU money made this unnecessary. This scenario changed in 1990, and KT has diversified substantially and is making considerable progress in building financial sustainability.

Future Sources of Funding for the Kagiso Trust

In light of the loss of European funding, Kagiso Trust has explored a number of alternative sources of funding. First, the Trust is attempting to set up an endowment. Second, Kagiso Trust Investments (KTI) was set up with the ultimate objective of generating sufficient dividend flow to sustain its involvement in development projects. Third, leveraging from the credibility it has built as a legitimate actor in national development, KT has staked a claim to the proceeds from a national lottery program, whose earnings are intended to support social programs.

Kagiso Trust Endowment

Currently KT raises funds on a project-by-project basis, which consumes a great deal of time and energy. It is therefore seeking to attract local and foreign funds from development agencies, foundations and the corporate sector to provide a capital base to set up an endowment fund, returns from which would eventually be used to fund projects.

The Trust hopes to raise R50 million (approximately US\$14 million) as a capital base for the endowment. In setting up the endowment, Kagiso Trust has looked at models of foundations in the United States but feels they cannot be recreated in South Africa, as economic and legal conditions and incentives are not the same, and neither is there a tradition of large-scale individual philanthropy. Meanwhile, KT has registered as a 501(c)3 organization, which has charitable status in the United

States. Kagiso Trust has encountered a lot of goodwill and some interesting ideas have arisen in discussions with American agencies.

KT Trustee Appelbaum is not optimistic about prospects of building an endowment from local sources. He points out that South African philanthropists tend to support religion and straight welfare. Funds allocated by companies to corporate philanthropy are not vast and tend to go toward projects which afford the company some form of marketing advantage. Given this general environment, Kagiso Trust has had to be very creative in building its financial sustainability and Kagiso Trust Investments is an excellent example of this.

Kagiso Trust Investments (KTI)

After 1990 Kagiso Trust was approached by many people in the business world with requests for assistance in changing their companies into entities which would be more representative of the country as a whole. This translated into a need for the companies to employ more black people. Kagiso Trust provided these companies with free advice and thus began to toy with the idea of setting up a business consultancy. At the end of 1993, the Trustees of Kagiso Trust began to talk about forming a vehicle to unlock the potential of the black business community through participation in joint ventures with suitable local and international investors.

A decision was made to set up an investment company, and KTI was established in late 1993. Kleinschmidt recounts how there was much scepticism because there was no capital available for the company. However, money was raised from an American bank

which had loaned money to the South African Reserve Bank in the days of apartheid. An arrangement was made that before it was paid back to the American bank, KTI could invest the amount for seven or eight years.

KTI is seen as providing the broader black community with a meaningful stake in the country's mainstream economy. It seeks to provide "suitable exposure for black entrepreneurs, promote integrated and holistic training, and facilitate visible joint ventures with credible local and international investors." The stated aims of KTI are as follows:

- To build a successful investment company that will contribute to a viable market-oriented economy run on sound business and economic principles;
- To secure returns by investing in growth-oriented undertakings;
- To apply dividends to disadvantaged communities through development projects administered by Kagiso Trust; and
- To serve as a transparent, efficient and accountable role model.

In setting up KTI, the Trustees hoped to meet grassroots development needs, while addressing other vital issues such as job creation, skewed wealth distribution and infra-structural development.

KTI is wholly owned by those Trustees of KT who are Trustees of KTI collectively. Two principles guide KTI's investment decisions: black economic empowerment and the benefit, through dividends, to KT. In an undated press release, it is stated that KTI will focus its investment activities in only those economic sectors that promise substantial growth and

where it can add value.

KTI's Board of Directors is made up of leading business people and development practitioners and it is managed as a separate entity from Kagiso Trust. The Board includes, Molo-bi, Mohammed, Kleinschmidt, Appelbaum, Njobe, and Rev. Mazwi Tisani. The management team includes Managing Director, Johnson Njeke, a former partner with Price Waterhouse Meyernel, and Executive Director, Fani Titi, previously a lecturer and thereafter with the capital markets division of Rand Merchant Bank Ltd.

In terms of seeking to add value, "change management" is a major factor for KTI which seeks to invest in companies where it is able to positively influence the organization's outlook and shape of that particular company. Kleinschmidt believes that KTI has an important role to play in helping companies to relate properly to the expanding market which represents the majority population. This new market has ramifications for marketing, management, Board membership, and composition of shareholders.

In regard to black economic empowerment, Molobi believes that, "The key to the potential growth of our economy lies in the formation of independent businesses run by blacks, but also in partnerships and other forms of cooperation with established businesses." KTI seeks to invest in companies with sound management that recognizes that the introduction of new, black colleagues will be mutually beneficial. These new partnerships between existing, usually white, management and new black management open the doors for both parties. Black managers are afforded opportunities denied them in the past and new doors are opened for the company to markets previ-

ously ignored or closed to them.

KTI will not participate in business ventures that regularly need to be capitalized by shareholders. In the short time that it has been operating, KTI has been remarkably successful. In its first deal, KTI was instrumental in putting together a consortium of black business and professional people, which purchased the majority shareholding in a prominent insurance company dealing primarily with black consumers, African Life. However, KTI has since sold its holdings. "We realized that the company would be 'cash-hungry' for a long time as it was a growing concern and dividends would not be possible during that time," Kleinschmidt says.

A modest financial gain of over R3 million (US\$833,333) was made in eight months, which helped KTI invest in Supervision Food Services (SFS), now Kagiso Khulani Supervision Food Services. This investment was made by KTI within a wider consortium that included Khulani Holdings, a prominent black investment company which has interests in commercial and industrial businesses, mainly in Natal; First Corp. Capital Investors, the private investment capital arm of First Corp. Merchant Bank; senior management of SFS; and the Tongaat Hulett group.

In 1994, KTI invested in a leading education publisher, De Jager-HAUM, which had approached First Corp. to discuss their future as they were losing the backing of the N.G. Kerk, a group of conservative Afrikaans churches. First Corp. invited KTI into the deal, along with an affiliate of First National Bank. The company was renamed Kagiso Publishers. Kagiso Publishers has been a real success in the sense that it has established a dynamic curriculum team and is now publishing material relevant to South African school

children. It has also been successful in that it has accommodated existing senior management, largely conservative and Afrikaans, who remained in their existing positions and became shareholders in the company with new black shareholders and management. The chemistry between these groups has worked remarkably well.

KTI seeks an active role in managing its investments, but prefers to sit in constellations where it knows that its expertise will complement that of other players. It also seeks to involve banks and management of the concern in the investment, seeing this as a way of guaranteeing good returns. Shareholders of KTI are very involved in the management of KTI investments. In sum, KTI's investment strategy emphasizes participation in:

- Joint ventures with partners who have a

track record and an in-depth knowledge of their respective industries and have strong management teams;

- Management buy-out opportunities in partnership with management that has a good track record; and
- Ventures where KTI can exercise significant

influence over the financial and operating policies of the investee company.

KTI seeks to play an enabling role for black business by bringing in suitable partners depending on the venture. KTI wishes, in general, to be associated with institutions whose vision is to:

- Create career opportunities for individuals from disadvantaged communities;
- Invest in the development of people's skills in managerial and technical functions; and

- Broaden the financial ownership and management control base among members of the disadvantaged communities.

In terms of its commitment to black empowerment, KTI Trustees do not believe that black economic interests are served by simply putting people into positions because they are black. They have adopted a dual strategy of finding the best possible people who are black to put into management positions, as well as identifying promising youngsters who can be groomed for senior management.

The initial success of KTI has created a sense of hope not only for Kagiso Trust's future sustainability, but also for black economic empowerment. In the words of Appelbaum, "There is a window of opportunity for black economic advancement and empowerment and if we can turn KTI into a large investment management company, I reckon we can create a significant dividend within three years."

National Lottery

Another avenue of funding that has recently opened up for KT is proceeds from the Zama Zama scratch-card lottery. For 1995, Kleinschmidt expected the amount collected to be nearly half a million Rand (US\$138,888) per month. He says:

We have to spend that immediately within the month because of the media cameras that will zoom in on how much the money is benefiting communities. I think that is very nice - it makes us very accountable in the public eye. It also means that we can get out of the noose of the EU. Administering grant aid from the EU has been a mixed blessing. It has been a lot of money, but the negotiations have been a heck of a thing.

Since EU money was always tied to particular projects, KT had no funds over which the Trustees had discretionary control to make quick decisions. Access to immediate funds from the lottery will mean that KT will be able to respond very quickly to project proposals as the allocation of these funds will not be tied to the EU grantmaking procedures.

An announcement is expected soon about the creation of a Super Trust pooling a number of scratch card lotteries (Viva, Ithuba, Zama-Zama). KT has staked a claim on nearly 30% of the money made from these cards which could amount to over one million Rand a month.

Conclusion

In the ten years that Kagiso Trust has been in existence, the organization has faced many challenges. In the early years, it struggled for its very existence in the face of the Nationalist Party government's attempts to close it down. The post-1990 period presented KT with a new set of challenges as it sought to redefine for itself a role as a development agency rather than a conduit of European funds into South Africa.

The post-democratic election period, however, is presenting KT with its biggest challenges to date. The establishment of a formal EU presence in South Africa with the setting up of an office, clouded the relationship and it is not clear that any attempt was made to clarify the new roles of the two parties, or to prevent duplication of responsibilities thereby avoiding conflict.

The receipt of such large sums of EU money by an NGO is, in itself, unusual and is testament to the *sui generis* nature of Kagiso Trust which was, in effect, a creation of leaders of South Africa's democratic movement and the EU, and was not originally intended to be a lasting organization. Its survival in such a dynamic and uncertain environment is, therefore, that much more exceptional. The EU has redirected its involvement in South Africa toward bilateral arrangements which has left Kagiso Trust without a guaranteed source of funding.

The EU is currently planning an evaluation of its Special Program to Assist the Victims of Apartheid (under which the KT was originally formed), to assess impact of its support since 1986, along strictly developmental lines. There is a sense within KT that the evaluation is a denial of events in the past and of the political

constraints under which the Trust was operating, because of the evaluation's "development" emphasis despite the fact that the program was established as an avenue to provide relief to "victims of apartheid" and was not set up along developmental lines.

The changing political scenario has also altered KT's relationship with the South African government. In the apartheid years, KT played an adversarial role vis-à-vis the State. The election of a democratic Government of National Unity and the adoption of the Reconstruction and Development Programme as the development framework for South Africa means that the state is now for the first time a major (if not the dominant player) in the development process. Development-oriented CBOs and NGOs have now to interact with the State on a daily basis through the RDP office. KT is no exception and the organization is playing a part in the debate around the relationship between government, RDP functions and developmental NGOs. The pending formation of the Transitional National Development Trust has brought this new relationship into sharp focus and once again forced Kagiso Trust into a position of redefining its role.

In addition, Kagiso Trust faces a number of organizational challenges. Over the years, it has established a reputation for slow response to applications. This may have been largely a result of the complicated EU procedures, but KT itself may need to shoulder some of the blame. KT's changing role from conduit to development agency poses the challenge of improving its grantmaking procedures to ensure rapid response to communities attempting to improve their level of development. This situation is expected to change as Kagiso Trust develops a more independent funding base. The fact

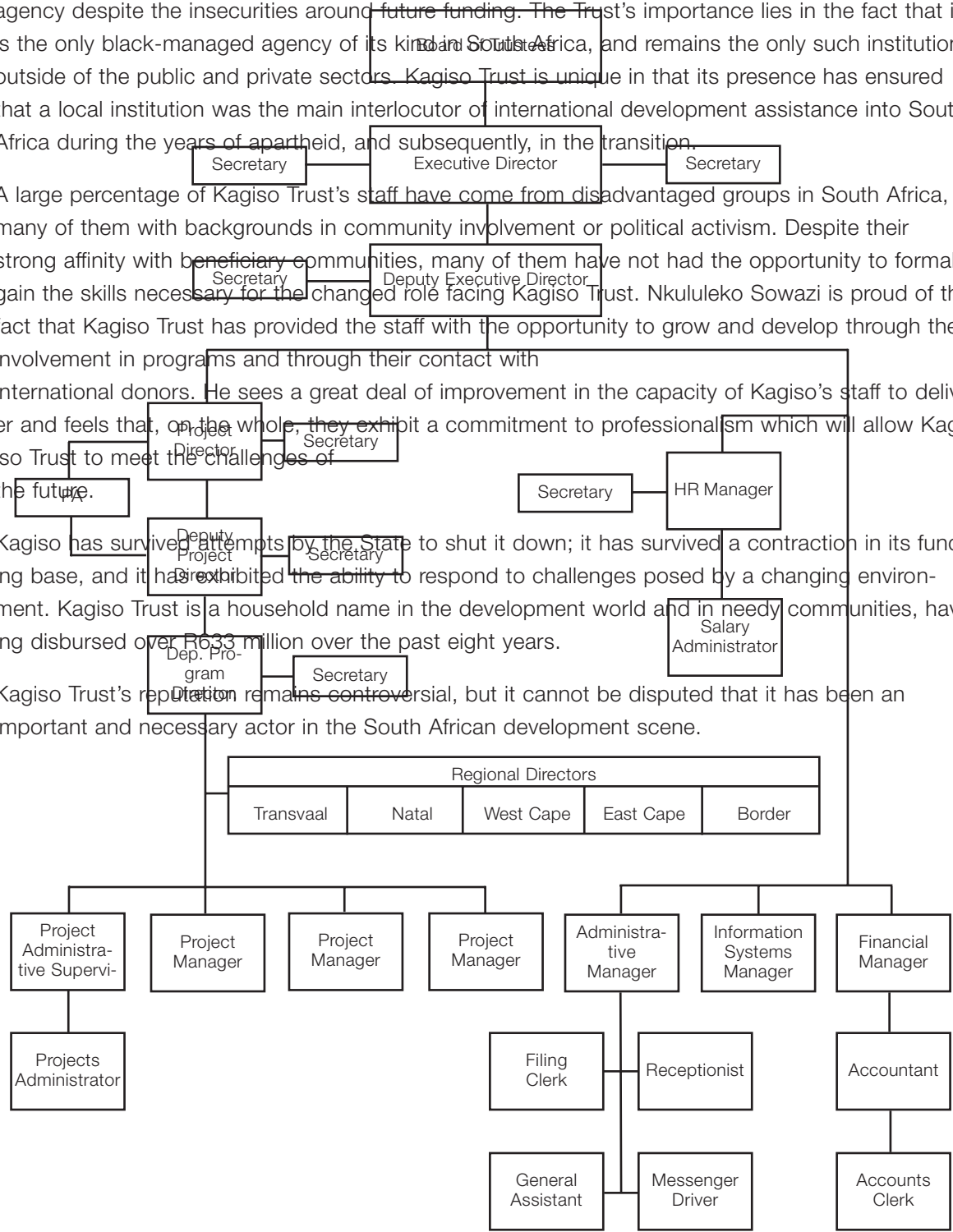
that funding from the Zama-Zama scratch card lottery is disbursed in two weeks appears to bode well for improvement in this area.

KT's survival in the face of enormous challenges so far gives hope that it will continue to grow and thrive and that it will be able to face the new challenges in becoming an implementing development agency despite the insecurities around future funding. The Trust's importance lies in the fact that it is the only black-managed agency of its kind in South Africa, and remains the only such institution outside of the public and private sectors. Kagiso Trust is unique in that its presence has ensured that a local institution was the main interlocutor of international development assistance into South Africa during the years of apartheid, and subsequently, in the transition.

A large percentage of Kagiso Trust's staff have come from disadvantaged groups in South Africa, many of them with backgrounds in community involvement or political activism. Despite their strong affinity with beneficiary communities, many of them have not had the opportunity to formally gain the skills necessary for the changed role facing Kagiso Trust. Nkululeko Sowazi is proud of the fact that Kagiso Trust has provided the staff with the opportunity to grow and develop through their involvement in programs and through their contact with international donors. He sees a great deal of improvement in the capacity of Kagiso's staff to deliver and feels that, on the whole, they exhibit a commitment to professionalism which will allow Kagiso Trust to meet the challenges of the future.

Kagiso has survived attempts by the State to shut it down; it has survived a contraction in its funding base, and it has exhibited the ability to respond to challenges posed by a changing environment. Kagiso Trust is a household name in the development world and in needy communities, having disbursed over R633 million over the past eight years.

Kagiso Trust's reputation remains controversial, but it cannot be disputed that it has been an important and necessary actor in the South African development scene.



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Project Outline

Progress Evaluation of the Pilot Phase

Guides for Applicants
Project Administrator
172 per region

Project Officers
1-3 per region

CBOSP Coordinator
1 per region

Newspaper Articles:

Business Day

Weekly Mail

Interviews

Kagiso Trust Staff:

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Horst Kleinschmidt, Deputy Director, Kagiso Trust

Nkululeko Sowazi, Deputy Projects Director, Kagiso Trust

Cilla Grimster, Acting Regional Director, Natal, Kagiso Trust

Joe Gumbi, Kagiso Staff member since 1987, Natal branch
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lite

Haroon Lachporia, Financial Manager

general staff, complement 8-10

Human Resources Manager

Frank Bono

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