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**USAID/South Africa's Economic Capacity Building Impact  
Assessment**

**Final Report**

**5 March 2007**

This report was produced for review by the United States Agency for International Development. It was prepared by Manto Management (Pty) Ltd., specifically Mr. David Solomon and Ms. Juliann Moodley and addresses USAID/South Africa's Strategic Objective No. 4: Improved Capacity of key government and Non Gov entities to formulate, evaluate and implement economic policies to promote economic growth and equity. The author's views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the United States Government

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## Acronyms

Acronym/ Abbreviation	Definition/ Description
AGOA	African Growth and Opportunity Act
ALARM	Alliance for Land and Agrarian Reform
ARISE	African Rural Initiatives to Sustain the Environment
ARV	Antiretroviral
BEE	Black Economic Empowerment
CGE	Computable General Equilibrium
CLARA	Community Land Rights Act
DEAT	Department of Environmental Affairs and Tourism
DfID	Department for International Development
DLA	Department of Land Affairs
DOL	Department of Labour
DPE	Department of Public Enterprises
DPLG	Department of Provincial and Local Government
DSD	Department of Social Development
DTI	Department of Trade and Industry
ESOPs	Employee Stock Ownership Plans
FADTRU	Finance and Development Training and Research Unit
JEAP	Joint Economic Aids Policy Program
LRS	Labor Research Services
GSU	Georgia State University
HCBC	Home and Community Based Care
HSRC	Human Sciences Research Council
IIE	Institute for International Education
IIPI	International Intellectual Property Institute
IPO	Initial Public Offering
MESP	Mandela Economics Scholars Program
MFRC	Micro Finance Regulatory Council
NALEDI	National Labour and Economic Development Institute
NCR	National Credit Regulator
NER	Employee Stock Ownership Plans
NGOs	Non-Governmental Organisations
NT	National Treasury
SADC	Southern African Development Community
SAHRC	South African Human Rights Commission
SARIMA	The Southern African Research and Innovation Management Association

SAIIA	South African Institute for International Affairs
SATI	The Southern African Tax Institute
SEGA	Support for Economic Growth and Analysis
SOE	State Owned Enterprises
StasSA	Statistics South Africa
PPP	Public Private Partnerships
TIPS	Trade and Industrial Policy Strategies
TRIPS	Trade Related Aspects of Intellectual Property
UCT	University of Cape Town
UMass	University of Massachusetts
UN	University of Natal
UNISA	University of South Africa
USAID	United States Agency for International Development
UWC	University of the Western Cape

## **Executive Summary**

### **Introduction and Background**

The Economic Capacity Building Strategic Objective was developed in 1996 through a process of joint consultation between USAID/South Africa and the South African Government (SAG). The main concerns that emerged from the consultative process was that (1) there was an extreme shortage of qualified black economists to work on economic policy issues; (2) traditionally black universities lacked the capacity to train enough qualified black economists to meet future demand; and (3) economic think-tanks lacked the skills to provide worthwhile analysis on economic issues.

A number of activities were undertaken to address the concerns detailed above. These activities were formulated and implemented to achieve the following objectives:

- To strengthen human resources in economics and policy analysis for key government entities;
- To strengthen government departments that deal with policy matters;
- To strengthen think tanks to formulate and evaluate economic policy options for all economic policy makers and;
- To strengthen centres of economics training (Centres of Excellence in economics) especially within the historically disadvantaged institutions.

### **Scope and Objectives of the Evaluation**

This evaluation assessed USAID's Economic Capacity Building program in terms of the extent to which the programme contributed towards building South African capacity to formulate, analyze and implement economic policies that support South Africa's vision of being a globally competitive economy that benefits all South Africans. The evaluation also identified the key accomplishments, as well as challenges that may have impeded the attainment of targeted results. For all major aspects of the program, the evaluation considered the following:

- whether the program generated unintended results, either positive or negative, in addition to its targeted results;
- whether the activities undertaken, were the most effective way of achieving intended results, or whether other activities or approaches might have yielded results more effectively; and
- for activities that were successful, what made them work.

In undertaking the evaluation of the programme, a multi-faceted framework, encapsulating both the specific and broader objectives of the project, was used. The specific objectives related directly to the activities undertaken at a programme level. Broader objectives related to the outcomes of these activities on the beneficiaries, in particular, the South African Government departments. To ensure that the evaluation was informing project activities, it was critical to systematically align the data collected during the evaluation to the project's objectives, so that the outcomes being measured could be attributable, as far as possible, to these objectives. This required the components of the programme to be analysed with respect to its internal logic i.e. how the components logically fit together to inform the evaluation design.

The evaluation focused primarily on a qualitative assessment of the capacity building programme. Qualitative data were sourced through three primary research methods: observation, interviews and review of documentation. In this evaluation, two main instruments were fashioned for data-collection: documentation review and structured interviews (face-to-face and by telephone, utilizing a structured interview schedule). An indicative interview protocol is presented in Annex 4.

## **Key findings**

USAID's program on economic capacity development was aimed at addressing the lack of professionally-qualified black economists who could work at the policy level and analyze, design and implement economic policy. Working on the premise that good analysis can lead to good policy, and poor analysis will lead to poor policy, by improving the quality and skills of the economists, as well as those who are involved in the conceptualization, implementation, and evaluation of policy initiatives there will be a concurrent improvement in the policy developed. To this end, a number of activities were undertaken – this included:

- long-term and short term training
- institutional capacity building
- policy development

### **1. Long-term and short-term training**

The purpose of the program was to build capacity for formulating and supporting economic policy which is focused and coherent, in the face of educational deficiencies and a significant degree of ideological antipathy.

Mandela Economic Scholars Programme<sup>1</sup>, the parliamentary program and Southern African Tax Institute successfully addressed the major capacity- building challenges, but MESP 1 failed to incorporate sustainability in its design. The program will continue to be a success as long as the considerable funding is available. The parliamentary program and SATI have proved sustainable due to the promise of continued funding from parliament itself. SATI has graduated into a fee-funded program, leaving the delegates with the problem of fund raising. The program has had two years of self-funding and is looking sustainable. The Labor Research Services (LRS) program failed on sustainability because the target audience incurred a very high cost of their own time in terms of union work being neglected. In their own ways, both the MESP1 and LRS programs proved too costly to be fully sustainable.

MESP 2 failed to achieve its objectives because the program design failed to address the major challenges. These were that:

- The programs did not address the specific circumstances and educational backgrounds of the candidates.
- The design of the programs did not address attitudinal and formative issues.
- Little attempt was made to relate the economic theory and technical skills to the current tasks. The faculty with whom they had most contact was not strong in the area of applied



economics, or policy advice, as was the case with many of the USA- based institutions and programs.

## 2. Institutional Capacity Building

The forms of support provided under the institutional capacity building included the following:

- **Short-term problem-based technical assistance.** (6-8 weeks)
- **Longer-term problem-based technical assistance.** (1 year or more)
- **Longer-term structure-based technical assistance.** This was technical support which focused not only on solving a specific problem, but on creating an institution which can solve similar such problems.

Institutions that have managed to build sustainability beyond the time that funding expires are a good measure of the level of success in a program and many of the units created, or sustained through assistance have been empowered to survive. Notable among these are the PPP unit in National Treasury, and the restructuring unit of DPE, TIPS.

Systems and key factors in their success are the centrality of the issues on support to institutions and the support at senior levels of authority. The success of the Public Private Partnerships (PPP) unit relies entirely on the commitment of the national treasury to assume control of this new partnership environment. The credibility of the training given rests on the power exercised by treasury to make the guidelines mandatory before any PPP can proceed.

In contrast, the advice on privatization was no less expertly provided, but had less of an effect because the department concerned lacked the necessary commitment to the issue. As a result, policies and proposals were made but lay dormant in the hands of the client.

Another successful input has been with TIPS. This unit, now self sufficient, has proved to have an enduring effect on economic research and development. It is well-respected and has provided Government, and the policy arena in general, with quality analyses that have contributed positively in the policy debates.

A third success has been the capacitating of the Competition Commission which has carried out a very active role in regulating competition. It has successfully defended its position in several important court challenges and is now held up as a model for other African states.

With the work on Centers of Excellence, Finance and Development Training and Research Unit (FADTRU's) impact (which appears to be sustainable) on creating an understanding of economics in general amongst those who would not have gained entry into the other institutions is invaluable.

Considerable success was achieved in supporting and building local institutions which are engaged in economic policy formulation and advice. This success was predicated on the identification of

needed capacity by the client institution, and was often related to the building of capacity to engage in specific tasks. The experience and expertise of the advisors appointed was a key success factor. Technical expertise alone was not enough. Knowledge and experience of organizational development is essential, as is the personal ability to engage constructively with the client institutions and to act as effective change agents.

As with the SEGA/MESP program generally, this institution building element tried to spread itself over a very wide area. An “infant institution” principle seems to be in place. USAID money is used to initiate a project, in the expectation that it will be adopted by the client and independent funding will be found. The “adoption” is the acid test of project relevance and appropriate project design. We recommend that a more purposeful approach be taken.

### **3. Policy Development: Conclusions**

A number of positive results were noted which had a direct impact on policy. The key finding in respect of the policy development was as follows:

- Where there was clarity about the need for policy, and about how the USAID funded input would be used to deliver such policy, success was assured. Support for micro-finance regulation is a clear example. Where the funded input is merely a “nice-to-have” source of information, little tangible result can be expected (Projects within DLA are examples).
- A well-designed policy process, with a clearly defined role for external inputs, is also a pre-condition for successful assistance. In the cases where the specific project was initiated by the client department, and a clear vision was in place of how the assistance would interface with the internal policy process, the projects were successful. The support for micro finance policy is a clear example. In cases where the project was chosen for its potential interest, without any clear intention to incorporate it in policy making, it generally was consigned to the academic arena, and had little impact on the policy environment. Again, the micro-finance regulation project can be seen as epitomizing this point, with the Department of Land Affairs as it’s opposite.

Analysis of the SEGA/MESP policy interventions re-affirms that the identification of the need for policy and the determination of its general nature is, in a democracy, a highly political and therefore frequently contested process. Successful projects somehow managed to evade the pitfalls inherent in policy determination. Policy was relatively easy to formulate in the Departments of Trade and Industry, State Enterprises and Environmental Affairs and Tourism, but was very difficult to bring to finality in the Department of Land Affairs. Reasons for this can be found, if sought, in the centrality of the issues, the potentially conflicting nature of stakeholders’ interests, the ability of the policy protagonists and the degree of political support they enjoy. Work in the Department of Labour was facilitated by a happy and possibly serendipitous alignment of ideologies. Where the funded input is merely a “nice-to-have” source of information, little tangible result can be expected.

In general though, even with the failures, the impact on policy has been strong. Often, this impact is the result of the two other factors discussed above, that of capacity-building, and of institutional building.

## **Recommendations**

The recommendations made under each section are summarized below:

### **1. Human Resource Development**

- Continuation of the Mandela Economic Scholarship Program. The provision of high profile scholarships for the study of economics at a postgraduate level should be continued. World-class education is clearly one of the most important benefits the donor countries can offer their clients and represents an export for which the recipient has very poor substitutes.
- The aid support mechanisms for local institutions should be designed so as to ensure that the acknowledged challenges presented by apartheid history are specifically addressed, by means of, for example, bridging programs. Teaching faculty should be given suitable encouragement to improve their learning relationships with their students.
- The focus on “conventional economics” rather than “radical political economy” should be maintained, but provision should be made for students to be exposed to divergent views.

### **2. Institutional Capacity-Building.**

- Focus of support should be on building the institution itself. It should identify and appoint executive officers and work with them to design systems and procedures, establish a funding model and create a culture appropriate to the task at hand.
- The nature of the systems and procedures should have, as a top priority, the establishment of lines of communication between the technical and political stakeholders.
- . The key criterion for approval of projects in this category should be the priority of the issues in the client’s own agenda. Only issues which are considered top priority by the client institutions should be pursued, and structures created to address them.
- The financial support of entirely private think-tanks which set their own research agendas is extremely risky and must be treated with caution. It is likely that the essential link between the researcher and the client department will be tenuous.
- Existing client organizations should be encouraged and assisted to develop an explicit organizational strategy in which the tasks supported by the TA and the capacity created is identified and targeted.
- An effort should be made to focus this form of assistance on a small number of institutions and to intensify the level of support given in order to generate greater depth of expertise, and to follow through once initial support is given.

### 3. Policy Development

- **Ownership.** It is vital that policy interventions be “owned” by the client. This is even more important in the context of policy than in the capacity interventions. Incumbent decision-makers and executives should be assisted to make a clear identification of what policy outputs form part of their core deliverables, and to formulate an action plan to achieve them with the help of appropriate technical assistance.
- **Policy Process.** The client department should have in place (or be assisted to put in place) a well-defined process by which policy is formulated and evaluated. Emphasis should be placed on planning the policy process, to assist the client to ensure that the expected return on the advisory process is realized, and that the advice or funded research contributes positively to the achievement of policy goals.
- **Institutional Sustainability.** The advisory process should not be looked upon as “information transfer” but as a part of institutional capacity-building. Project design should incorporate this goal explicitly, going beyond merely identifying the project champion, and ensuring that the champion is carrying out a defined institutional role in formulating policy, and that, should he or she vacate that position, provision is made for succession so that the policy outcome remains at the core of the institutional agenda.
- **Handling Political Conflict.** The provision of direct policy advice to recipient departments, rather than the transfer of internal capacity to develop policy must be handled with care. The possible conflictual nature of policy must be recognized, and a selection framework should be developed to ensure that projects are selected with a high probability of success. Objectives and expected results must be expressed in terms that are robust to the effects of the conflict. The project must be able to succeed in its own terms whichever side comes out on top.

## **SECTION ONE: INTRODUCTION AND METHODOLOGY**

### **1.1 Introduction and Background**

The Economic Capacity Building Strategic Objective was developed in 1996 through a process of joint consultation between USAID/South Africa and the South African Government (SAG). Economic policy capacity building was agreed upon by both governments as an appropriate and timely objective for several reasons.

Firstly, trends in the South African economy highlighted a critical need for improved economic policies:

- real per capita incomes had declined to the levels of the mid-1960s;
- the distribution of income, wealth, and economic assets was extremely unequal;
- economic growth rates had declined over the previous thirty years;
- productivity had declined for twenty years;
- production techniques were decreasingly labor-intensive and increasingly capital intensive;
- employment creation was inadequate to address massive unemployment among the historically disadvantaged black majority; and
- net investment and net savings were too low to finance economic growth.

Secondly, apartheid policies, which restricted education and career opportunities for the majority black population, had resulted in an exceptional shortage of trained black economists who could provide input in the transformation of the economy or economic policy.

Thirdly, the post-apartheid government had a strong desire to direct its own economic policy future, with South Africans, not foreign consultants, deciding what made sense for South Africa.

### **1.2 Objectives of the Evaluation**

USAID/South Africa's Economic Capacity Building Strategic Objective, which began in 1996, comes to an end in August 2007. The objectives of evaluation were as follows:

- To assess USAID's Economic Capacity Building program in terms of the *impact it has had toward building South African capacity to formulate, analyze and implement economic policies that support South Africa's vision of being a globally competitive economy that benefits all South Africans.*

- To identify key accomplishments, as well as challenges, that may have impeded accomplishment of targeted results.
- In addition the evaluation needed to consider the following:
  - whether the program generated unintended results, either positive or negative, in addition to its targeted results;
  - whether the activities undertaken, were the most effective way of achieving intended results, or whether other activities or approaches might have yielded results more effectively; and
  - for activities that were successful, what made them work.

### **1.3 Strategic Objective and Program Design**

The strategic objective (SO) around which USAID’s capacity building program was structured was:

*“SO4: Improved capacity of key governmental and non-governmental entities to formulate, evaluate and implement economic policies which will promote economic growth and equity.”<sup>1</sup>*

This SO was developed to address concerns of the South African Government that (1) there was an extreme shortage of qualified black economists to work on economic policy issues; (2) traditionally black universities lacked the capacity to train enough qualified black economists to meet future demand; and (3) economic think-tanks lacked the skills to provide worthwhile analysis on economic issues.

#### **1.3.1. Results Framework**

Four intermediate Results (IR) were formulated which together represents the results framework to achieve the stated objectives:

- 4.1 Strengthened Human resources in economics and policy analysis for key government entities;
- 4.2 Strengthened government departments that deal with policy matters;
- 4.3 Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers and;
- 4.4 Strengthened centres of economics training (Centres of Excellence in economics) especially within the historically disadvantaged institutions.

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<sup>1</sup> Results Package 1996 pg 2.

The first two intermediate results focus on the development of economics capacity within government, firstly by providing training for key personnel, and increasing the pool of available trained economists. IR 2 aimed at supporting and developing the institutional environment in which these professionals can operate effectively.

The third intermediate result addressed itself to the availability of focused expertise from outside the government sector, which was made available to government through the dissemination of commissioned research.

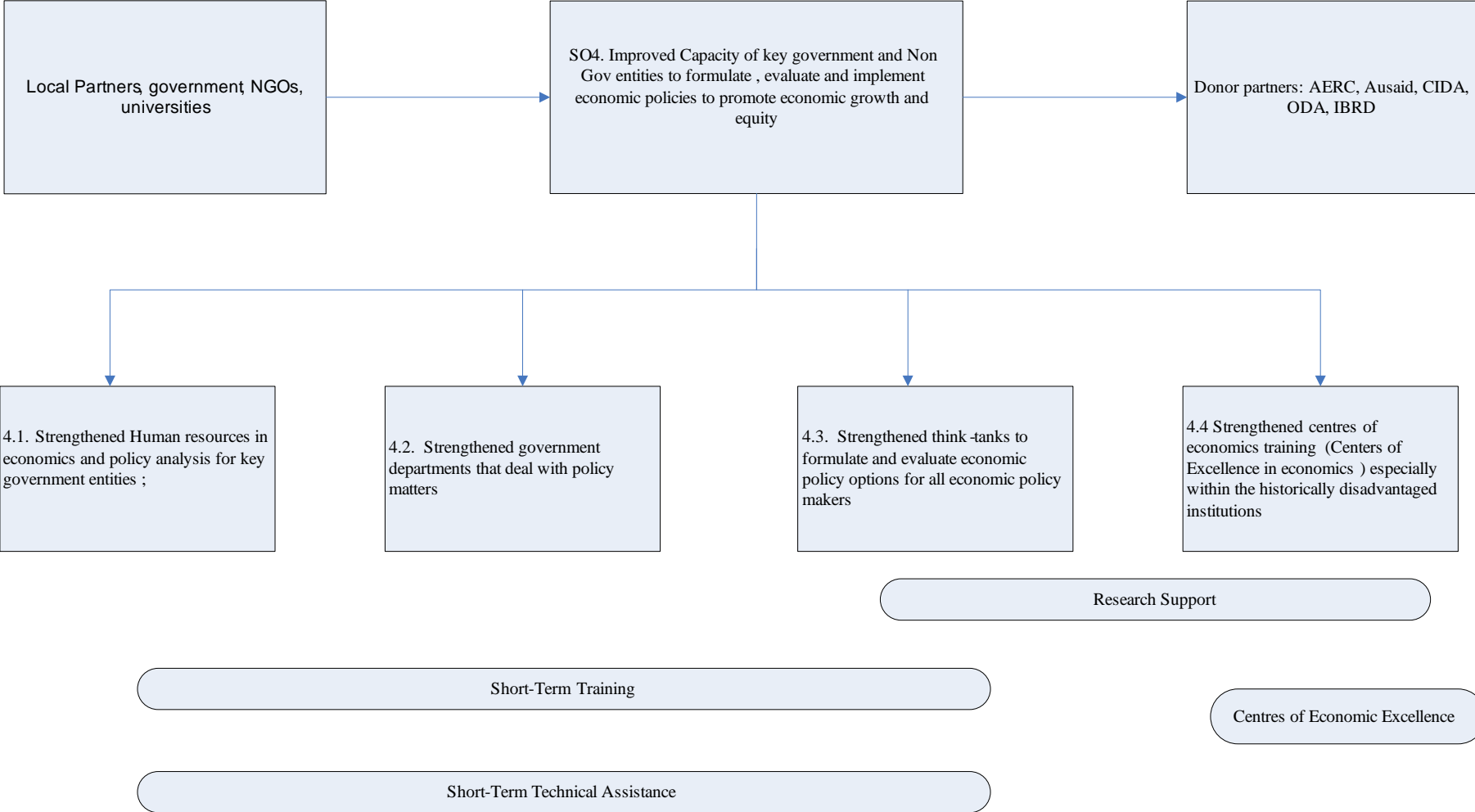
Finally, the fourth intermediate result aimed to support the sustainability of a flow of suitably qualified economists to government, Non-governmental organizations (NGOs) and the private sector.

The main activity that addressed the first result was the Mandela Economic Scholars Program which sent disadvantaged South Africans to the United States (US) for masters or doctorate degrees in economics.

The second and third intermediate results were addressed by the provision of coordinated short term technical assistance, short term training and research support with a focus on building research capacity.

The fourth result was to be achieved through the establishment of centres of sustainable excellence. The key project was with the University of the Western Cape where a center of excellence for economic teaching and research among formerly disadvantaged universities was established.

# Results Framework





### 1.3.2 Time-span of the SO4 programme

The strategy to meet SO4 was divided into three time frames:

**The short-term** portion is largely dealt with in IR4.2, and comprises the provision of short term technical assistance, short term training and research support. The intention of this section was to remedy the effects of the information-isolation imposed during the apartheid years. Provision of technical assistance was intended to provide a rapid response mechanism to meet the needs of key government departments. Short term training similarly serves as a rapid mechanism of meeting specific immediate needs. Research assistance was also seen as short term. The provision of additional funds provided for the re-orientation of pre-existing research contracts, and the concluding of new ones focused on immediate needs, with contractors who were acceptable to the new government.

**The medium-term** component was largely the development of directly available human resources in economics, as envisaged in intermediate result 4.1. In the main this was met by the MESP I and II programs, in which support was provided for study of economics at postgraduate level in the USA (MESP I) and locally (MESP II).

In addition, there were also programs of specialized training in basic economics, environmental economics, tax policy, analysis and tax administration, and budget analysis for government officials. USAID worked with the South African Parliament to develop a special certificate and diploma in public economics for parliamentarians working on committees where knowledge of economics was essential.

**The long-term** program, encapsulated in IR 4.3 and 4.4, focussed on institutional development of non-government think tanks, and of centres of economics excellence at SA universities, particularly those previously disadvantaged.

The program aimed at strengthening economic think tanks to provide independent analysis of economic policy. The major recipients were Trade and Industrial Policy Strategies (TIPS), National Institute for Economic Policy, the Africa Institute for Policy Analysis and Economic Integration and the Forum on Environmental Economics. Working through the US Department of Labor, USAID helped develop Employment Equity legislation and there-after the codes of good practice. Working through the U.S. Treasury Department, USAID helped develop the equitable formula and conditional grant system to help provincial governments. A major element was revising the tax system to enable it to encourage investment and job creation. To address the economic impact of AIDS, USAID, along with other donors, developed a program to encourage research to assess the economic impact of HIV/AIDS on South Africa.

### 1.3.3 Key Implementing Vehicles

The programme was implemented through the following mechanisms:

- Bi Lateral Strategic Objective Agreement between US Government and National Treasury
- Inter Agency Agreements (IAA) with
  - US Treasury
  - US Department of Agriculture
  - US Department of Labour
  - US Justice Department

Lead contractors:

- Nathan Associates
- ABT Associates / IBM

### 1.3.4 Expected Results

The expected intermediate results of the project are quite specific and were expected to be achieved with a high degree of certainty, viz:

- 4.1 Strengthened Human resources in economics and policy analysis for key government entities;
- 4.2 Strengthened government departments that deal with policy matters;
- 4.3 Strengthened think tanks to formulate and evaluate economic policy options for all economic policy makers and;
- 4.4 Strengthened centers of economics training (Centers of Excellence in economics) especially within the historically disadvantaged institutions.

The achievement of these results was expected to contribute to a set of higher level outcomes, which are:

- An improved economic policy environment which is more conducive to economic growth and equity.
- An actual increase in Economic Growth and equity.

Both of these results are at a much higher level than the project outcomes themselves, and are contingent on the validity of a number of assumptions:

- **Assumption 1.** Improved economic training and education will result in improved ability of the recipients to formulate good policies.

- **Assumption 2.** The services of newly capacitated policy formulators will be accessible to government and be effectively used by government.
- **Assumption 3.** There will be an acceptable level of consensus between USAID and SAG regarding what policies are considered an improvement.
- **Assumption 4.** Improved policies will result in enhanced growth and equity, as measured and monitored by USAID and SAG.

All of these assumptions are at least questionable. All are largely exogenous, with the possible exception of assumption 2, which can be affected by good design and management.

An assessment of the strategic objective in 2002 found that over the course of implementation, as the South African Government (SAG) reached a level of comfort with the USAID program, the strategic focus of the program had shifted from capacity building to specific policy issues. The overseas training element of the Mandela Economic Scholars Program was refocused on strengthening graduate level training for black economists in South Africa. The focus of the program became the technical assistance that was provided which included on-the-job-training rather than focusing on the training element with policy change being a hoped-for result. For example, USAID provided technical assistance to the SAG to develop and implement the public-private partnership unit at National Treasury. For the most part, the training that took place was through work contact with the professionals and was handled by National Treasury itself. Analysis of the impact of the lack of competition in banking highlighted policy problems and minimal training occurring mainly in research methodology. Current work on the impact of globalization on poverty, and particularly female poverty, illustrates the focus on policy issues and use of evidence-based decision-making. The USAID-established Southern African Tax Institute at the University of Pretoria illustrates how a program that was established to train South African officials gradually shifted to focus on training of tax officials from the African continent, and became financially self-sustaining. The dire economic picture that faced South Africa in 1996 has improved greatly. Since then the country has experienced seven years of continuous real economic growth. However, unemployment remains high and the socio-economic gap between the country's two economies, the rich white economy (referred to by South African President Mbeki as the first economy) and the poor black, or second economy, is widening. The first economy enjoys the benefits of first-world infrastructure and access to sophisticated financial services. It is equipped to compete globally in many sectors. The second economy is characterized by a marginalized, unskilled population that suffers high levels of unemployment and lacks the qualifications to work in the formal sector. USAID's capacity building program was developed, in support of ambitious SAG economic growth objectives over the past 10 years, to help build the human and institutional capacity within South Africa, necessary

to meet the challenge of creating a robust economy that benefits all South Africans. This assessment will evaluate the outcome of specific USAID activities toward creating that capacity and helping to formulate economic policy that will create a vibrant, equitable and sustainable economy.

#### **1.4 Scope and Objectives of the Evaluation**

This evaluation assessed USAID's Economic Capacity Building program in terms of the extent to which the programme contributed towards building South African capacity to formulate, analyze and implement economic policies that support South Africa's vision of being a globally competitive economy that benefits all South Africans. The evaluation also identified the key accomplishments, as well as challenges that may have impeded the attainment of targeted results. For all major aspects of the program, the evaluation considered the following:

- whether the program generated unintended results, either positive or negative, in addition to its targeted results;
- whether the activities undertaken, were the most effective way of achieving intended results, or whether other activities or approaches might have yielded results more effectively; and
- for activities that were successful, what made them work.

#### **1.5 Summary of Key Activities**

The four intermediate results planned for the project generated a set of activities which we have clustered in three categories: Building Human Resources, Building Institutional Capacity, and Policy Development. We will briefly outline them here and go on to describe the key activities in more detail.

##### **1.5.1 Building Human Resources**

Activities, in this category, flow from the first intermediate result, but are not confined to it. Capacity-building was a key outcome for all the activities, including the direct policy assistance and institutional development. We have clustered together the activities for which the objective of capacity-building was dominant. We have divided this cluster into long-term and short-term initiatives, in line with the results framework.

## **Long-Term Training:**

**Mandela Scholars Phase I.** This program provided bursaries to previously disadvantaged graduates to attend postgraduate programs in economics at USA based universities. The original expectation was that there would be around 200 person-years of placement, and that a high proportion of the graduates would be placed in government jobs. Students were placed in a wide range of universities across the USA. Expectations have been generally met, and favourable reports were received both from students and their subsequent employers.

**Mandela Scholars Phase II.** The second phase was initiated as a result of dwindling resources. The cost per student of travel and accommodation in the USA was considered high. Alternative bursaries were offered to students wishing to do postgraduate studies in economics at selected local institutions. After a competitive bidding process, the universities of Cape Town, KwaZulu-Natal and Stellenbosch were selected. All are top-level South African based universities, and were prepared to commit themselves to offering programs in areas considered relevant to the program. Fifty bursaries are offered per year across the three institutions. This program is considerably less successful than MESP I, with little sustainable benefit accruing to the institution, and students far less enthusiastic about the quality of their experiences. There was a slow uptake of the bursaries, and a relatively poor placement record.

## **Short-Term Training**

**Parliamentary Training in Economic Policy.** This program, considered highly successful and praised in the house itself, provided basic education in economics to parliamentarians. It utilized existing accreditation mechanisms at the universities, and offered customized programs which accommodated the specific needs and pressures of the parliamentarians. Subject matter was closely integrated with current policy issues under discussion. Participants have continued to make important policy inputs in economics related portfolios.

**Southern African Tax Institute.** A “Winter School” program of top-level training in tax theory and practice was initiated by Harvard University, and offered to practitioners from all over Southern Africa. A faculty of world experts is assembled every June and a 12-course program offered to, on average, 100 tax practitioners. Funding responsibility was shared with DfID.

## **Macro Economic Training for Trade Unionists**

Short-Term Training in National Directorates

## 1.5.2 Building Institutional Capacity

The following organizations participated in the institutional capacity building activities

- Forum on Economics and the Environment
- African Rural Initiatives to Sustain the Environment
- Trade and Industrial Policy (TIPS)
- SA Research and Innovation Management Association (SARIMA)
- SA Institute of International Affairs
- Unit For Public Private Partnerships (NT)
- Department of Public Enterprises
- Finance and Development Training and Research Unit (FADTRU)
- Competition Commission

## 1.5.3 Policy Development

The following South African Government departments participated in the policy development activities

- National Treasury
- Department of Trade and Industry
- Department of Labour
- Department of Land Affairs
- Department of Public Enterprises
- Environmental Affairs and Tourism
- Economic Impact of HIV/AIDS

## 1.6 Methodology of the Evaluation

### 1.6.1 Introduction

The importance of undertaking impact evaluations is precisely to develop a detailed understanding of the areas in which growth has been observed and maximum impact is being felt, as well as defining the areas requiring more attention.

More attention and focus is being placed on the importance of the *design, implementation and utilisation* of efficient monitoring, evaluation, auditing and research systems. We understand that a significant proportion of projects and/or programmes fail to achieve their objectives because of the absence of empirical research and the lack of a systematic monitoring and evaluation system. Even more critical is the lack of information on how effectively projects are able to sustain the delivery of services over time and the extent to which the projects are able to produce their intended impacts.

The main purpose of the Impact Study is to determine: *“What difference did this program make toward building South Africa’s capacity to formulate, analyze and implement economic policies that support the country’s vision of a globally competitive economy that benefits all South Africans?”*

The approach to the evaluation follows the instructions contained in the Terms of Reference (see Annex 1-TORs) that indicate three main phases encompassing five methodological components.

The three main phases indicated by the ToRs are:

- Phase One: Literature Review and Documentation of Interventions
- Phase Two: Analysis and Assessment
- Phase Three: Report-Writing Phase

The five Methodological Components are:

- Structuring of the evaluation
- Data Collection
- Analysis
- Judgement
- Dissemination and feedback

### **1.6.2 Considerations on the Data Collection Process**

The evaluation was based on a fundamental belief that in order for evaluation to provide optimal value for establishing the veracity of any particular project, the emphasis must be on the collection and analysis of measurable data, both qualitative and quantitative in a form that provides a sound indication of how the project has brought about change.

In undertaking the evaluation of the programme, a multi-faceted framework, encapsulating both the specific and broader objectives of the project, was used. The specific objectives related directly to the activities undertaken at a programme level. Broader objectives related to the outcomes of these activities on the beneficiaries, in particular, the South African Government departments. To ensure that the evaluation was informing project activities, it was critical to systematically align the data collected during the evaluation to the project’s objectives, so that the outcomes being measured can be attributable, as far as possible, to these objectives.

This required the components of the programme to be analysed with respect to its internal logic i.e. how do the components logically fit together to inform the evaluation design. Such logic was analysed according to the following elements:

- Objectives (what has the project achieved?)
- Inputs (what resources were used to achieve the objectives?),
- Process (how were the resources utilized to achieve the project's objective?),
- Outputs (what did the project deliver through its implementation?),
- Outcomes (what were the immediate benefits of the deliverables for the beneficiaries and the Department?), and
- Impact (what were the broader benefits of the project?).

Through ongoing data collection, the evaluation began to thread together the operationalisation of the project with respect to its logic and to establish whether the manner in which the project had been operationalised was optimal for achieving the original objectives.

The evaluation focused primarily on a qualitative assessment of the capacity building programme. Qualitative data were sourced through three primary research methods: observation, interviews and review of documentation. In this evaluation, two main instruments were fashioned for data-collection: documentation review and structured interviews (face-to-face and by telephone, utilizing a structured interview schedule). An indicative interview protocol is presented in Annex 4.

The specific evaluation techniques that were adopted included the following:

- Records - Records and reports were reviewed. These records provided information on the programme and the activities undertaken. Reports of projects and progress reports were also reviewed.
- Key-Informant Interviews - Key informants included representatives from the government departments at national level, representatives from civil society organizations, universities and representatives of donor agencies and other significant independent individuals. Structured interviews/questionnaires enabled the team to capture the views of the interviewees.



### 1.6.3 Evaluation Questions

The evaluation questions have been formulated with a focus on the program clusters (capacity-building, policy development, institutional strengthening) established by the program as well as cross-cutting issues also outlined in the Terms of Reference. For each of the focus areas a set of evaluation questions was prepared (see annex 2). The key questions were as follows:

#### A. Programmatic Assessment

##### **Building human resource capacity:** Mandela Economic Scholars/Training Programs

- What impact did the training program have on economic capacity and decision making?
- Who and where are the people trained under the Mandela Economics Scholars Program? Are the individuals, especially women, in positions that enable them to participate in economic policy decision making?
- What were the strengths and weaknesses of the approaches used for the long term and short term training?

##### **Building Institutional Capacity**

- What institutions (government, private and NGO) were strengthened as a result of this program? Did the needs of these institutions change over time; if so, how did the program respond? What is the potential for their long-term sustainability?
- What accomplishments achieved by the institutions assisted can be attributed, in part, to the program's assistance?
- Policy - What specific economic policies has the program helped South Africa to develop? What has been the impact of these policies?

##### **Implementation Issues**

The evaluation will assess the following issues related to program and project implementation:

- To what extent was there South African ownership of the activities? The program had a mandate to use South African experts whenever possible. What is the breakdown between foreign and local experts used? For what kinds of work was foreign expertise mainly used and why?
- Was consideration of cross-cutting issues, such as gender and HIV/AIDS, adequately integrated into activities?
- To assess the effectiveness of the mix of implementation instruments. Are there lessons that can be learned from the use of other US Government Agencies (through the IAA/PASA mechanism) under this activity?
- Is USAID's impact in this sector understood? If not, why not?

#### **1.6.4 Information and Data Collection**

The information necessary to document the indicators has been collected through two main channels:

- Analysis of relevant documents and statistics (see Annex 3);
- Direct interviews with the parties involved in the programme as actors or stakeholders; namely: national departments, Civil Society Organizations and Delegation, other donors, etc. (see Annex 4).

A sample of important projects, covering the main programme areas identified in the analysis of the Terms of Reference and during the discussions with the USAID team and the SEGA Programme has been selected and examined. The sampling technique adopted by the evaluators is based on their knowledge, the elements to be evaluated, the objectives of the evaluation, and guidance provided by the USAID team. The methodology choices are based on the objectives, resources and time-frame of the evaluation. Qualitative methodologies have been followed. They are appropriate for a learning-and-experience accumulating evaluation and for guiding the preparation of a future economic capacity building programme. The qualitative paradigm resulted in an effort at capturing the specific character of the program with special attention to its context and setting.

In light of the description detailed above, the evaluators have reviewed secondary data prior to conducting background interviews with relevant stakeholders and in-depth individual interviews with a sample of stakeholders from national government and central agencies.

The team compiled the synthesis report, drawing on various sources of secondary data from other research and documentation, and analysed the implications of the findings from project implementation. The impact investigations provided an analysis of the changes that have occurred as a result of the project, by linking the findings of the site visits to information documented in the reports. The impact evaluation report drew together all the findings and provided an overall analysis of the successes and challenges achieved by the programme.

## **SECTION TWO: BUILDING HUMAN RESOURCE CAPACITY**

### **2.1 Introduction**

USAID's program on economic capacity development was aimed at addressing the lack of professionally-qualified black economists who could work at the policy level and analyze, design and implement economic policy. Working on the premise that good analysis can lead to good policy, and poor analysis will lead to poor policy, by improving the quality and skills of the economists, as well as those who are involved in the conceptualization, implementation, and evaluation of policy initiatives (such as parliamentarians and trade unionists) there will be a concurrent improvement in the policy developed.

### **2.2. Program Design**

To this end, the program assisted in the development of training programs that would meet this need. These included long-term training programs such as the Mandela Economics Scholars Program (Part I and II), as well as other initiatives (such as the training under the Southern African Tax Institute; and individual Departmental programs) that were delivered on a short-term and sometimes on a needs basis.

The prime target of the training was government, either employees already within the system, or those who could be recruited to public service on completion of training. The objective behind this approach was to improve the capacity of government. However, efforts were also made to develop capacity amongst those on the periphery of government (NGO's, research institutes) and also those within the South African Development Community.

### **2.3 Long-Term Training: The Mandela Economics Scholars Program**

The Mandela Economic Scholars Programme (MESP) provides long-term training at US universities to strengthen the government's capacity in formulating, evaluating and implementing economic policies. It specifically targets participants from the previously disadvantaged population with the objective of creating a core cadre of economists who could be employed within government upon completion of their degrees. The program had two phases – the first involved training outside of South Africa at various universities in the United States from the start of the program in 1996 until 2000. The last group of PhD students is completing their degrees (defending their theses) in 2006. The second and less successful phase of the project was a response to the high costs of Phase 1 and involved training at local universities.

### **2.3.1 The Mandela Economics Scholars Project, Phase I**

The first phase of the Mandela Economics Scholars Program (MESP I) began in 1996, initially under a contract managed by the Institute for International Education (IIE), and, from 1998, under Nathan Associates, with the last intake of students taking place in 2000. The program provided funding and support to previously disadvantaged South Africans to pursue graduate degrees in economics and related fields at major universities in the United States, with the end result being the provision of a core group of qualified economists who were skilled, likely to base decisions on evidence, more willing to engage in constructive and critical dialogue, and more capable of bringing a comparative perspective to discussions and decisions, for government service.

Since the end-result of providing training often resulted in the qualified participant becoming attractive to high paying jobs in the private sector, the program instituted an agreement with candidates whereby they were expected to work within the South African government for a period of time equivalent to that spent in the US as a means to improve capacity within the civil service, and fulfill the objective of the MESP. The program itself was committed to helping these students find placements in government, and a key component of the program office's work was devoted to doing just this. By the completion of the program, 65 of the 70 scholars (24 female and 41 male) supported by the MESP had completed their studies, and most had returned to South Africa to take up positions as mid-level public servants, or as researchers and faculty members at academic institutions which also supported economic policy development. Many who had remained within government, even though the period they were committed for had expired, had also progressed to more senior positions in government, and were consequently impacting positively on the country as a whole.

The project company, Nathan Associates, attributes the success of the program to rigorous selection criteria that included evidence of the candidates' commitment to public service and the new South Africa; strong pre-departure training, tailored assistance with entrance exams and school selection; and close supervision and in-service training that encouraged continued awareness of economic issues in South Africa, as well as a strong support system for the scholars in the United States.<sup>2</sup>

Students currently employed in influential economics-based jobs with National Treasury and the Department of Provincial and Local Government (DPLG), and involved in policy development at the University of the Witwatersrand all confirm this opinion. For all of them, the effort put in by the university into recruiting them and the support they received at the universities they attended (Georgia State and the University of Massachusetts, Amherst) on both a personal and an academic level, enhanced their experiences at the university. Enthusiastic about their experiences, they consider the choice to have been the

right one for them. They would not have benefited as much should they have pursued their degrees at local institutions. The high quality of the program content, the use of experiential learning methodologies, and the extensive personal experience that faculty members had in international consulting and research, helped the students to gain a sense of personal direction and kindled in them a passion for economics and public finance, and for study in general. The program also had benefits in the non-academic arena. The students found the experience rewarding in terms of life-skills, international experience, and personal networking. And, most importantly, they did not feel that they had, in any way, been “brainwashed” into taking a pro-American stance on any particular issues.

What was also apparent for these students was that the desire to study in the field of economics was already in place even before they accepted the scholarship. They valued the benefits that being the recipient of a full scholarship allowed them. The level of funding provided was sufficient to cover the costs of studying, including living and travel, and thus enabled them to participate in extra curricular activities. The support provided by Aurora Associates, the sub-contractor, that assisted them in settling in, resolving financial issues, and making claims, was also beneficial. Apart from the academic support that they received from the faculty, they were also able to establish a considerable network of friends and professional associates who enabled them to further their professional careers.

All the interactions by the Mandela Scholars in the US were not as positive as those described above. Where the environment at their universities had contributed positively to the students’ experiences, students based elsewhere in the US were not so lucky. Whilst both the faculty and the university at GSU and U Mass made special provision for the Mandela Scholars, students at other universities were left to “sink or swim”. While this was an important contributor to the success of these students, there were also other factors that impacted on the outcome. Support from family and friends at home was critical, as was the individual’s personality. Students who succeeded were generally more open to new experiences, and had a strong sense of purpose and motivation.

### **2.3.2 The Mandela Economics Scholars Project, Phase II**

Even though MESP I had proved to have successful outcomes, one of the major challenges facing USAID and the South African government was how to maximize the program’s effects with limited funds. Some ideas, such as endowments and the setting up of a foundation were mooted, but none of these came to fruition. Consequently, after the last intake of students for study in the United States in 2000, all the stakeholders took a decision that the program would be localized. Therefore, in 2001, local universities were requested to bid to host graduate programs in economics that would provide training in economics to previously disadvantaged individuals. It should be noted that under this component of the

program, there was no requirement that assistance would be given for scholars to find employment in the public sector once they had completed their degrees.

The MESP II worked with three “historically advantaged institutions” the Universities of Stellenbosch (US), Cape Town (UCT), and Natal (UN), to strengthen existing graduate programs in the field of economics and establish new programs. The latter programs included environmental economics, health economics, trade and regulation, labour economics and economics of education. In addition to the support provided to the Universities listed above, USAID also provided assistance to the University of Western Cape in the development of the Finance and Development Training and Research Unit (FADTRU), a Center of Excellence in economics.

Interviews with project leaders at both UCT and Stellenbosch confirmed that they were motivated to host the program for their own institutional reasons. UCT saw the program as a means of reviving and better establishing a postgraduate Economics program that had stagnated over time. The university managed to increase its numbers, but this momentum appears unlikely to survive the completion of the scholarship program. Enrollment is now at or below the levels it was before. It could be concluded that the intention of utilizing the support of USAID to build the institution as a postgraduate teaching centre in Economics has not been successful.

The University of Stellenbosch was similarly motivated. The institution saw the program as an opportunity to bring about some much needed change in the race and gender profile of the postgraduate students. For historical and language-related reasons, the undergraduate class at the university is predominantly white. Even though the postgraduate program had provision for English speakers, the racial imbalance was maintained and even exacerbated when one looked at the profile of the postgraduate students. Although the university recognized this as a serious problem, no solution appeared forthcoming until the scholarship program presented itself as a means of targeting black and female students, while at the same time making a contribution to the transformation process of the university. While the strategy appears to have been successful in this specific context, the effect did not extend into the rest of the university. Stellenbosch did, however, begin to contribute towards the costs of the scholarship in order to make it sustainable, and at the completion of the USAID funding, intends to pick up the full cost of the program itself.

Implementing MESP II turned out to be more difficult than expected. The universities began accepting students, for the first time, from the end of 2001 with the expectation that 50 scholars would be recruited each year from among the three universities. During the first year and, as recorded in the USAID Project Implementation Review of May 2003, the South African universities had an uneven record in attracting new black students. The

program, at that stage, had not met its targets<sup>2</sup> with fewer than half of the bursaries being awarded. Two years into the program and by the end of September 2003, a total of 49 students had been registered across the three institutions, as opposed to the 100 that had been anticipated. (In contrast, the program at the University of Western Cape's Finance and Development Training and Research Unit had more than doubled its enrollments in three years). In total, the program registered 70 students (as opposed to the 150 that had been expected) in three years (2002-2004). The throughput rate was disappointing with only half of the students graduating (14 female, 21 male). By 2004-2005, the universities reported that they had exceeded their targets, but UCT explained that this did not apply to them as enrolment in their program had dropped to 2 in 2006.

Of the 23 students who started the program in 2002, only 3 had completed their degrees as at September 2003. Most had begun working and, while they had completed their coursework, they had not submitted their dissertations. This was often due to the lack of funding available to these students for research purposes, since most of the students had only been funded for their course work, as recommended by the universities. Of the 49 students who had been registered by 2003, only 20, less than half (41%) were female. The University of Cape Town had no females registered in their program. Three students had exited the program without their degrees; and of the two that had completed their masters, one was working in government.

The low number of students applying for entry into the program was interpreted, by some, as a lack of interest by students to apply for the local bursaries rather than for overseas degree programs<sup>3</sup>. Given the scarcity of funding available for higher education, however, it is more probable that a deterrent to applying might have been the requirements for entry into both the Honours and Masters Degree programs. Stellenbosch required an honors degree in economics (irrespective of the particular field of specialization in the Masters program) as well as a pass in mathematics at the matriculation level. Given the inadequacy of the education system under apartheid, the possibility that many possible candidates would meet the set requirements was slim. Stellenbosch did, however, attempt, later in the program, to assist students by extending the one year program to 18 months, allowing the students one year for the coursework and 6 months in which to do the dissertation. The faculty identified this as key to improving the success rate.

While UCT, for example, recognized that the technical requirements it placed on entry into the postgraduate program almost automatically excluded entry by non-UCT undergraduates (UCT's usual student came from advantaged backgrounds where academic excellence was a given), the university did not put a program in place that would provide the technical

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<sup>2</sup> USAID Project Implementation Review, May 2003

<sup>3</sup> Nathan Associates Inc., Final Report, Support for Economic Growth and Analysis/Mandela Economics Scholar's Programme, 1998-2005

support to students to increase their chances of succeeding. The need for the universities to provide bridging programs in Mathematics and support to students through internships was not recognized until fairly recently.

When taking into account the aim of the program: to develop economics graduates from among the previously disadvantaged, the local universities fell short in providing the support that these students needed to remedy some of the deficiencies inherited from their educational backgrounds. There was no differentiation made between the conventional student and the MESP funded student. The assumption, that the students entering on the MESP did not require additional assistance to adjust to the culture and mode of teaching at the university, confirmed the general attitude at SA universities, that students should, by the tertiary level, be sufficiently proficient not to require additional assistance. This attitude tends to impact both on the students who have entered the program, as well as those who may be considering entry.

While the University of Natal (with the largest number of enrollments, 26 in 2002-2003) and the University of Stellenbosch, 14 students) ran an orientation program for the MESP scholars at the beginning of each year, the University of Cape Town with the fewest enrollments (9), had no orientation program in place. It was advised, by the SEGA/MESP office, in 2004, that implementing one would be beneficial in assisting students to become familiar with the culture of the institution.

In considering the differences between the study experiences of students in the United States and South Africa, the observations made by the students who had studied at Georgia State University (GSU) and University of Massachusetts (U Mass) are enlightening. As recent graduates of the Universities of the Free State and Cape Town, they acknowledged that the crucial difference between their experiences in South African and American universities was to be found in the attitude of these institutions towards their students. Georgia State, in particular, had, in their view, good teachers who had a clear desire to transfer skills and develop their students as individuals. In focus group discussions, the students described their South African experiences, both administrative and academic, as being guarded and unhelpful (“elitist” and “exclusionary”), with the bar being set “artificially high” and little or no effort being made to help students achieve the standards required. In contrast, the treatment they received at the US institutions, where great emphasis was placed on the student achieving success, was viewed as being more supportive and conducive towards personal achievement and excellence than the experiences they had had in their undergraduate studies. The level of personal engagement with the faculty impacted positively on their personal confidence, while the experiential style of learning provided them with opportunities to present papers, speak in groups, and it allowed them the freedom to formulate their own views.



In comparison to the experiences described by MESP I graduates, a graduate from the MESP II program at Stellenbosch described her experiences somewhat differently. Whereas the MESP I students were all motivated to choose their institutions of study for academic and professional reasons, the MESP 2 students chose to study at Stellenbosch for administrative reasons, because they responded to her application faster than the other institutions. The scholarship played a very different role in her decision: she was directed to the MESP scholarship once she had already applied to the university. The scholarship, therefore, was not her motivation for pursuing postgraduate work in Economics. By contrast, the MESP I students reported that the scholarship played an important role in their choice of profession and of career path. There was no attempt to create any special support or recognition of achievement for the local MESP 2 award. The student interviewed had not received any official notification that she was a recipient of a Mandela Scholarship. This contrast with the experiences of MESP I students at USA based universities continued once her studies began. She found her experiences at Stellenbosch to be narrow, with insufficient input from practitioners and very little attention given to debate or to tackling alternative perspectives. Although there were several visiting scholars, they were all linked to Stellenbosch University, and not drawn from outside that environment. She perceived some of the faculty as being biased and at times, in her opinion, racist and sexist. The range of topics from which she had to choose was limited, and ultimately, she was forced into specializing in an area in which she had limited interest. On the positive side, she did find the interaction with other MESP scholars useful, and is continuing her career as an economist.

Post-program placement was also an issue of concern. Little assistance was given to students in finding employment, and the student interviewed was consequently unaware of the possibilities that might have existed for her in government. She is now employed in the private sector, and her possible value to government has been lost.

In contrast, the experiences of the US graduates were that the service providers to the MESP management, and the management itself were both helpful and pro-active in respect of placements. On graduation, the CVs of the MESP I graduates were circulated to prospective employers, job introductions were made, and functions were held at which they could meet private sector and government employers. It appears that the program itself did not take the SA graduates as seriously as it did those who graduated in the US.

### **2.3.3 Summary Conclusions on Long-Term Training**

In summary, while the MESP I was a very expensive program it had a highly formative effect on the beneficiaries. It has produced a steady stream of highly-motivated and well-trained economics graduates who are in influential positions today with a large proportion having taken up the envisaged career paths in government. It is unlikely that the scholarship

was a direct factor in the choice of economics as a career. It is more likely that it was the students' clear and determined focus on their personal objectives that made their studies, and then their employment as economists a reality and a success. The role that the program played was to provide a quality of education and training that otherwise would have been out of reach.

In comparison, under MESP II, presented as a more cost-effective alternative, the aims of both the student and those of the program became secondary to the objectives of the local institutions (that were interested primarily in addressing issues of redress) and were then unable to offer local students a learning experience comparable to that received by the US participants. The effectiveness of the program, in terms of results achieved in relation to the costs, must therefore be in question, since the quality of the results fell far short of expectations.

## **2.4 Short-Term Training**

The SEGA/MESP program was also involved in short-term training to build capacity in economics and related fields amongst Government Departments, parliamentarians and trade unionists. Some programs (such as the parliamentary training) were more successful than others, but in general, the level of most participants did show significant increase.

### **2.4.1 Parliamentary Training in Economic Policy**

The "Parliamentary Training in Economic Policy" began, albeit in a different form, in 1999, when USAID became involved in Parliamentary training through the Economic Literacy Training Program for members of committees handling budgets and macro economic policy. These 2-4 day courses, developed for the Department of Labour, provided a basic primer on economics for non-economists and enabled mid-level non-economist technicians to understand the role of economics and its basic analytical constructs. Since it was obvious that the needs of parliamentarians were such that more specialized and detailed courses were needed, and that the participants were eager to learn more about economics and finance, USAID contractors worked with the Parliamentary committee members and three local partners: the Economic Policy Research Institute (EPRI), the University of South Africa (UNISA), and the Finance and Development Research Unit (FADTRU) at the University of the Western Cape (UWC), to expand the program to include intensive short- and long-term courses leading to certificates, diplomas, and honours degrees.

The Economic Capacity Building programme for parliamentarians started with a 12-month Certificate in Economics from UNISA which served as a bridging course for members without an Economics background. Forty-two Members of Parliament registered for the Certificate in Economics in the first year. Recognition of Prior Learning (RPL) was taken

into account for entry into the course. Credit was given for experience, on-the-job training and self-empowerment.

Of the first enrolment into the program (which included non-parliamentarians, such as committee clerks), 27 people completed the course and graduated with an undergraduate degree. In the second intake, 50 people, who were funded for only the UNISA certificate, enrolled. USAID did not continue to fund the UWC stage. In general, the completion rate was in excess of 95%, and consequently very high.

During the 2<sup>nd</sup> year, approximately 40 MP's enrolled for the Advanced Diploma in Economics (a progression from the certificate course) at the University of Western Cape. This course was the equivalent of a Bachelor's Degree in Economics, with the normal three-year degree being condensed into a two-year qualification. On completion of this degree, 20 members of the group undertook their honours in Economics at the University of the Western Cape. In this 18-month course, they covered International Economics, Econometrics, Development Economics (as directly linked to delivery) as well as a research paper. Approximately 13 of these MPs were expected to write the exam on the final module in November 2006.

The Parliamentarians themselves originally identified the need for the programs when they discussed the project with USAID officials and educators at a summer school in the United States. This gave rise to a series of winter schools in SA, in which visiting experts presented classes on current topics, which led to UNISA developing the Certificate in Economic Principles, and later with UWC developing an undergraduate program for the parliamentarians who could not attend classes within the conventional university system. Most of the parliamentarians had a background of 'struggle' politics and consequently, little or no tertiary education and they consequently lacked the academic tools to independently analyze programs and policy initiatives. Given that Parliamentary decision-making often involves economic tradeoffs, giving parliamentarians an understanding of the fundamentals of Economics was expected to better equip them to participate in a more informed way.

The program was therefore custom-designed for the parliamentarians, building upon their practical day-to-day work and focusing on policy rather than theory. It was also structured in such a way as to allow them to proceed from a school-level education through to a Masters Degree, should they wish to do so. Participants interviewed reported that this was a key contributory factor to the success of the program. Participants considered it important to receive a bona fide university degree in order to give credibility to their knowledge.

Beyond the planned economics learning outcomes, participants also gained personal skills, as well as a range of computer skills, including Internet access, use of spreadsheets, and presentation skills, including the use of presentation software.

Teaching methods were designed to meet the unique specific needs of the parliamentarians. Lectures were given at times that were chosen to fit in with the parliamentary schedule, on-site at the parliamentary complex. Participants interviewed were particularly appreciative of the willingness of teaching staff to accommodate the inevitable emergencies and pressures associated with the parliamentary schedule. Conventional lectures were supplemented with inputs from senior line managers and parliamentarians, such as the Ministers of Finance and of Trade and Industry, who brought to the classroom the practical policy issues Parliament had been grappling with. These were accompanied by visits to the departments and where appropriate, to project sites. Of particular value to the parliamentarians was the willingness to include private individual tuition as a component of the teaching package. This enabled them to continue their learning even with unexpected and unscheduled Parliament activities interrupted the process.

Assessment methods used in the program were the same as for other UWC students: sit - down closed-book exams, and take-home assignments. No formal assessment of performance on the job was attempted. The flexibility that had been extended to the parliamentarians in terms of the study program was not extended to the assessment process. Those who missed exams were “kicked” off the program, and no special provision was made for them to take supplementary exams.

Interviewees reported that the training they had received had enabled them to openly engage on economic issues with ministers and other MP’s as well as members from the SADC region. They had an enhanced understanding of the economic implications of all policies. They could better argue policy matters, the role of Government and “how policy could crowd out business”. Attendance at the training also de-mystified Economics for many. Previously, they had viewed the Finance Committee as technical and the place where only people with an Economics background would be useful. With what they had learnt, they realize that they could participate more effectively in many of the committees. The knowledge that they had gained had proved useful in the work they were doing in their constituencies, both in planning and in interpreting economic indicators for others.

#### **2.4.2 The Southern African Tax Institute (SATI)**

The SEGA/MESP program was also instrumental in the establishment of the Southern African Tax Institute (SATI), which is housed at the University of Pretoria and provides an annual winter school of training courses to mid-level and senior tax officials. The courses cover economics policy topics such as public finance, tax policy and tax administration, and is aimed at officials in the SADC region. It was originally conceived of by a group of USA-based academics, who consulted with and got buy-in from local colleagues. These were three local universities (the universities of the Witwatersrand, Pretoria and Johannesburg), National Treasury, and several donors (USAID, DfID, Harvard, the Zolt Foundation).

Using personal contacts and influence, they assembled an impressive group of international tax experts, who offer an annual non-university program focused on learning outcomes related to Public Finance, Cross border taxation, tax forecasting, fiscal decentralization and local revenue options, comparative tax administration, comparative tax policy, legal drafting, international taxation, tax treaties, customs and excise taxes, business taxation, and value added taxation.

SATI now provides a permanent supply of well-informed tax economists, from historically disadvantaged backgrounds, qualified in tax and fiscal policy. Apart from impacting on government policy, it is also improving the delivery of the SA Revenue Services. In terms of the regional work, the program has made room for negotiations on regional tax harmonization to take place.

To date, more than 100 participants per year have been trained. There were very few “drop-outs”, with most participants completing the training. Most of the participants were from the target groups, that is, senior practicing tax and public finance officials. All returned to their influential positions in taxation, which usually involves both administration and policy formulation, and, given their senior level, they are in a position to influence their national tax policy.

The program was initially fully funded by a range of donors but has gradually weaned itself of external funding and has been run, for the last two of its five years, on student fees which are set at full cost, with minimal direct input from donors. The intention is to expand the short-term training into a full academic program to be offered at Masters level, and to institutionalize SATI as a unit within the University of Pretoria, and raise money for a full-time chair, in order to create continuity of leadership.

The key success factor in the SATI program is the expertise and commitment of the team of international tax experts who present the courses, as well as the patronage of top scholars in the discipline. The lecturing faculty are all unusually knowledgeable and are well-known in the field. This enhances the credibility of the content immensely. Initial implementation was made simple because materials were available for most courses from an existing program. In addition, successful marketing techniques resulted in eventual independence from direct aid and this ensured the sustainability of the program.

### **2.4.3 Macro Economic Training for Trade Unionists**

The Labour Research Service, a Cape Town-based NGO, which provides an economics research service for trade unions, approached USAID for funding, identified the need for a course to capacitate trade unionist and to develop their own union-based research units to enable them to carry out research for their own unions. The target audiences were high-

level trade union negotiators. Using lectures, participatory processes, learning agreements, and practical assignments, learning outcomes related to macro- and micro-economics, a thorough understanding of economic indicators was constructed. (were conducted.)

Of the 20 who enrolled in the course, only 1 dropped out, and the remaining 19 continued working in the field of economic policy. Eight of them, however, left the Unions to find work more conducive to their new knowledge since the Unions did not readily acknowledge their new status. Although the course was well-structured and well-taught, and the target group from the Unions was that intended, the course was not sustained since it could not attract funding (it also came at the tail end of the USAID funding), and could not create links with institutions that taught economics as their core business. This was unfortunate since there could possibly have been constructive links with FADTRU at UWC. In addition, although the Unions had been committed to the process, the release of senior people impacted negatively on the unions themselves and many of them consequently stated they would be reluctant to release people for a second time. LRS will not offer the course in its present form again, (although they do continue to use elements of it as articles in their own journal) but they are contemplating developing distance-learning options, in the form of “international study circles”.

#### **2.4.4 Short-Term Training in National Directorates**

A number of short-term customized training programs for specific departments on various topics were also developed on an ongoing basis. These included:

- Basic economics literacy
- Public utility regulation
- Public finance
- Analysis and measurement of poverty and inequality
- Environmental resource management
- Macro-econometric modeling
- Financial market reform
- Performance budgeting and financial management
- Municipal budgeting
- CGE modeling
- Trade in services
- WTO-service negotiation.

USAID sponsored the participation of a number of Department of Public Enterprises (DPE) employees at training courses and international seminars. They also prepared and sponsored workshops for the DPE that included a Director Training Seminar, to prepare directors of

state owned enterprises for their role in corporate governance. A stakeholder workshop on port sector reform was held as well as a change management workshop for management from the state owned SA Port Operations, to prepare them for the introduction of private participation in container terminal operations in Durban. Approximately 160 South African's participated in this training and in these workshops.

At the beginning of the SEGA/MESP program, few analysts in SA's public service were aware of evidence-based decision-making methodology. Many lacked training in basic economics concepts such as "scarcity" resulting in "trade-offs" or of the role of markets and prices in efficient resource allocation. The training also exposed them to international best practices that further assisted them in their analysis of different situations.

#### **2.4.5 Summary Conclusions on Short-Term Training**

Many of the short-term training courses were co-funded with government, with the proportion of government funding increasing to a point where government either contributed more than half the funding (for example, SATI), or took the program over as part of its responsibility (Parliamentary Training). This reflected the level of commitment and satisfaction that government had with the impact of the training on personnel.

Many of the participants in these courses moved quickly into senior positions, and their increased knowledge impacted on the country as a whole. A second key factor in the success of the training was often the visible support and endorsement that it received from senior members of government, which then impacted on the level of commitment that the participants themselves displayed.

In examining the Parliamentary Training Program, one can begin seeing how the objective of the overall Capacity-Building Initiative could be and in this particular case was, realized. With this training, there was a determined effort to address the imbalances that the participants were bringing with them into the process by tailoring the program to their specific logistical and programmatic needs. The success of the students in this training, as well as the benefits that impacted on their professional lives, speaks to the understanding of the disadvantaged backgrounds and experiences they had. The program was not perfect. There was a fundamental failure in terms of final assessment, but there are lessons within it that could improve the manner in which the "advantaged" institutions managed their components.

## 2.5 Building Human Resource Capacity: Conclusions

The purpose of the program was to build capacity for formulating and supporting economic policy which is focused and coherent, in the face of educational deficiencies and a significant degree of ideological antipathy.

MESP 1 in common with the much smaller SATI program was designed to confront these issues head on, by taking selected candidates out of their home environment and transferring them to a highly formative and well-established center of academic excellence. Any resistance to the learning of conventional economics was broken down by the level of international experience and expertise on the part of the faculty. Educational deficiencies were addressed by highly effective teaching methods, some of them aimed at bridging the pedagogic gaps (An example is the Math boot camp). The relevance of the programs was similarly ensured by the selection of faculty with extensive international experience.

The parliamentary program addressed the relevancy issue by seeking the participation of high-level government officials who were able to contribute to the curriculum.

MESP 2 was much less successful because the programs offered in the local universities remained embroiled in the past, with legacies of pedagogical conservatism, over-protective attitudes towards academic standards and insufficient focus on the nurturance of local achievement.

MESP1, the parliamentary program and SATI successfully addressed the major capacity-building challenges, but MESP 1 failed to incorporate sustainability in its design. The program will continue to be a success as long as the considerable funding is available. The parliamentary program and SATI have proved sustainable due to the promise of continued funding from parliament itself. SATI has graduated into a fee-funded program, leaving the delegates with the problem of fund raising. The program has had two years of self-funding and is looking sustainable. The LRS program failed on sustainability because the target audience incurred a very high cost of their own time in terms of union work being neglected. In their own ways, both the MESP1 and LRS programs proved too costly to be fully sustainable.

MESP 2 failed to achieve its objectives because the program design failed to address the major challenges. These were that:

- The programs did not address the specific circumstances and educational backgrounds of the candidates.
- The design of the programs did not address attitudinal and formative issues.
- Little attempt was made to relate the economic theory and technical skills to the current tasks. The faculty with whom they had most contact was not strong in the area of applied economics, or policy advice, as was the case with many of the USA-based institutions and programs.



The programs were disappointing in a number of respects:

- The rate of applications was poor.
- The institutions themselves did not take the opportunity to engage in meaningful self-examination and transformation.
- The increase in postgraduate numbers was not sustained
- All the students were not of the best quality.
- The faculty members, while competent, were not personally engaged in policy-related research or consulting.
- There was little personal attention, support or encouragement.
- Interaction with fellow students was desultory.
- Financial and practical issues, such as accommodation, were problematic.
- The students' choice of topic was driven by availability of faculty and funding and not by personal interest. Some considered their choices to have been career-limiting.

## **2.6 Recommendations**

1. The provision of high-profile scholarships for the study of economics at a postgraduate level should be continued. World-class education is clearly one of the most important benefits that the donor countries can offer their clients, and represents an export for which the recipient has very poor substitutes. There are a number of distinct elements to the value generated by the scholarship program:

- Education is expensive, and the quantum of funds made available is therefore of direct assistance, both to the individual and to the fiscus.
- The rationing function of the high price of education is inherently dysfunctional, allocating this valuable capital resource to the wealthy, rather than the talented. Any scholarship program which corrects this bias and effectively targets funds on the basis of talent and dedication is bound to be successful.
- In the South African context, economics, as a subject, has not had a good press. In the past it was regarded, by many, as an oppressive weapon, aided, wielded clumsily and encouraged by many world powers to their advantage. Happily, many in government quickly perceived the deficiencies of understanding that this attitude created, and the need to remedy it was identified. Many see the USA as the "home turf" of conventional economics, further reinforcing the appeal of the MESP I program.
- From the perspective of any donor country, aid must be viewed, in part, as a mechanism to draw the beneficiary into the world mainstream, and to give the donors an influential part to play in the local policy-making processes. A program such as MESP I, is a powerful means of building such influence, based on the genuine affection which any student inevitably feels for his or her Alma Mater.

2. The right to use the Mandela name must be more strongly capitalized on. The purpose of the scholarship is to encourage top-quality graduates to choose economics as a prestigious career path. The Mandela Scholarship has a key role to play in this regard and should be built into a scholarly “brand” rivaling and exceeding other such cachets such as the Rhodes Scholarship.
3. The superior environment offered by some USA-based institutions to previously disadvantaged South African students must be recognized and mechanisms devised to incorporate this benefit into local programs. Visiting scholar programs should be supported to allow USA-based academics and academic entrepreneurs to have an influence on local universities. Support should be given which goes beyond traditional research objectives and includes curriculum design and program development. Funding should be found which allows local students to spend short periods in the USA as exchange students, studying elective courses relevant to economic policy. Support should be given for local chairs in economics, with levels of remuneration and research funding commensurate with the incumbents international position.
4. The aid support mechanisms for local institutions should be designed so as to ensure that the acknowledged challenges presented by apartheid history are specifically addressed. Recipients should be required to provide bridging programs in subject areas such as math, where deficiencies are identified. Teaching faculty should be given suitable encouragement to develop appropriate learning relationships with their students.
5. The confident focus on “conventional economics” rather than “radical political economy” has proved positive, and is a strength of many US based institutions and should be maintained for the immediate future. Discussions with returning graduates as well as with participants on local training courses has indicated that the focus on conventional skills and economics knowledge fills an important gap in their education, and in their informally gained prior learning. Many looked upon the opportunity to learn economics as a long awaited focus on the “real thing”. Alternative, critical approaches to economics should not be actively discouraged, and should be recognized, but the focus of support and assistance should be on programs offering a “conventional” approach. It can be confidently assumed that the students desire to explore alternatives will be accommodated in a number of effective ways and need not be the focus of the Mandela Program.

## SECTION THREE: BUILDING INSTITUTIONAL CAPACITY

### 3.1 Introduction

In addition to directly building human resource capacity in the form of trained individuals, SEGA/MESP provided funding for building the capacity of institutions which make a contribution to economics-based policies. These included government, non-governmental organizations (NGOs), as well as research institutes. This group of activities was aimed at addressing intermediate results two, three and four viz.: government entities and private think-tanks which have the capacity to formulate, implement and evaluate economic policies, and strengthened centres of economic excellence. These results relate synergistically to each other, and to the general building of human resources discussed in the previous chapter. Individuals, however skilled and capacitated, can have little effect on outcomes unless they are operating in an effective institutional context. The purpose of this group of activities was to create such a context, by making the institutions more effective.

### 3.2 Program Design

The forms of support given can be divided into a number of categories:

- **Short-term problem-based technical assistance.** (6-8 weeks) This was aimed at addressing a specific perceived short-term problem. The problem was generally identified by the client, which provided a good position for the effective use of the consultant in order to achieve a limited short-term objective. This mode is, however, not designed to create sustainability and promote skills transfer.
- **Longer-term problem-based technical assistance.** (1 year or more) The longer duration gave the consultant the opportunity to see the project through to fruition, to the final presentation of the product to the client. His or her personal knowledge and reputation is mobilized to “sell” the outcome, increasing the chances of the adoption of the intervention. On the negative side, the nature of the institutional (building) development that takes place is generally haphazard and based on personal contact.
- **Longer-term structure-based technical assistance.** This was technical support which focused not only on solving a specific problem, but on creating an institution which can solve similar such problems. It is essential that the nature of the structure be designed to work effectively within the host organization, and to sustain itself. The form of expertise will be very different from pure problem-based support. It will, of necessity, include expertise and experience in institutional design and management, as well as knowledge of the subject matter itself.

Activities carried out under this category included the staffing of the entity, formulating systems and procedures, and writing measurable outcomes to support the technical

operations. The technical assistant will use his or her expertise and reputation to create and sustain a corporate culture which is suitable for productive operations, and will formulate a business plan which matches funds, from donors or other sources, with operational requirements.

**Longer-term financial support.** The kind of support that was provided to TIPS is predicated on the existence of a base of expertise to allow an institution to grow to meet the effective demand for policy research represented by the aid. It relies on the ability of the organization to create an effective channel of communication to ensure that the needs of the client are understood, and that the agenda is driven by those needs. If the expertise and leadership does emerge, this strategy is likely to be effective and sustainable. It is therefore a high risk approach, usually focused on a specific individual.

### **3.3 Description of Activities**

#### **3.3.1 Forum on Economics and Environment**

By providing support to the Forum on Economics and Environment, research was facilitated into the economic impact of global climate change on South Africa. A demonstration was done on how the clean development provisions of the Kyoto Agreement could be used to benefit the country. Awareness was raised about climate change issues, and the means with which the country could respond to them. Several symposiums were held under the auspices of the Forum, one launching a research program on economics and climate change and the other leading to a briefing of the Department of Environmental Affairs and Tourism (DEAT) management. This is an indication of the influence on policy that the Forum can wield.

#### **3.3.2 African Rural Initiatives to Sustain the Environment**

A major project, which proved to be sustainable long after SEGA/MESP funds were no longer available, was the African Rural Initiatives to Sustain the Environment (ARISE) project, which was launched in Limpopo as part of a partnership between the provincial government, the Kruger National Park and Working for Water. Funded through a variety of sources, ARISE examined the benefits that could be accrued through the rehabilitation of degraded land, while at the same time benefiting poor people in rural areas.

#### **3.3.3 Trade and Industrial Policy Strategies (TIPS)**

Established in 1996 to assist the Department of Trade and Industry with research, The Trade and Industrial Policy Strategies (TIPS) unit is an independent non-profit research institution that is committed to assisting government and civil society in making informed

policy choices, specifically in the areas of trade, industrial and regulation policy. Its board includes representatives from other policy units, government, and academic institutions. It undertakes work for a number of government departments (DTI, National Treasury, DPE, and Transport), as well as for the South African Development Community (SADC).

TIPS commissioned research that responded to the information needs of trade, industry and broader microeconomic policy-makers. It further influenced the evolution of the policy environment by introducing longer-term research engagement with emerging policy questions and broader trends in trade and industrial policy. A wide range of authors and institutions contributed to an extensive set of published reports, articles and working papers each year.

Funding was directed, firstly, to provide high-quality, centralized and standardized trade and industry data (SEGA/MESP supported DTI's Trade and Industrial Policy Strategies (TIPS) to the department to develop a database and integrate this data into an economy-wide policy modeling). Secondly, to train researchers and policy makers in the use of analytical tools for the formulation of policy (workshops were held on the Measurement of International Competitiveness of South African Industry; Economy-wide Policy Impact Analysis) thirdly, to evaluate trade and industrial policy options and fourthly, to link researchers and policy makers in order that they may formulate more effective policies.

The funding agreement with TIPS ended in 2003.

#### **3.3.4 The Southern African Research and Innovation Management Association (SARIMA)**

The International Intellectual Property Institute (IIPI), based in Washington, worked with the DTI, other government departments, researchers and business leaders, to establish the Southern African Research and Innovation Management Association (SARIMA) in 2002. This was to assist SA to fall in line with the Uruguay Round's international agreement on Trade Related Aspects of Intellectual Property (TRIPS), which requires countries to meet standards for protecting intellectual property. USAID funding (\$555 000) was used to provide technical assistance for SARIMA and the IIPI, to design further support for IP and innovation issues. According to the Project Implementation reviews the implementation of the project was slow and managerial buy-in seemed to be lacking.

#### **3.3.5 South African Institute of International Affairs (SAIIA)**

USAID co-funded, with DfID, the "Development through Trade Program" with the South African Institute for International Affairs (SAIIA), which produced research related to trade

policy and engaged stakeholders in discussions about issues. The project can take credit for contributing to the debate on trade and trade related issues.

### **3.3.6 Unit for Public-Private Partnerships – National Treasury**

This project was launched in 2004 by the Minister of Finance. To-date 14 Public Private Partnerships are in operation and 50 or more are being established. All these PPPs were selected and set up according to specific guidelines. The main reason for its success was the support received and the guidelines which provided a financial foundation for PPP success.

USAID funding was used to assist the South African Government (SAG) to establish a public-private partnership unit in the National Treasury to promote the private provision of infrastructure and private delivery of government services. This mode of delivery was seen as crucial, creating the opportunity for “leveraging in” funding from outside government, mobilizing international managerial expertise, and providing a framework for effective management of a range of project risks. As government actively began to embrace the concept of partnerships with the private sector to deliver infrastructure and public services, the inherent complexity of this delivery mechanism became more and more apparent, and many expensive lessons were learned by its pioneers. The initial enthusiasm in government circles for PPPs far exceeded the expertise available, resulting in some unfortunate false starts which threatened to undermine the whole concept. Flagship projects such as the Nelspruit and Dolphin Coast Water Concessions attracted significant criticism and litigation regarding the identification of the projects as suitable for PPPs and the mechanisms of soliciting bids and evaluating them.

The need for strong guidelines was clear, and National Treasury undertook to provide these. Because of the relative novelty of private involvement in public infrastructure in the South African context, international expertise was recruited, and supported with USAID funds, managed by Chemonics.

Beginning with the Municipal Infrastructure Investment Unit based at the Development Bank of Southern Africa (DBSA), the strong municipal focus was clear. National government demonstrated its firm commitment to regulating the business environment within which local governments operated. Staffed and funded with support from USAID, the Public-Private Partnership unit was established within the National Treasury in 2000. It has succeeded in producing guidelines on the assessment and management of PPPs, which are integral to the grant approval process within treasury. No projects were approved unless its proposal met the requirements of the guidelines. Public sector managers with authority to propose a PPP were required to attend training courses on the guidelines, ensuring that they were implemented with understanding. The intervention of USAID was considered to

have been highly effective, resulting in a number of PPP projects which are currently under way. The program has trained the officials responsible for implementing 14 current PPPs and initiating a further 50.

Outsourcing the management, operation and management of hospitals and clinics and construction of new schools saves government money and delivers services more effectively. The unit proved to be highly successful. It received the award for the best Public-Private Partnership deal for two years in a row, the second time for the construction of a new campus for the Department of Trade and Industry. SEGA was involved, as the project champion, in implementing a partnership, which incorporated Black Economic Empowerment (BEE) for the financing, construction and management of these new headquarters. The project emphasized the use of black and small-business contractors, protection of the environment, urban renewal and cost savings. Ultimately, it saved the government over R 200 million. A spin-off for this project was the transfer of skills from the project office to the DTI in the form of contract negotiations and the management of construction projects.

The PPP unit was also key in the development of what will be one of the largest infrastructure developments in South Africa, the “Gautrain,” the rapid transport train between Pretoria and Johannesburg. In addition to the rapid transit project noted above, other efforts include work on the pharmaceutical supply chain, eco-tourism activities, natural resource conservation management, private provision of public hospital services plus outsourcing construction and maintenance of new government offices. The unit has also developed a way to use public-private partnerships to have the private sector implement government’s public welfare system. The result is a system which delivers the grants faster and is cheaper to run, thus reducing people’s waiting time.

Efforts have not been confined to the National level. The project has also trained provincial officials on the principles of effective partnerships that have resulted in the delegation of the approval of provincial-level public-private partnerships to selected provinces

The success of the project was attributed to the commitment of the National Treasury at the highest level. The need for the initiative was identified through government processes, not by the donors themselves. The ownership was securely with SAG, whose attention was fixed on the policy and capacity outcome, not on the processes of support leading to it. The identification of the project outcomes with the interests and objectives of the donors was left to SEGA/MESP leadership who, in the words of a leading participant “were very effective at selling PPPs to the donors.”

### **3.3.7 The Department of Public Enterprises**

The Department of Public Enterprises (DPE) has shareholder-related oversight responsibilities over State Owned Enterprises (SOEs). The Minister and Department were mandated to develop and help implement strategies that optimise the positive impact of the SOEs on the economy in general and in accelerating economic growth in particular. This includes appropriate input into regulation, ensuring efficient management and oversight over the governance structures of these enterprises. Several projects were implemented in the Department of Public Enterprises to enable it to better deliver on its mandate.

#### **3.3.7.1 Assistance to the Restructuring Unit**

USAID saw the assistance with privatization, or state asset restructuring, as a key to the assistance of market processes in South Africa. \$3,5m dollars (USD) was budgeted for this support. The initial approach adopted by the SEGA/MESP project was to appoint a long-term advisor in the Department of Public Enterprises to oversee the Restructuring Unit. This approach did not, however, build long-term sustainability, and consequently, under Phase II, a different approach of targeted short-term assistance on demand was provided.

This element of the program was carried out under a contract with Deloitte Touche Tohmatsu Emerging Markets (DTT) that provided assistance to the Department of Public Enterprises (DPE). The aim was to accelerate South Africa's restructuring of state owned enterprises. Assistance was given not only on the mechanics of restructuring, but also on how best to achieve benefits for the South African population. Capacity has been developed within the Department through on-the-job-training, structured training programs and study tours to successful restructuring programs elsewhere in the world. Although the assistance is focused on the capacitation of the department responsible, broader issues such as performance management systems, and public education and awareness of the restructuring aims of the SAG also receives significant attention.

Initial efforts under this contract were on institution building to establish a functioning, restructuring unit. Efforts have now shifted to implementation, e.g., guiding the initial public stock offering for Telkom, the state telecommunications company, ports restructuring for Transnet, the holding company for ports and rail, and communications related to the Telkom IPO and ports restructuring.

#### **3.3.7.2 Assistance to complete the Telkom Initial Public Offering (IPO)**

The project provided two long-term advisors to help prepare the listing of Telkom shares on the Johannesburg and New York stock exchanges. The advisors assisted the DPE to achieve the two key objectives: to secure a high degree of participation by historically



disadvantaged institutions in order to prepare them for the benefits to be accrued from privatization and to secure greater support for the SOE restructuring; and the second to raise capital for the fiscus.

The Initial Public Offering (IPO) took place on the Johannesburg Securities Exchange (JSE) and the US Securities and Exchange Commission (SEC, New York Stock Exchanges). The listing was on March 6 and 7, 2003 respectively. The IPO was largely successful in that it achieved the primary objective of distributing shares into a wider span of ownership. In total, 168 institutions purchased shares of which 51.5% were South African. A most significant result was that 127 000 historically disadvantaged individuals purchased Telkom shares at a discount, thus delivering on the project's objective to achieve benefits for the SA public at large.

The Telkom IPO was preceded by a successful public education program, assisted by USG funded advisors, which featured extensively on TV, national radio, community radio, in newspapers and magazines. Educational brochures printed in 7 South African languages were available nationwide through Post Offices and Standard Bank branches.

***Port sector restructuring:*** South Africa's strategic location on the maritime trade routes constitutes a major development opportunity. The five ports in current operation handle a small proportion of the country's total trade and operate at high costs. The lack of safe, deep water facilities results in large tonnages of shipping passing South African shores to seek berths elsewhere. In line with international trends, the shift towards private operation of the ports is a natural one, promising capital upgrading, efficiency of operation and co-production of synergistic services. It also resonates with existing innovative developments, particularly the development of a deep water port at Coega, near Port Elizabeth, and the upgrading of the port at Maputo, as part of the "Maputo Corridor" partnership. To pursue this initiative a subcontract was awarded by USAID to conduct an Economic Impact Analysis and Port Asset Packaging Study. It was jointly funded by USAID and DfID. The project began in October 2003 and resulted in 4 reports, focusing on the Durban Container Terminal which has been completed. They were approved by the Ports Sector Steering Committee and submitted to government for approval, but were not fully accepted. The commitment of Government to the radical restructuring of the ports system was found to be lacking. This impacted on the proposed restructuring of the port sector.

### **3.3.7.3 Assistance to the Performance Monitoring and Benchmarking Program**

Assistance was provided to the DPE to maintain and upgrade the statistical database of State Owned Enterprises (SOEs) that had been developed to assist with the DPE's Performance Monitoring and Benchmarking Program. The existing database was reviewed and recommendations were made to link the various elements; Terms of Reference were

developed for upgrades to the database, a training manual developed, and one training session was conducted.

#### **3.3.7.4 Assistance to the Communications Program**

Assistance was secured from two SA sub-contractors to help with DPE's wider public communications program. The first subcontractor assisted the DPE with its public communications campaign prior to the May 2002 budget speech. The campaign explained what "restructuring" meant, what the DPE was attempting to achieve, and to communicate successes. The second contract was aimed at developing a comprehensive public communications program, providing time-sensitive communications assistance and assisting with communications in the port sector reform.

Although significant assistance was provided, much of it effective and useful, the high turnover of communications staff in the DPE did not allow for the building of internal capacity to assist the Department to sustain its own program.

#### **3.3.7.5 DPE Summary Conclusions**

In general, the assistance provided by the USG in respect of privatization and restructuring was disappointing. Initial optimism of a rush of privatizations was not realized, and the flow of state-owned assets onto the market has been meager. Reasons for this are both political and politico-technical.

In any country the sale of the "family silver" is a highly visible and contested process. In South Africa it does not sit well with many sections of the community, including the SA Communist Party (SACP), which is a part of the tri-partite alliance which makes up the SAG.

The sale of public assets is always an open invitation to private and public opportunism and corruption. There seems to have been little confidence in the ability of USAID funded assistance to keep this under control.

The lifting of political control places a heavy burden on the authorities to formally regulate these industries. Such regulation is very demanding of high level economics skills, which is in short supply in SA, both generally and in the specific industries.

The focus on large-scale privatization appears to have been premature. It is likely that a strategy which targeted smaller units of State Owned Enterprises would have achieved greater success.

### **3.3.8 Centre of Excellence: The Finance and Development Training and Research Unit (FADTRU), University of the Western Cape.**

The intermediate results framework of SEGA/MESP required that it delivers on both capacity-building of individuals as well as the capacitating of institutions. The establishment of a centre of excellence at the University of the Western Cape has achieved both objectives. It provides a potentially sustainable flow of trained economic researchers.

In 1997, a committee made up of the Vice-Chancellors of South Africa's historically disadvantaged universities decided that each of these universities would develop Centers of Excellence. The University at was widely respected during the struggle. It was decided that assistance should be provided to develop the Department into a Center of Excellence in teaching and researching in economics. However, when SEGA first began working with the Department, it became evident that the Department's capacity had been severely reduced after 1994, and that its reputation was no longer entirely justified. The SEGA program consequently began working with the Department to build its capacity by establishing a new research centre, the Finance and Development Training and Research Unit (FADTRU) that, while closely aligned to the Department of Economics, is funded separately.

FADTRU quickly established its program and reputation and by the fourth year of its existence, it had increased enrollments in economics (from 400 in the year 2000 to more than 1000 students in 2003), and it broadened its community outreach to include training of government officials throughout South Africa. It also established a training partnership with the South African Management Development Institute (SAMDI) and the University of Fort Hare. Training programs for Parliamentarians were also instituted with these leading to a new undergraduate training program in applied economics, and eventually, the enrollment of some MP's in the universities honours program. FADTRU also obtained financing from the Carnegie Foundation to create a new graduate program, together with the University of Pretoria and its law faculty. It was in International Trade and Investment and attracted students from other African countries. These programs, as well as contract research funding received from the United Nations and the South African Bureau of Standards, meant that by 2003, FADTRU was financially sustainable and its financial administration was transferred from Nathan Associates to UWC.

A key aspect of this program was that it demonstrated that taking marginal students and providing them with support through bridging courses could lead to them becoming as competent as those students entering the field through conventional processes.

It is worth noting, too, that two of the junior staff praised in a review of the program in 2003, obtained their training in the US under the Mandela Scholar's Program.

### **3.3.9 Competition Commission**

The Competition Commission was established by legislation, and has a mandate to investigate anti-competitive conduct, assess the impact of mergers and acquisitions on competition, monitor competition levels and market transparency in the economy, identifying impediments to competition and playing an advocacy role in addressing these impediments. To do this it must balance issues related to competition with broader social and economic goals such as employment, international competitiveness, efficiency and technology gains, as well as the ability of small and medium sized businesses and firms owned or controlled by historically disadvantaged persons to compete. The commission is also charged with the consistent application of the Act across sectors, requiring it to interact very actively with regulatory authorities.

The commission has investigated and made rulings or given opinions in cases involving a broad range of sectors: the banking industry, the pharmaceuticals industry, (in connection with the supply and pricing of anti-retrovirals, and the transparent pricing of pharmaceuticals), the motor industry, information technology, food prices, cellular telephones and many others. It has played a part in the regulation of the electricity and water industries. Officials of the commission needed to be capacitated to carry out investigations and write reports that will stand the scrutiny of an antagonistic legal process.

The agreement with the US Department of Justice/FTC was to provide technical assistance to the Competition Commission on anti-competitive practices, on how to conduct investigations, analysis, case preparation on mergers, anti-competitive practices and sectoral analysis regulation. The focus of all technical assistance and training has been to coordinate privatization, deregulation and competition policy, to learn the basic economic principles of industrial organization and competition policy, in order to conduct competition-oriented economic analyses, to participate in training on investigative techniques and methods of legal analysis, to improve structures and procedures of the Competition Commission, to understand the relative importance of potential investigations of the judicial interpretation of the Competition Act in South Africa, to train Competition Commission personnel to instruct one another on the tenets of competition policy, to provide management advice to the Commissioner on structuring an effective and efficient competition enforcement program, and to participate, where appropriate, in international events in South Africa, involving South African competition and consumer protection personnel.

This was implemented in terms of an Inter Agency agreement with the USA Department of Justice (DoJ) in partnership with the Federal Trade Commission (FTC). The emphasis has been on providing lawyers and economists who can provide technical assistance in specific areas, for example, telecommunications policy.

Participants interviewed considered the program to have been highly successful, having transferred policy analysis skills to help build the capacity of the commission staff. It was based strongly in a strategic vision of the nature of the organization, and the knowledge and skills needed to build it.

### **3.4 Conclusions**

Institutions that have managed to build sustainability beyond the time that funding expires are a good measure of the level of success in a program and many of the units created, or sustained through assistance have been empowered to survive. Notable among these are the PPP unit in National Treasury, and the restructuring unit of DPE, TIPS.

Such sustainability is unlikely to flow from either long- or short-term issues based modes of support. It is important that full structures-based support be given, utilizing expertise relating to the institutions to be built, and not only to the issues that are immediately at hand.

Systems and key factors in their success are the centrality of the issues on support to institutions and the support at senior levels of authority. The success of the PPP unit relies entirely on the commitment of the national treasury to assume control of this new partnership environment. The credibility of the training given rests on the power exercised by treasury to make the guidelines mandatory before any PPP can proceed.

In contrast, the advice on privatization was no less expertly provided, but had less of an effect because the department concerned lacked the necessary commitment to the issue. As a result, policies and proposals were made but lay dormant in the hands of the client.

Another successful input has been with TIPS. This unit, now self sufficient, has proved to have an enduring effect on economic research and development. It is well-respected and has provided Government, and the policy arena in general, with quality analyses that have contributed positively in the policy debates. It is important to notice the close relationship between the research provided and the core priority business of the client department. The department of trade and industry found itself having to present the country's interests at international talks, thus driving its agenda. The advice and information given by TIPS was essential. If SEGA/MESP had not provided the funds, the department would have sourced the money elsewhere.

A third success has been the capacitating of the competition commission which has carried out a very active role in regulating competition. It has successfully defended its position in

several important court challenges and is now held up as a model for other African states. Although the regulation of competition was a top priority of the SAG, which put it into practice in the form of legislation, it is likely that without the advice provided by SEGA/MESP, the initiative would have failed. It is safe to say that the regulation of competition was not initiated by ASG aid; it was sustained by it in circumstances where failure was very possible

With the work on Centers of Excellence, FADTRU's impact (which appears to be sustainable)) on creating an understanding of economics in general amongst those who would not have gained entry into the other institutions is invaluable.

Considerable success was achieved in supporting and building local institutions which are engaged in economic policy formulation and advice. This success was predicated on the identification of needed capacity by the client institution, and was often related to the building of capacity to engage in specific tasks. The experience and expertise of the advisors appointed was a key success factor. Technical expertise alone was not enough. Knowledge and experience of organizational development is essential, as is the personal ability to engage constructively with the client institutions and to act as effective change agents.

As with the SEGA/MESP program generally, this institution building element tried to spread itself over a very wide area. An "infant institution" principle seems to be in place. USAID money is used to initiate a project, in the expectation that it will be adopted by the client and independent funding will be found. The "adoption" is the acid test of project relevance and appropriate project design. We recommend that a more purposeful approach be taken.

### **3.5 Recommendations**

The recommended mode of support is long-term structures-based support. A long-term consultant should be contracted with a brief to set up the organization, identify and appoint executive officers and work with them to design systems and procedures, establish a funding model and create a culture appropriate to the task at hand.

The nature of the systems and procedures should have, as a top priority, the establishment of lines of communication between the technical and political stakeholders.

Intermediate results (IRs) of such support should be couched in organizational terms rather than in issues terms. E.g.:

- Systems put in place and operating.
- Structures established.

- Executive officers identified and appointed with contracts and job descriptions.
- The contractors' results framework must be focused on the institutional building, not the task which the institution intends to carry out. Such tasks are best described as "Final results" and should be the responsibility of the client to achieve, not the contractor.

The key criterion for approval of projects in this category should be the priority of the issues on the client's agenda. Only issues which are considered top priority by the client institutions should be pursued, and structures should be created to address them. USAID should reconcile itself to the reality that it will routinely be supporting projects for which the SA government would find its own funding if aid funding is available. Support for projects which have to be "sold" to the government department are likely to fail, and will create the impression that the donor is seeking improper influence in the economic policies of the country.

The financial support of entirely private think-tanks which set their own research agendas is extremely risky and must be treated with caution. It is likely, from the experience of the interviews held, that the essential link between the researcher and the client department will be tenuous.

Existing client organizations should be encouraged and assisted to develop an explicit organizational strategy in which the tasks supported by the TA and the capacity created is identified and targeted. Technical assistance targeted at institutional support should have both technical expertise in economic policy and experience and knowledge of organizational development and change management. In many cases a team approach will be required linking an organizational expert with a subject expert.

An effort should be made to focus this form of assistance on a small number of institutions, and to intensify the level of support given in order to generate greater depth of expertise, and to follow through once initial support is given.

By focusing on the challenges of building the institutions themselves, USAID can avoid the common AID-related problem of a lack of client ownership of the product. If the focus is on the mechanisms for identifying and communicating knowledge needs, and for strategizing the means of making the available expertise work within the institutional framework, there is a good chance that the scarce capacity available will be optimally used, and the final policy results will be achieved.

## **SECTION FOUR: POLICY DEVELOPMENT**

### **4.1 Introduction**

The training that was undertaken in the programs discussed in Chapter 1 (MESP I and II, training for Parliamentarians in Economic Policy) also impacted significantly on the development of policy. Under Intermediate Result 4.2 (strengthened government departments dealing with economic policy matters), the main indicator established by USAID to track progress, was the “number of quality policy studies” produced by the key departments. According to Nathan and Associates, well over 300 studies, providing analytical support for evidence-based policy formulation and management in 14 departments were produced in the life of the project.

### **4.2 Program design**

The objective of the program is to provide assistance to South African Government departments to:

1. Identify, formulate and evaluate approaches for increasing equitable economic growth, and
2. Strengthen the capacity of government to fulfill this role.

Three mechanisms of intervention were utilized:

1. Short- and medium-term technical assistance.
2. Short-term training for internal capacity building
3. Direct research support to assist specific policy processes.

The resultant program, carried out by successive contract managers was an exceptionally broad one, reaching into a wide range of government departments and entities, affecting a large number of recipients. The strategy for identifying recipients has been characterized as “*seizing targets of opportunity.*”<sup>4</sup> This approach is consistent, and necessitated by the broad nature of the objectives: To enhance economic growth potential, to reduce inequality, to tackle unemployment, to promote market-based solutions to the plethora of challenges that face South African Society. Opportunities were identified as a result of the extensive interactions of the project leaders with government.

This approach was appropriate at the early stages of policy development, and earned the recognition of many clients, who expressed appreciation of the flexibility of the aid program at a time when a clear-cut program of policy action was not available. Evaluating the program only for its eventual policy impact is to do it a disservice and to fail to

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<sup>4</sup> Economic Capacity bridging design, (Sept 2002)



recognize the value of USAID's willingness to simply "walk alongside" the newly inaugurated policy makers as they found their way into a coherent policy process. It is inevitable that a number of false starts and misconceived initiatives will be a part of such a process. The alternative, a clearly designed program which is not flexible enough to respond to changing requests, would not have won friends or earned the project enough credibility to exert the influence that was sought.

As the policy environment developed, and gained structure and coherence, the project structure itself adapted, becoming more focused, targeting the environment of small and medium businesses, supporting the objectives of the SAGs economic growth program.

### **4.3 National Treasury**

Of the many government departments that the project worked with, National Treasury was SEGA's most important client. USAID support for national treasury in the area of economic policy has been significant, and has had positive intermediate results including: Improvements in systems for public budgeting, development of an intergovernmental resource allocation framework, including the development and implementation of the system of budget transfers from national to provincial government, and work on the provincial borrowing authority, analysis of the implications of inflation targeting, leading to a change in focus of monetary policy from defending the external value of the rand to domestic inflation targeting, studies on comprehensive social security reform, including the fiscal and social impact of grants .

USAID support has contributed to improvements in the South African tax system, developing, particularly, a more investment friendly tax code. Loop holes were closed in order to spread the tax net wider and so as to lower personal and company tax rates, and reduce tax incidence on the poorest, resulting in recurring revenue collection overruns. USAID assisted the SA Revenue Service to implement a capital gains tax, and to bring about several changes in the personal tax system in mineral taxation, taxation of gambling, and an analysis of energy taxation and the development of carbon based tax.

Through the provision of technical support, SEGA assisted Treasury to deepen its capacity for policy analysis, and to focus its analysis on policies that make government spending more beneficial to the poor. Under the heading of Social Impact of Pro-Poor Program (SIPP) a number of activities were supported, including the development of modelling capacity to identify and explore the welfare effects of spending programs. A process was set up within the client to screen and evaluate proposals for research or other activities under this program. This represents a systematic attempt to manage the access to USAID funds and to ensure that activities funded are owned by the department and contribute directly to the client's top policy priorities. Despite the effort put into this interface with the

client, the results were not always positive. While almost all the research outputs were of top quality, their impact on eventual policy was very mixed, as we shall show.

#### **4.3.1 Vulnerability at the margins of the Formal Economy**

A good example of a project which achieved good academic results, but shows poor potential to have a policy impact was a study of the mechanisms used by the poor to alleviate their poverty, including access to social grants. These mechanisms, in the view of the authors, must be seen as only one of the forms of social protection available to this group. The study argues that the public instruments of social protection, such as grants, need to be understood as a part of the wider range of ‘private’ strategies poor people themselves have developed to manage risk and survive. The study investigates whether grants are an important and effective element in this armoury, and whether they represent a “supporting pathway out of poverty” or more pessimistically, whether they are part of the framework that sustains poverty.

A research team based at the University of Western Cape’s “Program for Land and Agrarian Studies” (PLAAS) carried out the two-year study which resulted in the publication of a report: “Vulnerability and Social Protection at the Margins of the Formal Economy,” which was presented to an interest group in National Treasury in October 2006. The research project was, in the view of the project leader, a success and led to interesting and important findings. The process of the project generated a set of incidental benefits, including the building of the capacity of the research unit, and its researchers, and the generation of data which is available to other researchers, being stored in the “data-first” library, UCT, with the interview transcripts being housed at the Centre for Popular Memory, UCT. The project has the potential to be of great academic value, and can potentially contribute meaningfully to the broader debate on poverty, its causes and its reflection in social structures.

The impact of the study on economic policy, the capacity of the client to formulate, implement or evaluate such policy, or on the policy related operational needs of the client is, however, questionable. It provides an example of an academic project which is worthy in itself, but which has little or no direct impact. If the findings are to have any such impact in the future, a specific strategy has still to be devised to bring this about.

There are several possible reasons for this failure.

1. This project diverges from the established NT pattern of screening SIPP projects through the research committee. The lead researcher conceived of the project, appealed to the donors (DfID and NT) and only then got approval from NT. There was no formal reference group, but an informal group of interested respondents in government, and experts from

within Treasury. Treasury officials had no formal part in the research or production of the end product, and there was consequently no knowledge or skills transfer to officials in government. In addition, although the results were disseminated to an ad hoc group of people in NT, no decisions were made on how to use the findings to inform policy.

2. There was also some confusion regarding the focus of the project between USAID and the researchers. The topic of the research diverged from the description of the project in USAID reports. The title of the paper “Vulnerability and Social Protection at the Margins of the Formal Economy” indicates a more general approach than the land-based focus the original topic suggested. This is further reflected in the choice of the two research areas the project worked in: Khayalitsha, an urban township in Cape Town and Mount Frere, a rural town in the Eastern Cape.

3. Further, the core research question and the theoretical literature reflect the academic, rather than policy focus of the study. The researchers accept that there is no direct connection to a specific policy process, and that the policy impact will therefore be diffuse. They see the study as providing background information to policy, not direct information that can inform policy processes.

4. The follow-up process of reporting the findings to a group which is generally interested but not invested in the outcomes. There was no internal “champion” whose own work performance depended in some way on the successful execution of the project.

5. The project played no role in the operational strategy of the NT policy processes and made no direct contribution to the policy outputs.

While the project made a (possibly) seminal contribution to the policy debate regarding pro-poor policies, it made no immediately discernable contribution to economic policy regarding economic growth or equality and must be judged a failure in that regard.

### **4.3.2 Rural Municipality Case Studies**

This project, led by the Human Sciences Research Council (HSRC), is another example of a potentially useful study, competently executed by the researchers, but which played no part in the economic policy-making of the client.

Based on surveys and case studies in the rural municipalities of Theewaterskloof (Caledon) Maluti and Phofung (Harrismith) the study re-examines the economic case for land reform, and looks into its modalities. Its purpose was to inform the nature of land reform and its role in rural poverty and development.

Outcome: The resulting paper was favourably received by the academic community, and has significantly informed debate on this important issue. It can be said to have broad value to the community, especially those members concerned with economic growth policies.

The findings have, however, been largely ignored by the National Treasury and by the Department of Land Affairs (DLA). The impact on policy must therefore be acknowledged to have been minimal. In terms of the intermediate results of SEGA/MESP, there has been little capacitating of individuals beyond the research team itself, (IR 1); there has been little capacitating of a government department (IR2) and no perceptible impact on policy (IR4). A think-tank, the HSRC has been supported, (IR3) but the impact of this support must be seen against the nature of the HSRC itself, which is the recipient of significant government research funding.

Some features stand out, which might help us to understand why this was so.

1. The project sits very uneasily within the SIPP grouping. It is not very clear how it has the potential to influence pro-poor policy either in Treasury or the Department of Land Affairs.
2. It was not approved by the research committee set up for the purpose, but was initiated by the lead researcher, who then managed to interest the donors of its merits.
3. In short, the ownership by policy makers was weak, with little or no commitment to achieving a return on capital employed. There was no reference group, no engagement of DLA officials in the research process and therefore no skills or knowledge transfer.
4. There was no “champion” or official whose policy-related productivity would be affected by the success or failure of the project.

### **4.3.3 Poverty Line**

This study, which looked at the methodological issues involved in establishing a poverty line was conducted at SALDRU (UCT). Like the two preceding cases, it also failed to make its mark on policy, albeit for different reasons. While the other projects were unsuccessful because of weak ownership and poor policy planning, this project was strongly owned by the National Treasury, and supported by the Minister who announced it in a budget speech. There was thus a very clear plan on how it was intended to affect policy making. The result, however, did not provide the information the Minister was looking for (he believed that the results would not assist in carrying forward the policy process) and they were consequently discarded.

This is not necessarily a negative factor. In order to know whether the index being used would materially affect the measurement of poverty, and whether an understanding of these alternatives would contribute to policy making, it is first necessary to do the research and present the information. A clear perception was formed of the role of the research in the policy process, and it is thus implied that findings, which do not strengthen the policy process, will not be utilised.

This does, however raise serious ethical issues. It is important that the donor community not be seen to be supporting either one-sided research, or supporting specific political agendas.

#### **4.3.4 Long-Term Impact of Social Grants**

The purpose of this project was to inform grants policy by modeling eligibility criteria and estimating the cost to the fiscus of changing these criteria, in the context of a dynamic, growing population. The relevance is clear: National Treasury is faced with the task of evaluating and formulating policies on social grants, and of ensuring that such policies are consistent with broader fiscal objectives, including a hard budget constraint. The modeling was carried out by researchers at SALDRU, UCT, and presented to National Treasury. Once the model was completed, and the report presented, arrangements were made to place the model in the client department, and to train users. The transfer of the project to the client is, however, still incomplete.

The project had significant spin-off benefits. The data source was the Household Survey of Income and Expenditure and extensive discussions were held with StatsSA to do demographic projections until 2015, to improve the existing data and projections. This data is available generally through StatsSA, but has not, to our knowledge, been used.

The potential exists to make extensive use of the modeling done. The nature of the model allows clear communication with stakeholders of the costs and benefits of the policy choices being made. It enables policy makers to answer fundamental “what-if” questions about, for example, the age eligibility of old-age pensioners, and the extension of child support grants, and to make decisions about such policies through a truly consultative process.

It is disappointing, therefore, that the researchers report that the hand-over of the model is incomplete, and that it seems unlikely that the training will be given to enable treasury officials to use it properly.

Like the projects discussed above, the research and model building appears to be valuable, but does not as yet result in a direct input into the policy process.

Possible reasons for this failure lie in the ownership, and institutional planning:

1. Although the project was identified by the client national treasury, it was managed and run entirely by USAID’s implementing partner. Officials from Treasury did not participate in the process and, unlike with many other projects, a reference group was not established to oversee the project.

2. The project champion moved to another government department, resulting in problems of institutional knowledge management.
3. Although many leaders within treasury are eager, at least in principle, to use modeling in decision-making, it seems that there is some way to go before such techniques become an accepted part of the policy decision-making process. More thought needs to be given to the processes whereby a newly-created model is introduced, iteratively modified, and revised to meet the policy requirements and receive the official stamp of approval. Only then can it, along with the trained operators and maintainers, become a trustworthy component of the policy process. Policy makers will clearly need to feel comfortable that the model is systematically maintained and updated, that the assumptions remain acceptable, and that the data is current and not biased. The halting progress of this and other modeling projects affirms for us that none of this can be left to chance, but has to be carefully incorporated into the project design.

#### **4.3.5 CGE Micro Simulation**

The National Treasury's intention to inform the policy processes with economic modeling was further supported by the creation of a modeling unit, and the provision of technical assistance to build capacity for its management. The project was aimed at developing the unit's capabilities in the construction and maintenance of "Computable General Equilibrium" (CGE) models that quantify the effect of policies on the economy; that test for the significance of variables, that estimate multipliers and simulate the cost to the fiscus. An added benefit is that it also allows the policy-makers to simulate other scenarios by asking "what if?" questions.

The National Treasury had previously done work on micro-simulation models with the World Bank, and was consequently aware of the need to improve skills in the area if the models were to have credibility among policy makers. Following a proposal to the National Treasury Research Committee, a decision to proceed with the project was taken and an internal economist was selected to receive training on CGE modeling. She began to produce preliminary reports such as a literature review of research into micro-simulation, basic work in the preparation of scenarios for employment creation, CGE and micro-simulation models.

The focus of the work of the modeling unit, which consists of a team of 8, plus 3 students who are on a placement from a training course, is on creating in-house capacity to build models, and also to operate and maintain them and the data sources. A range of computing and database skills, which will be of significant on-going value, are being built within NT. Widely used statistical software (such as STATA) has been chosen for the work because they are creating generic economic skills while also enhancing the capacity within the

Department. The project has therefore succeeded in its initial objective: that of building sustainable capacity in the National Treasury. This has been greatly facilitated by the involvement of USAID-funded international consultants with expertise in the field whose involvement has clearly had an important influence on the officials in the Department.

Dissemination of the completed models will be done through internal workshops and training, (currently being planned). An internal paper, being considered for publication as a World Bank working paper, is also being written on behalf of National Treasury.

While the project has not yet moved beyond the modeling stage and into the policy informing stage, the intention within treasury is that CGE and micro-simulation modeling will eventually form part of all internal submissions and memos. Possible policy decision-making processes will be supported with an appropriate simulation showing a wide range of impacts on variables (GDP, poverty, employment). Policy makers will thus be informed by a quantified view of the likely impact of decisions, resulting, it is hoped, in more nuanced decision-making informed by a clearer vision of their benefits and costs.

The most important impediment to the success of the project has been the practical difficulties experienced in coordinating with the experts and arranging appropriate consultation times and meetings.

The data used for the simulations is, by necessity, official data from StatsSA, (labour force surveys, income and expenditure surveys, the Social Accounting Matrix) with continuous use being made of the data set, thus enhancing its quality. This improvement of the data has had spin-off benefits for many other projects such as the General Labour force analysis, expenditure analysis, social transfers, tax incidence, and multiplier calculations for the social accounting matrix.

There is little doubt that this is a project that the client is serious about pursuing. It is likely, in the project leader's view, that it would have proceeded without USAID support, but its capacity building elements (through the assistance of international expertise and practice) would possibly have been greatly reduced. It remains to be seen, however, since no clear plan was outlined, whether there will be appropriate follow-through to build the modeling capability into the policy process. The task of convincing policy makers of the value of the modeling process and the believability of the models, has yet to be achieved. However, given that the project was initiated and sanctioned on a high-level, this might be achieved far quicker than under other less favorable circumstances. The influence and experience of the technical experts might be useful at this stage of the process, while high-level training and communication will be necessary in order for the organization to "learn" how to effectively utilize this resource.

#### **4.3.6. National Treasury: Summary Conclusions**

- Direct Technical support with developing policies has had impressive achievements in the areas of budgeting and taxation.
- The indirect support of policy processes through the funding of commissioned research by local institutions has generally been less successful. Support for a policy approach to social grants and land tenure were unsuccessful in generating tangible policy results. Support for policy modeling has resulted in powerful tools which nevertheless remain on the outskirts of the policy process and have not yet become integral to it.
- Several such projects failed to achieve their policy objectives because of a failure to address, adequately, the way in which the department itself would utilize the outputs. Institutional processes must be mobilized and if necessary adapted to ensure that the USAID-assisted work becomes part of the departments “must-have” outputs.
- The “ownership” of the projects was generally weak, despite the efforts made to establish screening committees and reference groups. Few of the projects had the potential to impact upon the core performance outcomes of the department and of the officials concerned. None were crucial “must haves” on the personal agenda of the senior officials in charge.

#### **4.4 Department of Trade and Industry**

After National Treasury, the Department of Trade and Industry (DTI) was the second major beneficiary of SEGA/MESP. Apart from the support it received in building capacity, it also received support in public-private partnerships, micro finance regulation and a range of policy issues.

##### **4.4.1 Trade and Industrial Policy Strategies (TIPS)**

TIPS was established to assist the Department of Trade and Industry (DTI) in research and the on trade and industrial policy. This includes the South African-European Free Trade Agreement and the Southern African Development Community (SADC) Free Trade Agreement. Through the institution, Trade and Industrial Policy Strategies (TIPS), DTI staff led research on how to assess and realise SA’s potential under the African Growth and Opportunity Act (AGOA) and to advise on policy requirements.



With USAID support, TIPS was able to provide high quality, centralized and standardized trade and industry data, and to train researchers and policy makers in the use of analytical tools for the formulation of policy, to evaluate trade and industrial policy options and link researchers and policy makers in order that they may formulate more effective policies.

USAID funding is used for TIPS' annual forum, which is the leading economics forum in the country. TIPS supported the writing of a number of research papers and hosted several very successful events with the most prominent being the regional symposium, a training workshop and a forum, which focused on "Paths to growth and employment in South Africa.," at which 40 papers were presented. TIPS has also provided policy research support to government regarding trade agreements with Mercosur and India. TIPS, through its data bank, hosted a workshop for government and are managing a research project on Export(s) Opportunities for South Africa.

Even after USAID funding was ended, the organization continues to make data and analysis available to policy makers and to the research community. The TIPS' website is being used extensively because of the and quality of its information.

#### **4.4.2 Micro-Finance Policy Reform**

The economic marginalization of the black community under apartheid was reflected in the failure of the banking system to service the needs of the poor and of small and medium businesses. The legislation governing the financial services sector was highly restrictive, making it very difficult for financial institutions to make credit available to any but the most credit worthy. At the same time, it provided avenues for the unscrupulous to engage in highly questionable practices. The apartheid government responded to pressures to allow credit to be extended to the poor by granting an exemption under the Usury Act, lifting the statutory interest rate ceiling on small, short-term loans. This led to the very rapid development of the micro-loan industry, a largely unregulated branch of the financial sector, generally operating outside the four large banking groups which have dominated this sector. The micro-loan industry soon became bedeviled by dishonest loan operators, who were lacking in financial substance and without any fiduciary responsibilities to customer. Efforts to impose a voluntary regulatory framework through codes of conduct and voluntary registration with the Micro Finance Regulatory Council (MFRC) proved ineffective. The need for a thorough overhaul of the consumer credit industry became apparent to many within government.

SEGA/MESP provided technical assistance and research funding to the then Micro Finance Regulatory Council (MFRC) to assist it in preparing much needed regulation of the consumer lending sector. The expected result of this two-year program was the substantial

improvement of micro-finance-related legislation and regulation. This was, in fact, achieved. The research was undertaken on the Consumer Credit Law Review. A supply-side study on “The Cost, Volume and Allocation of Consumer Credit in South Africa.” was completed. The results of the study, which include investigating interest and non-interest charges, such as application fees, transaction fees and insurance costs, revealed that over R300 billion of credit had been extended to South African households in 2002. The data reveals that different consumers pay different amounts for credit, and unsurprisingly, that low-income consumers pay the highest rates for credit with the shortest maturity period, unless they have access to security such as property, pensions or insurance policies. The research also examines areas of dysfunction in the consumer credit market. Based on this report, DTI and the MFRC drafted comprehensive policy changes in this area and brought them to parliament where they were passed into law.

### **The Consumer Credit Act**

In the years following the exemption to the Usury Act, which freed up the conditions for granting small loans, the micro finance industry sprang into existence and within two years loans exceeding R5bn had been granted. Today, outstanding assets of more than ten times that amount are being held. The need for an urgent legislative review was clearly identified by key role players and in 2002, the Director-General of the Department of Trade and Industry (which is responsible for the administration of the Usury Act), asked the Micro Finance Regulatory Council to coordinate a comprehensive review of the credit laws of SA.

A technical committee was established which, in its earliest report, unequivocally identified the need for a new regulatory framework for all consumer credit transactions. The committee laid out a careful strategy for drafting and introducing the needed legislation, identified the need for sound information to underpin the legislative process, and, with the support of the donor agencies, commissioned a set of research projects. The future role of the resulting products was clearly envisaged prior to their commissioning. They included:

- A report confirming the need for a review and outlining its potential scope and principles.
- An empirical study of the extent of consumer credit transactions.
- A review of the nature of disclosure
- Focus groups on consumer attitudes and the views of industry and stakeholders.
- A comparative study of the cost of credit.
- A study on the management of risk in the micro finance industry.

The research and advice was aimed directly at supporting and strategizing the policy process, (which was expected to be hotly contested by the banking industry) with the intention being to be fully prepared to be able to address any uninformed opposition. The

general thrust of this opposition was identified as the “laissez faire” position: “do nothing, or as little as possible and let the market take care of itself.” The research question was accordingly: “What is the cost to the economy of doing nothing?” and variations thereof, which had the effect of focusing the research on the issue at hand and played a major role in facilitating the policy process. The support of USAID and other donors was crucial: according to the interviewee: “*The MFRC would not have had the funding and mandate to get the research done on its own.*”

All the research, as a body, was widely disseminated and was very influential, making an impenetrable case for change, and illustrating the very high cost of doing nothing. Its impact was felt at a high level of government, as the DTI ushered its program of laws and regulations through the processes of the legislature. The legislation, the Consumer Credit Act, was passed in record time, and the process and strategy employed by MFRC is widely viewed as a model of policy reform.

Interviewees identified a number of reasons for the success of the process: These included the involvement of the representatives of the donor who often used their good offices to facilitate funding and expedite decisions. Beyond the resources and funds they were able to mobilize, their interest, commitment and detailed technical knowledge of the subject made them valuable team members who contributed greatly to the success of the project.

The project was also supported by a strong research base, which could withstand attack from detractors of the findings, while the selected researchers were both highly competent, and fully able to command the respect of the professional banking community. In addition, the policy campaign was well-planned, and the research tightly coordinated with the policy process

Most importantly, there was strong political support from the DTI, including support from the Minister, Deputy Minister and the Director-General, that lent credibility to the project and facilitated its integration into the policy process.

### **The National Credit Data-base and the National Data-base of Credit Providers**

The successful passing of the Credit Act led to the establishment of the National Credit Regulator (NCR), which took over the role of the MFRC. The NCR was faced with a number of tasks that overwhelmed its expertise and available resources, which was the establishing of a consumer credit database and a register of credit providers.

Whereas the MFRC had registered about 2000 credit institutions on a voluntary basis, the Act requires that all providers of consumer credit be registered. It also requires that every consumer credit transaction is reported and registered and that the register be accurately maintained, in order that reckless lending can be controlled.

Both these tasks require significant specialised expertise and resources which the NCR was unable to mobilize and the support of donors was sought. Expert consultants were appointed to project manage the two processes, coordinate the designers and programmers, and provide training for continuity. It is anticipated that once the databases are established, the involvement of the donor funded project managers will lessen and on-going training and systems support handed over to an IT service provider.

#### **4.4.3 DTI: Summary Conclusions**

A key factor of the success of SEGA/MESP support for the DTI was that the ownership rested very strongly with the Department which took the lead, identified key inputs, and made specific plans for how they were to be utilized. DTI was strongly supported by the donors whose commitment to the reform of financial regulation long preceded the current project. The donors also took a clear position on the need for reforms in the financial sector expressing the view that their nature should be supportive of a competitive market-based outcome, an approach that coincided with that of the client.

USAID has, therefore, played an instrumental role in supporting legislative and regulatory reform in this crucial area of the economy. There is no indication that any other course of action would have been chosen if donor aid had been absent. The support of the international community has, therefore, served to enhance the effectiveness of the client's chosen strategy and not influence its direction.

A second measure of the success of the project is that the regulatory reform is being followed up with the technical assistance required to give it effect in the form of well-planned operational support. It seems likely that the National Credit Regulator will, thanks in part to USAID, have the means to carry out the mandate given it by the reformed legislation.

### **4.5 Department of Labour**

USAID worked with the Department of Labour (DoL) in developing labour regulations, employment equity and the analysis of sector employment. It also assisted the Department to look at research issues to provide a factual basis for interpretation. For example, it supported research on how labour laws affected job creation that in turn influenced legislation affecting small and medium enterprises.

#### **4.5.1 The Employment Equity Act**

With regard to employment equity, USAID funded consultants deployed in terms of an inter agency agreement with the US Department of Labour (including a secondment from

the US Department of Labour to act as Chief of Party of the project team) played an important role in developing policy and writing legislation based on the US experiences with affirmative action.

This project was a partial success in the short term in that it resulted in a major input into legislation. It sponsored the collaboration of the DoL and the organization of the Disabled People of South Africa to finalise guidelines for employment of the disabled and resulted in the publication, *Technical Assistance Guidelines on the Employment of Persons with Disabilities*, which helps employers comply with the Employment Equity Act. Interviewees report, however, that the impact of the project “decayed” over time, partly due to the departure of the project coordinator and to political developments in the USA.

USAID also provided support for the completion of an employment equity registry of all companies and the initial analysis of the results to inform field audits and implementation reviews. This provided the government with mechanisms to monitor company compliance with equity legislation.

The employment equity register, based on US experiences with Affirmative Action, was the result of the identification of a need by the Department and consequent consultations between the DoL and USAID. The quality of the consultants working on the project, as well as the ongoing communication and transparency of the process, contributed to the successful implementation of this element of labour policy.

#### **4.5.2 Labour Market Studies**

Following the Sector Jobs Summit (initiated after the 1998 Presidential Jobs Summit where government, business and labour agreed to hold sector summits to combat unemployment), the project supported studies into the labour market for the National Labour and Economic Development Institute (NALEDI). These studies developed the labour unions’ analytical capacity to intervene constructively in policy formulation related to sector development while developing proposals for enhancing employment and productivity

#### **4.5.3 Department of Labour: Summary Conclusions**

US experience with affirmative action played a large part in the level of support and influence USAID was able to give the Department of Labour. The execution of the work under an inter-agency agreement with the DoL and Department of Justice in the USA gave it a very hands-on quality and contributed to the successful support of a number of policy initiatives.

The success of this support was partly due to the clear commitment and enthusiasm of the SAG for this policy reform, which resonated well with the values and ideas on which the struggle against apartheid was based. There was thus an important alignment of ideologies, which substantially cleared the path for the USG to provide assistance.

The enthusiasm of the SAG for this area of policy reform was matched by the commitment of US experts who had recently gained relevant experience in the US.

On the negative side, the initial success of the intervention was “decayed” by the migration of internal project champions to other government jobs, harming both the institutional memory and the sense of commitment to the principles on which it was based. A change in political environment in the USA provided further resistance to continued support, which undermined the initially good result.

## **4.6 Department of Land Affairs**

SEGA/MESP organized and funded research into land tenure systems for the Department of Land Affairs (DLA). In particular, work was done on the reform of traditional land (involving stakeholders), which involved the writing of new legislation that transfers control over traditional land. The work produced concrete recommendations for reforming traditional tenure systems, addressing issues such as the lack of tenure security of farm workers and farm tenants, and the need for a formal land administration plan that recognizes the pivotal role of traditional authorities.

### **4.6.1 Communal Land Rights Act (CLARA)**

One of the key efforts under this assistance was the National Land Tenure Conference that was held in Durban in November 2001. The DLA’s first major conference, at which approximately one thousand delegates from community organizations, stakeholders, policymakers, local, regional and international experts, donors and the department’s minister and deputy minister were present. The result of the conference was new legislation to improve tenure security, establish tradable use rights and the right to rent traditional land. These developments strongly supported the objective to promote market-based solutions where possible. The report of the conference was published in 2004, just as the DLA was implementing the Communal Land Rights Act No 11 2004 (CLARA), drafted with USAID assistance. CLARA was intended to develop an equitable and efficient land tenure system in the former homelands and communally held areas managed by the traditional authorities. On paper, it appeared as if much was accomplished. Although CLARA had been passed by parliament, in the process of parliamentary debate, a range of amendments was forced upon the DLA that greatly lessened its positive impact. Consequently, although the Act is in

force, it has not had the impact on the land tenure policy and environment that had been hoped for.

#### **4.6.2 Land Rental to Increase Economic Opportunities**

SEGA/MESP supported a study to explore land rental as a mechanism to increase economic opportunities in rural areas. LIMA rural foundation was commissioned to conduct a study in tribal areas in KwaZulu-Natal (Escourt and Bergville). It explored the potential of the right to rent land held under traditional tenure to bring in significant amounts of communal land for cultivation and thus increase employment opportunities in the local economy. The major outcomes of the study are firstly, to facilitate rental transactions, secondly, to influence government policy and thirdly, to establish sustainable institutions that are able to support a rental market once the study is completed.

The work was a critical input in the recently completed National Land Tenure Conference in showing alternative ways of structuring land tenure on traditional land, and had a significant effect on the nature of the Communal Land Rights Act passed in 2004.

#### **4.6.3 National Evictions survey**

SEGA/MESP supported a research project which cast light on the extent and pattern of land evictions and the effect on the victims. A national survey of evictions was conducted, which found an alarmingly high rate of evictions which are having a serious effect on the livelihoods of the victims. The intended policy outcome, developed in consultation with the Department of Land Affairs, was to propose policy for the protection of the land tenure of farm-dwellers, the improvement of their livelihood, and that of people evicted from farmland.

The decision to proceed with the research project arose out of a show of interest by the Department of Land Affairs and by National Treasury that was taken up by researchers, and an agreement for it to be funded by USAID was reached. A reference group was set up by the lead consultants, which included officials from the Department of Land Affairs, National Treasury, Agri-SA, the Human Sciences Research Council, the Rural Legal Trust, the National Land Committee, the Foundation for Human Rights and the South African Human Rights Commission.

The study was completed and a series of communication processes was carried out. A book, "Still Searching for Security", (Wegerif M, Russell B, Grundling I. (Polokwane 2005) was self-published by the consultants, distributed to academics and government and sold in bookshops. Several articles were also published in both the academic and popular press and the findings became the subject of numerous news and magazine features on TV and in

the print media. Presentations of the findings are still on-going, with the most recent being in Delhi.

A National Conference was held in 2006 and presentations were made to the Parliamentary Portfolio Committee on Land Affairs, several provincial legislatures, internal DLA tenure legislation reviews and task teams which are responding to National Land Summit

Despite these efforts, and the initial interest shown by the department of Land Affairs, no policies have directly resulted from the study. There are a number of possible reasons for this failure:

1. Despite initial consultations and bi-lateral meetings with the client and other stakeholders, which resulted in good buy-in and significant expressions of interest from officials at the DLA, who were personally hopeful that it would have an impact, none of those who expressed interest were involved in the study. There was no champion from within the DLA who had a direct interest in the policy result. In general, the involvement of the Department in the identification and design of the project was weak, which showed a lack of sustained institutional commitment on the part of the DLA.
2. This lack of interest also impacted on the poor skills transfer which took place within the department itself. A possible area of capacity building, the conducting of the survey, was sub-contracted to an independent survey company. This had mixed benefits. On the positive side, the use of an independent survey organization was an important factor in creating credibility where the results were concerned and the collaboration was successful in that it built the organization's capability (it was a significant milestone in the social research environment). On the negative side DLA officials gained no training or experience in survey techniques, nor did they gain any of the insights into the issues that participation in local visits might have given them.
3. Failure to generate policy outcomes was also due to the method of insertion of the project's findings into the policy process within DLA. This was not well-planned and depended on the intervention of specific individuals who have since left DLA.
4. The interviewee sees the failure to support on-going advocacy as the key to the overall lack of impact because it is necessary to actively "sell" the findings in order to achieve the desired policy impact. At the time the project was proposed, it was feeding into an identified policy process within DLA. This has since floundered and changed direction. The weaknesses of the policy process in the DLA, as well as the instability of the political and official environment, contributed to the lack of impact.

#### **4.6.4 DLA: Summary Conclusions**

USAID support for the policy process within the DLA has, in the final analysis, not been successful. Although issues, such as traditional land tenure and rural poverty, were identified in consultation with political protagonists which, at the time, appeared to be at



the crux of economic change and development in South Africa, the areas chosen for support have proved to be controversial, and the impact of some very good and effective work has been dissipated. Although great strides were made in the reform of legislation regarding communal land rights, the resulting legislation was watered down in pursuit of political acceptability. The exploration of rental as an alternative tenure mechanism which could mobilise unused agricultural land was an imaginative and insightful initiative, which has floundered in the face of political apathy. In truth, these issues are at the crux of serious political stand-offs which remain unresolved in South African society. One can legitimately question the wisdom of any external involvement by USAID, however technical, which will inevitably favour one or other of the conflicting parties. In general, there is a clear need to develop explicit strategies to deal with these forms of conflict and to formulate intermediate results in a framework which can accommodate potential political derailment.

USAID's support for a range of studies which explored the situation of the rural poor was effective in generating quality papers, but not in informing policy. This was largely due to the poorly organised policy process within the DLA. There was little effort made to plan the policy process and the way in which the findings would inform policy. As a result, the impact of the studies was dissipated.

#### **4.7 The Department of Public Enterprises**

The mandate of the Department of Public Enterprises is to accelerate South Africa's privatization program, generally perceived to be slow. SEGA/MESP provided support for this process under a Bilateral Agreement. USAID funds two sector specialists for telecommunications who assist the IPO Office within the Department as well as the Head of the Restructuring

The efforts have focused on the four largest SOEs i.e. Eskom (electricity and energy), Telkom (telecommunication), Transnet (transport) and Denel (defense).

##### **4.7.1 Transformation of State Owned Enterprises (SOE)**

USAID funding has been instrumental in developing a Policy Framework for the Accelerated Restructuring of State Owned Enterprises. This framework details the objectives for the restructuring of state-owned enterprises, including the key guiding principles for the restructuring process up to 2004. Technical assistance was also provided to develop policy guidelines and a protocol framework for corporate governance principles. The program was divided into two phases. Phase 1 of the program ran from January 2000 to March 31 2002. The objectives of this phase were to establish the policy framework for State Owned Enterprise (SOE) transformation and bring the benefits of SOE restructuring

to the SA population. The DPE completed its first official statement of policy, the “Policy Framework for the Accelerated Restructuring of State Owned Enterprises” in August 2000, which set out the objectives and guiding principles for the restructuring of state-owned enterprises. This was interpreted to mean that SOEs could be altered so as to make them operate in a more commercial manner, which could include divestiture as one of the means of doing so. This would mean the separation of existing enterprises into components so that Government could withdraw from the sphere of commercial enterprise in order to reduce debt and attract foreign direct investment. There was also an emphasis on restructuring the “big four,” Telkom, Eskom, Transnet and Denel. This initiative was not entirely successful.

Phase 2 began on April 1 2002 and ran until October 10, 2005. The defining characteristic of this Phase was a fundamental shift in policy away from the premise that government should withdraw from the enterprise sector. This shift was revealed in actions and culminated in the publishing of a new DPE Strategic Plan in mid 2005 which articulates the vision that SOEs should play a leadership role in the economy to achieve strategic public objectives where purely private sector participation would compromise these goals. The objective of this Phase was to assist with the restructuring of state owned enterprises and strong emphasis was placed on the degree of control to be exercised by the DPE in managing project resources and work-plan priorities.

#### **4.7.2 Assistance to the Alternative Service Delivery (ASD) Program**

The ASD directorate initially wanted assistance in developing procurement models that would favor participation by previously disadvantaged individuals in government procurements. After being referred to a Canadian initiative, the work was carried out without any further assistance from the contractor.

Subsequently, the contractors assisted the Strategic Analysis Unit to research the applicability of Employee Stock Ownership Plans (ESOPs) for SOEs in the context of the SA Companies Act and the tax regime. The policy framework, “An Accelerated Agenda towards the Re-structuring of State Owned Enterprises,” stated that one objective of restructuring was to address imbalances in the economy through Black Economic Empowerment (BEE) by making BEE an integral element of the restructuring process. The research showed that that employee stock participation under the present tax regime would almost always produce a result whereby the previously advantaged would benefit unless stock ownership schemes were re-designed to produce more equitable results. A study was therefore undertaken where international best practices were reviewed, and an operational model which would structure ESOPs more successfully. This research was utilized by the DPE to produce a white paper on ESOPs which promoted black employee share ownership which was adopted by Cabinet in late 2002 and fed into Government’s overall agenda for

design and implementation of Empowerment Charters in the Mining sector and other sectors.

### **4.7.3 Summary Conclusions**

The assistance provided by SEGA/MESP had direct policy results in the areas of restructuring State Owned Enterprises, and redesigning their governance in order to incorporate incentive mechanisms such as ESOPs, which are more familiar to the private sector. There seems to have been a relatively easy transition from technical assistance to acceptance as policy. It appears that the need for the policy was clearly identified and formed the core deliverable results for the department and for the officials within it. The content of the broad policy on restructuring SOEs and their governance appears, perhaps surprisingly, to have been uncontroversial, and met with little internal or political opposition. This stands in contrast to the experiences in the Department of Land Affairs, where political stumbling-blocks resulted in the dissipation of otherwise useful interventions.

### **4.8 Environmental Affairs and Tourism (DEAT)**

SEGA/MESP provided support for short-term training of officials from DEAT, which has been discussed in section 2 above. SEGA/MESP has also supported a technical assistant who worked with DEAT to understand SA's obligations under international environmental and trade agreements, and has assisted the Department in developing a Forum of Environmental Economists which provides assistance in the analysis of the economic impact of environmental problems. This group will be central to the Department's work, with USAID support, to link trade and the environment.

A number of studies were commissioned which examined natural resource rehabilitation in rural areas of Limpopo Province, investigated the potential demand for, and supply of, environmentally sound electricity sources as alternatives to coal-based Eskom power. Eskom was satisfied enough with the project to agree to participate in future phases of the project and was welcomed by the D(National Energy Regulator).

Two other activities examined trade opportunities for South Africa related to the international concern with climate change and SA's products of biodiversity.

In addition, support was provided for the "Working for Water" campaign run by the Department of Water Affairs and Forestry. A model to assess the impact of individual, proposed activities was developed by the SEGA consultants.

The work with this department seems to have resulted in policies affecting the operations of state owned enterprises, and has provided important inputs into international trade discussions, conducted in conjunction with the Department of Trade and Industries.

That the policies and inputs have found ready acceptance both with partner entities such as Eskom and DTI, and within the Department itself, speaks well of the policy development processes followed and the credibility of the technical assistant appointed.

#### **4.9 Research into the Economic Impact of HIV/AIDS and Its Impact on Governance**

Given the high incidence of HIV infection in SA, (an estimated one in four adult South Africans is infected with HIV), there is an inevitable affect on the country's economy. Understanding and planning for that impact is therefore critical. USAID initiated a program to analyze this impact on the economy, and together with funding from the British, Australians, UNDP, Germans and Dutch, undertook several analyses into the issue.

Jointly-funded analyses examined the impact of the pandemic on nurses and hospital support staff, small businesses' failure to recognize the AIDS problem and their reluctance to participate in health schemes for their employees, how the poor are coping with AIDS; and the macro-economic and sectoral impact of the roll-out of anti-retroviral treatment.

This research, primarily done by black and female economists, has been instrumental in getting the national government to increase the budget for mitigation activities and changing low-income housing to reflect the change in family structure. The analysis of the impact of the pandemic on small businesses led the South African government to develop new methods to assist such businesses to deal with the pandemic, thus complementing work undertaken by the USAID small business program. The analysis of the impact on large businesses led to a keener understanding of methods used by business to shift the burden of the pandemic to society, leading to policy changes to make that shift more difficult. In collaboration with USAID's Health Program, the Economics Program is now working on the cost effectiveness of treatment regimes, conducting analyses to provide information previously unavailable as to what makes economic as well as social sense in the provision of treatment for persons living with HIV.

The "Research into the Economic Impact of HIV/AIDS and Its Impact on Governance Program" has ten projects. Four of these were in the form of operational support to the Department of Social Development (DSD), assisting with information needed to manage home-based health care workers, monitoring and evaluation of anti retro-viral (ARV) treatment, and assisting the DSD to develop a data system on orphans and vulnerable children. Four had a policy impact focus, analyzing the impact of HIV/AIDS on attrition and productivity of the nursing staff at Coronation Hospital and the sectoral impact of the epidemic. The remaining projects have the dissemination of knowledge as their main focus,

and took the form of a documentary film, a research forum for health economists and a special edition of the SA Journal of Economics.

The outstanding feature of this cluster of projects is the close understanding that exists between the client (Department of Social Development) and the research and intervention team. The project office is based on the premises of the client organization facilitating close ongoing interaction. All those interviewed identified this interaction and the understanding thus engendered as a key to the success of the projects.

The assessment team focused on the work done at Helen Joseph/Coronation Hospital where three projects were assessed: Modeling the cost of home-based care; An analysis of the impact of the disease on the nursing staff; and An Evaluation of the Impact on Various Economic Sectors. The Department of Social Development (DSD) had identified all of these projects as areas where expert help was needed.

#### **4.9.1 Modes and Cost of Home-Based Care**

The study of the “Modes and Cost of Home Based Care” (referred to as Home and Community Based Care (HCBC)) was both an operational support intervention and a research program intended to inform policy and is evaluated from both these perspectives.

The DSD requested help with the development of systems that would enable them to determine the cost of various forms of home-based care, to inform policy, but also to manage the delivery of care by individual care-givers who do not belong to the discipline of the health care profession. The consultants provided the Department with research and information reports, costing methodologies, and information on management systems.

As an added benefit that went significantly beyond their brief, the consultants assisted NGO service providers to set up their own management and financial systems where these were deficient. The DSD, which acknowledges that the managerial and reporting capacity of service providers is essential for effective quality control and diligent oversight and itself intends to take this support role on as its own operations, recognized this as a positive intervention. They have thus set up task teams and committees which are carrying forward this work. The project has therefore become highly integrated into the client’s operations, a key criterion in the evaluation of such operational interventions.

A number of key factors in the success of the project were mentioned in the interviews. As mentioned above, there was strong commitment and support from the Department of Social Development, at a high level. The result of this was that the project’s work did not proceed in isolation (the consultant attended all conferences and workshops and was closely involved in the operations of the Department), and the Department and the project worked

as a team. The consultant also showed unusual commitment and dedication, going well beyond the confines of her brief and contract which further established the project's credentials with the stakeholders. Finally, the Wits Health Consortium, which played an administrative role, was sufficiently flexible to allow the project to function without unnecessary hindrance.

Besides the operational goal of developing norms and standards for service delivery of HCBC, there were also intended policy outcomes. These were: to inform policy discussions regarding the management of home based care, to contribute to a formal capacity-building program for HCBC workers, to contribute to the formulation of the expanded public works programs and to ensure that voluntary workers receive suitable stipends. The research was also intended to contribute to the DSD's "assessment of disability tool" which incorporated the effects of anti retrovirals (ARVs) into the criteria for grant eligibility.

The research was designed as a participative process. Management teams from each of the 13 HCBC organisations were involved in the project. This strategy resulted in a synergy between the needs of the client, the subject of the research and the service providers. As a result, HCBC involvement helped them write their own organizational strategic plans. The project which was driven by a very active reference group (which included officials from the HIV/AIDS directorate of DSD, the population unit, and technical advisors from USAID and IBM), met to monitor and approve each stage of the program before it was allowed to proceed to the next stage.

The project made oral presentations to the Departmental Executive Committee (March 2006), meetings of Provincial Heads of Departments, and those of provincial coordinators, all of which resulted in significant inputs into the policy process of the Department. Departmental reports are soon to be published by DSD, and a workshop is planned for 7<sup>th</sup> Nov 2006 where all stakeholders are to be invited where the project experiences and successes will be presented.

The findings were further disseminated through presentations at the International Aids Economic Network in Toronto (August 2006) and oral and poster presentations made at the Orphan and Vulnerable Child (OVC) Conference (Gallagher Estate June 2006). A Horizons Population Council Conference being planned with USAID sponsorship will also have inputs from the project.

A strong effort was made to involve the departmental officials in producing these deliverables, and in so doing, it fell in line with the general focus of the SEGA/MESP project which was to build local capacity to address issues. One person was trained in each province to work on the field team, providing technical input as well as translation services, and mediation and facilitation in the community.

*Everyone on the project team is not only black South African but also people who have not been involved in research of this nature before nor may otherwise be given this opportunity. Individuals are being trained in all aspects of research from interviewing, computer literacy, data management, analytical, presentation and communication skills. Each of the individuals are being trained so that the Perinatal HIV Research Unit will have a list of trained researchers and a data base from which they could hire for their research projects when this study is over.”<sup>5</sup>*

The research has had significant spin-offs beyond the specific goals it set itself. The client is now using the data set developed for the project for various additional purposes, for example: to inform the calculation of costs of OVC service providers, and to recommend norms and standards for service delivery. There are plans to extend the project to national level, although this has cost implications.

#### **4.9.2 Assessment of the impact of HIV/AIDS on hospital staff.**

A survey was conducted, supported by SEGA MESP, to determine how hospital staff are affected by being infected with HIV. Although the project has both an operational component (it assists the hospitals with their direct human resource management) and an impact analysis (in that it analyses the impact of the epidemic on a professional group), this assessment focused only on the latter. The participation rate of affected staff was high, at 80%, suggesting a high level of interest in the study by the subjects themselves.

Four dedicated data sets, including the Gauteng payroll database, that contained personal information such as the reasons for termination of employment, were collected to form a baseline. The study also served to enhance the data available by generating three additional data sets namely: prevalence data, focus group and exit interviews (to determine reasons for leaving), and cost data (of HIV among staff).

The team utilized methods of analysis, which included multivariate analysis, and simple cost models that were not complex or esoteric, and were relatively easy to pass on to users. A manual was produced to enable other hospitals to follow these techniques (focus groups, exit interviews, prevalence survey for data collection) and it is thus anticipated that the models and databases developed will remain in use well after the project is completed. To further ensure sustainability, widely used software such as SAS and Excel were utilized since staff already had knowledge of these methods and tools. This did mean, however, that there was no additional impact on capacity building amongst the staff.

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<sup>5</sup> USAID Implementation Review 1 October 2002 – March 31, 2003

The dissemination of the results of the study focused on distinct target markets: professionals (the SA Aids Conference in 2005 and other professional conferences such as the SA Health Worker Conferences), policy makers (sister departments within government such as the National Department of Health and its equivalent in Gauteng) and the research subjects, the nurses, themselves (all ward shifts at the two hospitals).

Although no specific policy processes have acknowledged the results of the research, which are described as “unsurprising,” internal policies have shown significant shifts in the directions suggested by the study. There is now a treatment program for staff at the two hospitals, enabling them to access priority treatment easily and without loss of dignity. This represents a significant shift in hospital policy and the project therefore yielded strong operational and policy results for the DSD. Its integration into the operations of the hospital make its sustainability more likely.

#### **4.9.3 Impact of HIV/AIDS on business and other organizations.**

A survey was conducted to assess the impact of HIV on the operations of businesses, specifically on the cost of labour to employers. It is an impact analysis, an application of simple micro-economic principles in a context of an important national issue.

Baseline data was acquired from many participating organizations, and was enhanced by surveys of impact of morbidity on productivity of businesses. Models were developed using multivariate analysis and customized costing models. These have since been used by other researchers outside the project, but are not yet sufficiently user friendly for wide dissemination. In the development of the models, standard statistical packages such as SAS and Excel were used, with the result being that staff members associated with the project have been trained in the use of these tools and capacity has been built.

The findings are widely used and cited by policy makers and in policy processes, both in government and business. For example, the findings have also been used as an input for policy processes, particularly an impact assessment for Buffalo City, to help it plan and design its programs.

Dissemination of the results of the research has been achieved through academic publications and conference presentations. An impressive list of publications has also resulted from the study including a widely cited article in Harvard Business Review (2003): “AIDS is your business”.

Overall, the project was a success and made important policy inputs. It was relatively self-contained and did not have significant spin-off benefits beyond its intended outcomes.



## **HIV/AIDS: Summary and Conclusions**

The key to the success of this cluster of policy inputs seems to have been a good understanding of the needs of the client, as well as a willingness to discover those needs as part of the on-going process of assistance. The projects had a significant effect on policies and practices, especially with regard to the management of caregivers for HIV/AIDS patients, and why and how management practices need to be adapted in the context of the effect of HIV/AIDS.

### **4.10 Policy Development: Conclusions**

Besides the assistance given by SEGA/MESP to the building of policy capacity, the assistance provided in the direct development of policy had significant effects in a number of national departments, including:

- National Treasury: Budgetary policy, tax policy, the use of modeling in policy analysis.
- Department of Trade and Industry: Trade policy, micro finance regulation,
- Department of Labour: Employment equity

A number of positive results were noted which had a direct impact on policy. The key finding in respect of the policy development was as follows:

1. The ownership by the department is crucial. Where there was clarity about the need for policy, and about how the USAID funded input would be used to deliver such policy, success was assured. Support for micro-finance regulation is a clear example. Where the funded input is merely a “nice-to-have” source of information, little tangible result can be expected (Projects within DLA are examples).
2. A well-designed policy process, with a clearly defined role for external inputs, is also a pre-condition for successful assistance. In the cases where the specific project was initiated by the client department, and a clear vision was in place of how the assistance would interface with the internal policy process, the projects were successful. The support for micro finance policy is a clear example. In cases where the project was chosen for its potential interest, without any clear intention to incorporate it in policy making, it generally was consigned to the academic arena, and had little impact on the policy environment. Again, the micro-finance regulation project can be seen as epitomizing this point, with the Department of Land Affairs as it’s opposite.
3. Following on the previous points, it is also clear from the experiences of the project that both the “ownership” and the “process” need to be embodied in the institutional structure in a sustainable way. Process champions must be identified, their role clarified and provision made for their succession. The resignation or promotion of the champion is a recurring theme in the explanations for failure of projects.

Accounts of successes on the other hand are frequently recounted by the same official who was responsible for its progress.

4. Analysis of the SEGA/MESP policy interventions re-affirms that the identification of the need for policy and the determination of its general nature is, in a democracy, a highly political and therefore frequently contested process. Successful projects somehow managed to evade the pitfalls inherent in policy determination. Policy was relatively easy to formulate in the Departments of Trade and Industry, State Enterprises and Environmental Affairs and Tourism, but was very difficult to bring to finality in the Department of Land Affairs. Reasons for this can be found, if sought, in the centrality of the issues, the potentially conflicting nature of stakeholders' interests, the ability of the policy protagonists and the degree of political support they enjoy. Work in the Department of Labour was facilitated by a happy and possibly serendipitous alignment of ideologies. The lesson for future program design is to identify and recognize the conflictual nature of policy, and to design aid interventions to be selective, choosing the most likely areas of success, and to couch the objectives and expected results of a conflict-ridden program in terms that are robust to the effects of the conflict. The project must be able to succeed in its own terms, whichever side comes out on top.

In general though, even with the failures, the impact on policy has been strong. Often, this impact is the result of the two other factors discussed above, that of capacity-building, and of institutional building.

There was strong ownership of the work by the client(s) as a result of the methods used in identifying and initiating the project, and the relationship that existed between the client and the research and implementation staff. The selection of committed, dedicated expert consultants, who were willing to develop their brief on an on-going basis, contributed to the success of the relationship. There was also a clear plan for transferring the results to the client: inputs into policy processes were scheduled, close interaction and on-the-job training of operational staff was done and a close interaction with the 13 HBHC organizations was promoted. This last factor represented a significant spin-off in the form of building capacity and supporting operations in the client departments and their associated NGOs.

#### **4.11 Policy Development: Recommendations.**

There are a number of ways to assist a country with formulating policy. One is to develop internal capacity, in ways that have been discussed above. Another is to provide short-term, independent experts who are insulated from the internal struggles and conflicts associated with policy, and to allow them to produce policies in accordance with the expressed needs of the client. A third way is to adopt existing policies from other countries or contexts uncritically. USAID is instrumental in the first of these, as discussed above. Its efforts to

engage in the second have met with considerable success, but also with notable failures. Based on the conclusions drawn, we make the following recommendations on how future projects or programs can be structured to increase the likelihood of success:

1. **Ownership.** It is vital that policy interventions be “owned” by the client. This is even more important in the context of policy than in the capacity interventions. USAID should not attempt to assist in the policy process “from the bottom up”. Incumbent decision-makers and executives should be assisted to make a clear identification of what policy outputs form part of their core deliverables, and to formulate an action plan to accomplish them with the help of appropriate technical assistance. It should be expected that failure to accomplish the policy objective will constitute a personal failure of the responsible officials, and that success will be similarly owned.
2. **Policy Process.** The client department should have a well-defined process in place by which policy is formulated and evaluated. It should involve a political mandate, consultations with stakeholders, internal reference groups, impact studies, financial viability studies and inputs from outside experts. The design of the assistance should take into account the current nature and the evolution of the policy making process. From an early stage, emphasis should be placed on planning the policy process, to assist the client to ensure that the expected return on the advisory process is realized, and that the advice or funded research contributes positively to the achievement of policy goals.
3. **Institutional Sustainability.** The advisory process should not be looked upon as “information transfer” but as a part of institutional capacity building. Project design should incorporate this goal explicitly, going beyond merely identifying the project champion, and ensuring that the champion is carrying out a defined institutional role in formulating policy, and that, should he or she vacate that position, provision is made for succession so that the policy outcome remains at the core of the institutional agenda.
4. **Handling Political Conflict.** The provision of direct policy advice to recipient departments, rather than the transfer of internal capacity to develop policy, must be handled with care. The possibly conflictual nature of policy must be recognized, and a selection framework should be developed to ensure that projects are selected with a high probability of success. Such a framework will involve an analysis of the policy area, the need for the policy, likely impacts and an analysis of stakeholders, political and community, to indicate the existence of potential conflicting groups with both an interest in and an ability to derail the process. Design of the project

itself should identify and recognize the conflictual nature of policy, so that aid interventions are designed accordingly, with their objectives and expected results expressed in terms that are robust to the effects of the conflict. The project must be able to succeed in its own terms whichever side comes out on top.

While no guarantees can be given, we believe that the adoption of these recommendations will improve the success rate of direct policy interventions, and help to increase the return on the aid investment, in terms of direct influence over policy.

## SECTION FIVE: SUMMARY OF FINDINGS

### 5.1 Challenges

The objectives of the SEGA/MESP program are to improve the capacity available to SA government departments to formulate and evaluate economic policy, and policies which have an economic or resource allocation component to them. The assumption driving the program is that better economic policy in every area of government will result in favourable economic outcomes for the country such as growth, poverty alleviation, employment and stability.

This development hypothesis contains a number of sub-assumptions, which individually constitute challenges which the project must address:

**1. *“People who receive appropriate training in economics will be better able to make a contribution to economic policy.”***

The challenges implied in this assumption are to select appropriate candidates who will be able to benefit from the training and make a difference to economic policy within a reasonable time-frame. The SEGA/MESP program addressed this selection process for its full-time students, by targeting incumbent, task-oriented politicians and officials, such as parliamentarians and trade unionists, and by providing short-term training in an outcomes based context.

Once selected, the candidates must be given training which will enhance their capacity directly and fairly immediately. In this regard MESP I showed the weakest potential, since the training given at USA-based institutions was fairly generic in its nature. MESP II made an effort to direct the training towards desired areas of study, but it was the short-term training, training for parliamentarians and on-the-job technical assistance which was most directly targeted and showed the greatest potential for meeting this challenge.

**2. *“People who are trained in this way will, in fact, make such a contribution”***

The very real and present danger is that the trained economists will find employment outside the reach of government, or overseas and their skills will be lost to the local policy process. There is also a danger that a very long training process will result in trained graduates who have missed the window of opportunity for policy reform, which threatens to slam shut in anticipation of the crucial 2009 national leadership change. Although MESP I again showed the poorest potential in this regard, taking several years to equip graduates with highly portable, highly paid skills, in practice the rate of attrition was low among this group, and many are already in a position to make inputs. . By contrast, MESP II suffered a far poorer record of retention despite the apparent

constraints on mobility implied by an inferior local qualification. The parliamentary program had an immediate effect, with acclaimed direct contributions being made to policy by students well before the completion of the program. Short-term training initiatives had a similarly immediate, noticeable and effective impact.

**3. *“The institutional environment in which they operate will provide scope for such inputs and will utilize them”***

Discussions with graduates on the MESP I program indicate that they are appreciated in their government positions, and are able to make inputs. Many are already influential policy protagonists in Treasury. One is leading a high profile anti-corruption initiative. By becoming part of the government institutional structure, they are able to make useful inputs, contributing to an increasingly effective policy process.

Efforts to contribute to policy by supporting or capacitating independent contractors or think-tanks ran into serious institutional constraints. Many were unsuccessful in creating an effective interface with the Department’s policy process, resulting in the shelving of their often important contributions.

**4. *“The political decision-making environment will be able to provide direction and support for such technical inputs”***

Policy is an inherently political process, with technical inputs that can assist but not guide it. Policy mistakes and false starts are to be expected and were indeed encountered in, for example, the Department of Land Affairs. External efforts to formulate policy are particularly prone to this kind of misdirection, as decision-makers are tempted by the offer of funding, to explore policies which are not always at the core of their departmental agendas. Several projects initiated in the National Treasury fall into this category.

**5. *“The political environment will be both flexible and stable enough to turn policy advice into legislative and managerial realities.”***

It should be expected that the environment of economic policy will change rapidly. A policy that is crucial today may not be so tomorrow. As South Africa heads for a watershed leadership election in 2009, the opportunities for policy reform are rapidly closing. The challenge that this implies is to ensure that the relevance of policy inputs supported by USAID are able to survive this change, and that the political protagonists who make use of them are able to prevail. In the case of CLARA, discussed above, this was not the case, and a similar outlook seems to await the Employment Equity Act, to which USAID contractors also had a major input.

**6. “The successful adoption of good policies will lead to effective implementation”**

South Africa is often characterized as having first-world policies and third-world implementation. Several of the inputs supported by SEGA/MESP have languished due to an excessive focus on policy alone. A notable exception is the PPP unit, which followed policy with implementation through training of decision-makers on the criteria on which Treasury approval will be based. The National Credit Regulator (NCR) embodies a similar combination of policy and implementation, although it is still too early to call the implementation phase a success. The challenge, clearly, is that the bridge between policy and implementation has to be purposefully built, and the architects of policy are the ones who have to do it.

**7. “The successful implementation of good economic policies will result in favourable economic outcomes.”**

This final assumption embodies an optimistic view of the economic world which is almost certainly unjustified. Favourable economic outcomes, such as prosperity and stability are hostage to a plethora of external factors, few of which are subject to the control of policy makers. Tsunamis, droughts, technological revolutions and global warming happen, regardless of policies, and the equally appalling decisions by the G8 and the World Trade Organization are seldom influenced by the quality of local economic decisions. Policies can only have an effect on the actions and inactions of government, which are, at best, an important but not a determining factor in the achievement of economic well-being in South Africa. USAID’s program shows, in our view, an appropriate realism, when it shifts its focus from the big picture to the intermediate results, by focusing on what it can realistically deliver, not on the final outcomes in terms of human happiness and social welfare.

## **5.2 Summary of Achievements and Impacts**

Despite the limited success of some of the projects, the SEGA/MESP program has had a significant impact on the performances of many individuals and institutions. The report on Bridging Design (2002) lists some:

- Parliamentarians are making suggestions on how to change finance and budget bills;
- There is broadened emphasis on quality economics education with seven new masters training programs having been developed (regulatory, health, environmental, labor and three in trade economics) in three white universities (the University of Cape Town, the University of Natal-Durban and Stellenbosch University), and continued work is being done in strengthening the economics program at UWC;
- Government departments have been assisted/strengthened: National Treasury, the

Department of Labor, the Department of Environmental Affairs and Tourism, the Department of Public Enterprises, the Department of Land Affairs, the Department of Trade and Industry, the Department of Agriculture, the Office of the President and the Reserve Bank.

- Think-tanks have been strengthened, largely through enhancing their capacity to undertake relevant studies that have an impact on the policy debate.

In addition, the program has also contributed to a long list of specific policies and policy related results, including:

- Improvements in systems for public budgeting
- Improvements in the South African tax system
- Establishment of Public-Private Partnerships (PPP) as a means to improve the delivery of government services
- Improved policies for governing the financial sector that will allow the micro-finance sector to be prudently regulated without being stifled. This is said to have led to a 25 percent increase in micro-finance lending.
- Improvements in the framework for the restructuring of state owned enterprises and in actual restructuring actions
- Improved market regulation, including the development of a structure for enforcing anti-trust regulation by improving the ability of the Competition Commission to effectively regulate anti-competitive mergers and improved regulation of public utilities
- Improved land reform legislation and an improved land reform program
- Improved understanding of trade issues and improved research capacity
- Improved understanding of the economics of environmental issues
- Improved understanding of the economic impact of HIV / AIDS
- Improved system for the management of Intellectual Property Rights
- Improved understanding of labor issues
- Improved environment for small and medium enterprise development

### **5.3 Obstacles**

A number of factors were identified as contributing to the failure of some of the projects under SEGA/MESP:

- The most important obstacle identified is the failure of many projects to provide a well-planned linkage between the project outputs, such as a research paper, economic model or trained economist, and the policy processes they are intended to contribute to. The problem arises universally, whether we are dealing with issues of trade, global climate change or environment.



- The need to “sell” the policy to a range of stakeholders has become evident, suggesting that follow-up work is needed, beyond the project deliverables agreed to in the contracts. The work completed under ATRIP is a good example of such follow up, resulting in a strong program of communication to high levels of government and business. In the case of the Biodiversity team, working in the same project, a serious problem arose, which was not expected by the project leaders. Although they have a good “product”, a manual for setting up a small business using biodiversity as a starting point, they have not identified a target audience, and their attempts at communication are failing. Similarly, government has not done well enough in selling its policies to the populace, seeking input or even explaining why it is necessary. A clear example is privatization, or restructuring of government assets. There is considerable misunderstanding of what is taking place and why, even on the part of government ministers, let alone the general populace.

#### **5.4 Facilitating Factors**

Successful projects, of which there were many, had a number of things in common:

- A project champion who was committed to the outcome, conceived of the assistance as a mechanism to achieve that outcome, and then saw the process through to completion. The champion was characterized by a clear vision of what the value of the project would be. Perhaps the best example of this is in the support for micro-finance regulation. In this case, the internal champion saw the clear need for research of a specific nature as a support for the drafting and legislative process. He sought out the funding from international donors and commissioned the research, with a clear idea of what it would find, and a clear plan for how it would be used to achieve the policy aim.
- A second factor for success, and which is linked to the one above, is that the support of high-level managers contributed significantly to the success of a project. Such support made buy-in by other officials more likely. There is a vested interest in being part of such a project. One example is the success achieved under the Private-Public Partnerships, and another, the training done under the Southern African Tax Institute.

#### **5.5 Gender**

The Economics Program disaggregates data by gender and exceeded targets by 22%, compared to 12% in 2001, in providing training to women and using female economists to conduct economic analyses.

**Gender Dynamics:** The program also exceeded its targets for training female economists by 12%, primarily as a result of having trained more than the targeted number of women under several different program components. For example, the project to train economists has been extremely successful in drawing women into the economics track. Eight of the ten

2003/04 scholarships were given to women, several of whom have noted that they were drawn to the economics degree program precisely because of the financial support provided by the USAID-funded bursaries. In addition, gender considerations are an integral element, wherever appropriate, of economic impact studies supported by USAID. For example, analysis of the dimensions of poverty focused on female-maintained homes.

## **SECTION SIX: SUMMARY OF RECOMMENDATIONS**

The recommendations made under each section are summarized below:

### **6.1. Recommendations on Human Resource Development**

1. Continuation of the Mandela Economic Scholarship Program. The provision of high profile scholarships for the study of economics at a postgraduate level should be continued. World-class education is clearly one of the most important benefits the donor countries can offer their clients and represents an export for which the recipient has very poor substitutes.
- .2 The right to use the Mandela name must be more strongly capitalized. The purpose of the scholarship is to encourage top quality graduates to choose economics as a prestigious career path. The Mandela Scholarship has a key role to play and should be built into a scholarly “brand” rivaling and exceeding other cachets such as the Rhodes Scholarship.
- 3 The superior environment offered by some USA based institutions to previously disadvantaged South African students must be recognized and mechanisms such as visiting scholarships and funded chairs should be considered to incorporate this benefit into local programs.
- 4 The aid support mechanisms for local institutions should be designed so as to ensure that the acknowledged challenges presented by apartheid history are specifically addressed, by means of, for example, bridging programs. Teaching faculty should be given suitable encouragement to improve their learning relationships with their students.
5. The focus on “conventional economics” rather than “radical political economy” should be maintained, but provision should be made for students to be exposed to divergent views.

### **6.2 Recommendations on Institutional Capacity-Building.**

1. Focus of support should be on building the institution itself. It should identify and appoint executive officers and work with them to design systems and procedures, establish a funding model and create a culture appropriate to the task at hand.
2. The nature of the systems and procedures should have, as a top priority, the establishment of lines of communication between the technical and political stakeholders.
3. Intermediate results (IRs) of such support should be couched in organizational terms rather than in issues terms. The contractors’ results framework must be focused on the institutional building, not the task which the institution is intended to carry out. Such tasks are best described as “final results” and should be the responsibility of the client to achieve, not the contractor.

4. The key criterion for approval of projects in this category should be the priority of the issues in the client's own agenda. Only issues which are considered top priority by the client institutions should be pursued, and structures created to address them.
5. The financial support of entirely private think-tanks which set their own research agendas is extremely risky and must be treated with caution. It is likely that the essential link between the researcher and the client department will be tenuous.
6. Existing client organizations should be encouraged and assisted to develop an explicit organizational strategy in which the tasks supported by the TA and the capacity created is identified and targeted.
7. An effort should be made to focus this form of assistance on a small number of institutions and to intensify the level of support given in order to generate greater depth of expertise, and to follow through once initial support is given.

### **6.3 Recommendations on Policy Development**

**1. Ownership.** It is vital that policy interventions be "owned" by the client. This is even more important in the context of policy than in the capacity interventions. USAID should not attempt to assist in the policy process "from the bottom up". Incumbent decision-makers and executives should be assisted to make a clear identification of what policy outputs form part of their core deliverables, and to formulate an action plan to achieve them with the help of appropriate technical assistance. It should be expected that failure to attain the policy objective will constitute a personal failure of the responsible officials and that success will be similarly owned.

**2. Policy Process.** The client department should have in place (or be assisted to put in place) a well-defined process by which policy is formulated and evaluated. Emphasis should be placed on planning the policy process, to assist the client to ensure that the expected return on the advisory process is realized, and that the advice or funded research contributes positively to the achievement of policy goals.

**3. Institutional Sustainability.** The advisory process should not be looked upon as "information transfer" but as a part of institutional capacity-building. Project design should incorporate this goal explicitly, going beyond merely identifying the project champion, and ensuring that the champion is carrying out a defined institutional role in formulating policy, and that, should he or she vacate that position, provision is made for succession so that the policy outcome remains at the core of the institutional agenda.

**4. Handling Political Conflict.** The provision of direct policy advice to recipient departments, rather than the transfer of internal capacity to develop policy must be handled with care. The possible conflictual nature of policy must be recognized, and a selection framework should be developed to ensure that projects are selected with a high probability of success. Objectives and expected results must be expressed in terms that are robust to the effects of the conflict. The project must be able to succeed in its own terms whichever side comes out on top.

## **6.4 General principles**

Some general principles may be derived from these recommendations:

### **6.4.1 Focus should be on deepening rather than broadening support.**

An effort should be made to focus assistance on a smaller number of institutions, and to intensify the level of support given in order to generate greater depth of expertise, and to follow through more thoroughly once initial support is given.

### **6.4.2 Focus on organizational development, using organizational expertise.**

By focusing on the challenges of building the institutions themselves, USAID can avoid the common AID-related problem of a lack of client ownership of the product. If the focus is on the mechanisms for identifying and communicating knowledge needs, and for strategizing the means of making the available expertise work within the client's institutional framework, there is a good chance that the scarce capacity available will be optimally used, and the final policy results achieved.

### **6.4.3 Capacity-Building should be linked with support programs:**

It is apparent that the training given to participants in the MESP, Phase 1, was successful. Participants benefited from the exposure that they received, as well as from the freedom which a full scholarship afforded them to develop fully. However, with the change in the program to a locally based one, the success rate was not as high. The support, both from the institution as well as from the program, was not as comprehensive as it could have been. Consequently, the program failed somewhat in this regard. Greater consideration to the supplementary programs that could have been instituted to provide the students in the local program with the support necessary for their success was needed. Evidence of how this support could be provided is provided in the successes from the Training for Parliamentarians, as well as in the Finance and Development Training and Research Unit at UWC.

### **6.4.4 Capacity-Building must be associated with a clear task**

The highly successful training programs run for Parliamentarians via the Southern African Tax Institute, with its clearly-defined outcome (i.e. improving skills in tax revenue); as well as the capacity built in the Competition Commission and the National Credit Regulator, showed that the existence of a clear objective assisted the participants to complete their training and apply what they had learned. This will be further enhanced if the capacity so created is linked to career progression for the participants.

#### **6.4.5 Ownership**

The projects in all three areas which were owned fully by the respective Departments, either through initiation or through the process of implementation, were more likely to be translated into policy. Where the initiation rested outside the Departments, the results, no matter how useful, were not likely to be integrated into the work and policy of government.

#### **6.4.6 Plan the policy process**

Prior to the undertaking of policy related research, explicit plans should be developed to indicate how the results will be used once the project has been completed. A clear process should be envisaged by which the research findings will contribute to policy, or how the capacity created in the process of research will be deployed and rewarded. This will ensure that the value of the research is understood beyond the purely academic arena, and will enable clients to make appropriate use of findings even when they are not in line with conventional thinking.

#### **6.4.7 Plan for change**

Where the results of projects are going to demand a change in thinking and the means of operation, it is essential to communicate with the end-user prior to implementation. If a new policy implies important change, support must be given to the department or institution to manage the change in all its dimensions, such as staffing, systems, funding and culture. The development and facilitation of this change management process must be a part of the project design, and fully communicated with key stakeholders and officials.