

# Economic Capacity Building Strategic Objective Bridging Design

9 December 2002

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## LIST OF ABBREVIATIONS AND ACRONYMS

AIPA.....	African Institute for Policy Analysis
ANC .....	African National Congress
AusAid.....	Australian Agency for International Development
CSBP .....	Centre for Small Business Promotion
DBSA.....	Development Bank of Southern Africa
DFID .....	Department for International Development
DLA .....	Department of Land Affairs
DPE.....	Department of Public Enterprises
DTI.....	Department of Trade and Industry
DTT.....	Deloitte-Touche-Tohmatsu
EDRC .....	Energy and Development Research Centre
EE .....	Employment Equity
EOC.....	Educational Opportunities Council
EPRI.....	Economic Policy Research Institute
EU.....	European Union
FADTRU.....	Finance, Development Training and Research Unit
FTC.....	Federal Trade Commission
GCC .....	Global Climate Change
IAA .....	Interagency Agreement
IFP .....	Inkatha Freedom Party
IPR.....	Intellectual Property Rights
LRS.....	Labour Research Services
MESP.....	Mandela Economic Scholars Program
MFRC.....	Micro Finance Regulatory Council
MPP .....	Mission Performance Plan
NASS.....	National Agricultural Statistical Services
NER.....	National Electricity Regulator
NIEP.....	National Institute for Economic Policy
PPP.....	Public Private Partnerships
RCSA.....	Regional Center for Southern Africa

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SAIRR.....	South African Institute for Race Relations
SARS .....	South African Revenue Service
SEGA.....	Support for Economic Growth and Analysis
SO .....	Strategic Objective
StatsSA.....	Statistics South Africa
TIPS .....	Trade and Industrial Policy Strategies
UCT .....	University of Cape Town
UFS.....	University of the Free State
USAID .....	United States Agency for International Development
USG.....	United States Government
UWC .....	University of the Western Cape

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# Economic Capacity Building Strategic Objective Bridging Design

## **EXECUTIVE SUMMARY**

A Bridging Design Team was assembled from USAID/Egypt, REDSO/Nairobi, AFR/DP, and USAID/South Africa to provide recommendations concerning future activities and directions for USAID/South Africa's Economic Capacity Building Strategic Objective. Due to the lack of any prior evaluations of the program, the design team spent a significant amount of time reviewing past and current activities and achievements in order to develop an understanding of what the program has accomplished to date.

The basic "findings" of this review include:

- The Economic Capacity Building program has covered a wide range of sectors and activities, taking an approach emphasizing the breadth of activities over the depth of involvement in particular sectors.
- Despite the dispersion and multiplicity of interventions, the program made significant contributions to the development of South Africa's macroeconomic policy framework and strengthened the capacity of a variety of governmental and non-governmental entities.
- The Economic Capacity Building Team enjoys an outstanding reputation and has excellent relationships with its partners.
- The original program focus on individuals and institutions historically disadvantaged under apartheid appears to have been diluted as the program has become more issues oriented.
- As the program has become more issues oriented and the range of issues has broadened, the focus on capacity building appears to have been reduced. The issue of inadequate capacity—whether at the national or provincial levels of government or covering technical or administrative/management issues, however, was a continual theme in interviews. Thus, the design team strongly recommends that capacity building remain a key element of the program.
- Despite a need to focus on achieving policy impacts, it is also important to promote the empowerment of the previously disadvantaged. Thus, the design team recommends that whenever an international or white South African institution or contractor is selected to work on program activities, they should be required to develop partnerships with historically disadvantaged institutions and the relevant government department.

A key element of the scope of work for the Bridging Design Team was to suggest ways to focus the Economic Capacity Building program. To do this, the design team identified six (6) program clusters based upon the program's work to date. These clusters are:

0. Historically Disadvantaged Capacity Building
  1. Public Finance
  2. Enterprise Restructuring and Regulatory Framework
  3. Financial Systems
  4. Land Tenure
  5. Other Areas
    - a) Environment/Global Climate Change
    - b) HIV/AIDS
    - c) Trade
    - d) Small and Medium Enterprises
    - e) Labor
    - f) Intellectual Property Rights

“Cluster 0: Historically Disadvantaged Capacity Building” is offered as either a standalone cluster for program focus or as a cross-cutting cluster that should accompany any other chosen cluster from among Clusters 1-4. “Cluster 5: Other” is not offered as a program option, but is simply included to highlight other areas of previous work. The Intellectual Property Rights activity listed under Cluster 5, however, will need to be continued in either this strategic objective, or another one, due to the Congressional mandate to pursue this work.

The design team strongly recommends a “depth over breadth” approach, i.e., that no more than one cluster from among Clusters 1 – 4 be chosen. The process of choosing a focus cluster will depend upon a variety of factors, but one of the most important of these will be the willingness of the relevant government department(s) to jointly articulate policy goals towards which the focused program will work and against which the program will be judged.

The condensed time period for the design team did not allow for the development of detailed designs in the above clusters, nor did it allow for the preparation of detailed budget estimates for work in these areas. Nevertheless, the design team is confident that using a strategy of “depth over breadth” will easily absorb the resources available under any of the budget scenarios proposed for consideration (\$3.5 million, \$5.0 million or \$7.0 million annually).

If it should be the case that the \$3.5 million budget scenario is likely to hold, the design team believes that strong consideration should be given to only pursuing Cluster 0 as the focus for the program. In this case, some form of limited U.S. based training program could be reinstated, but with a more targeted focus than with the original Mandela Economics Scholars Program. Additional programs under MESP2 could be instituted, preferably at one of the historically disadvantaged universities rather than at other historically advantaged universities. In this case, it would be possible, but not ideal, to merge the “Cluster 0” activities into the Mission’s education strategic objective. If such a merger were to occur, attention to maintaining the “economic focus” of the activities would be strongly suggested.

The Bridging Design Team also examined the management of the Economics Capacity Building Strategic Objective. Four general management issues were identified: Team

Management, Budgeting Priorities, Audit Vulnerabilities, and Monitoring and Evaluation Issues.

## **PURPOSE OF THE REPORT**

The purpose of this report is to provide recommendations concerning future activities and directions for USAID/South Africa's Economic Capacity Building Strategic Objective for the period from mid-2003 through mid-2006 (FY2004 – FY2006). These recommendations will cover the period when the USAID/South Africa Mission is designing its new strategy. For planning purposes, the estimated annual budget for this period is \$3.5 million to \$7 million or \$10.5 million to \$21 million for the three-year period.

Additional guidelines provided include:

- Future program interventions should be focused on two to four areas rather than reacting to targets of opportunity as in the past;
- The report should have benchmarks: USAID assistance should target certain types of changes and if they do not occur then the SO should reduce its involvement in that area;
- The report should prioritize spending, i.e., what ought to be emphasized and what current areas should be dropped. The priorities must take account of linkages to other strategic objectives, USAID global objectives, and other USG objectives in SA; and

USAID's global objectives include:

- Broad based economic growth and agricultural development;
- Building human capacity through education and training;
- The world's environment protected for long-term sustainability;
- World population stabilized and health protected;
- Democracy and good governance strengthened; and
- Lives saved, suffering associated with natural and man-made disasters reduced, and conditions necessary for political and/or economic development re-established.

USG objectives in South Africa, as stated in the Mission Performance Plan, include:

- **Developing and Transitional Economies:** To reduce income disparities between historically disadvantaged and advantaged populations to produce sustainable transformation.
- **Stable, Secure Regional Partners:** To ensure South Africa will play its central role in regional peace and security.
- **International Health:** To assure that South Africa mounts an effective response to the HIV/AIDS epidemic and related threats to the health of South Africans.
- **International Framework:** To strengthen and deepen international and bilateral frameworks for open markets in goods, services and investment.

- Law Enforcement and Judicial Institutions: To strengthen South Africa's law enforcement and judicial institutions to deal effectively with the country's high rate of crime and to cooperate with the United States in the fight against terrorism and transnational crime.

To accomplish this purpose the following Team was assembled:

- Richard Harber, Economist/Program Officer/Project Development Officer, USAID/Egypt (Team Leader);
- Ruth Buckley, Social Scientist, AFR/DP;
- Shirley Erves, Economist/Monitoring Specialist, REDSO/ESA; and
- Alan Hackner, Project Development Officer, USAID/South Africa.

The Bridging Design Team would like to express its appreciation and thanks to the Economics Capacity Building Team, especially Neal Cohen, Nompilo Mali, Neil Boyer, and Dikagiso Bojosi, the rest of the USAID/South Africa Mission, as well as the personnel from the Nathan Associates, Chemonics International, and Deloitte-Touche-Tomatsu contract teams for their exceptional support and assistance provided to the team.

## **REVIEW/EVALUATION OF CURRENT ACTIVITIES**

The on-going program under the Economics Capacity Strategic Objective has an authorized level of \$42 million, with \$40.5 million obligated through FY2002. Given an expected obligation of up to \$5 in FY2003, there is an insufficient authorized level to absorb these funds. The program to date has been implemented through twelve (12) instruments: four direct contracts; four Interagency Agreements; and four direct grants/cooperative agreements. Of this total, three direct contracts, two Interagency Agreements and two grants/cooperative agreements are still active.

### ***Structure of the Strategic Objective***

The Economics Capacity Strategic Objective was established in the USAID/South Africa country strategy in 1996. The Mission selected the approach of "economic policy capacity building" for several reasons. First, the need for improved economic policies was highlighted by trends in the South African economy: real per capita incomes had declined to the levels found in the mid-1960s; the distribution of income, wealth, economic assets and economic activity exhibited extreme inequalities; trend growth rates had declined for thirty years; productivity had declined for twenty years; production techniques had shifted away from the utilization of labor and toward the increasing use of capital; employment creation was inadequate to prevent significant growth in unemployment; and net investment and net savings both showed low levels. Second, the number of trained economists in the disadvantaged population to direct the transformation of the economy and economic policy was limited due to South Africa's political and social history. Third, the post-apartheid government had a strong desire to direct their own economic policy future and harbored certain concerns regarding policy "directives" from outsiders. Thus, the ability to focus work on specific policy areas was limited.

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The strategic objective is summarized in the following results framework:

**Strategic Objective Statement:** Improved capacity of governmental and non-governmental entities to formulate, evaluate and implement economic policy.

**Intermediate Result 1:** Strengthened human resources in economics and policy.

**Intermediate Result 2:** Strengthened government entities to formulate, implement and evaluate economic policies.

**Intermediate Result 3:** Strengthened economic think tanks to formulate and evaluate economic policies.

**Intermediate Result 4:** Strengthened centers of economics training, especially within the historically disadvantaged institutions.

Over the course of implementing this strategic objective, comfort levels with the assistance and an appreciation of the complexity of economic policy formulation increased, and the focus of the strategic objective's efforts have shifted towards working on specific policy issues in conjunction with South Africans. Nevertheless, the emphasis on capacity building has continued, but appears to be emphasized less at this time.

### ***Activities***

In accordance with the Statement of Work, the Design Team examined selected elements of the on-going portfolio. The results of this review are presented below, organized by Intermediate Result.

#### ***Strengthened Human Resources in Economics and Policy***

Activities under this Intermediate Result include both the original/international Mandela Economics Scholars Program (MESP 1) and the newer local bursary program (MESP 2).

##### *Mandela Economics Scholars Program (MESP 1)*

The original Mandela Economics Scholars Program provided graduate bursaries, primarily to members of the historically disadvantaged population, for post-graduate degrees in the United States (U.S.). Degree areas were focused on economics or closely related areas. The participants under this program were expected to work within the South African Government for a period not less than the duration of their training.

The original expectation was for the provision of 200 person-years of post-graduate training. Seventy-one (71) participants have been selected for the program, eleven (11) of whom are still pursuing their studies in the U.S. Participants have attended forty different schools across the country.

Among the sixty (60) participants that have returned, fifty-nine (59) are currently employed with the sixtieth returnee working to finalize a placement. Despite initial difficulties in securing

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commitments to work for government, only three participants are currently working in the private sector. In addition, one participant works for a leading economic think tank, another is a full time consultant to government, and two work for a state owned enterprise (SASOL). Two-thirds (40) of the returned participants work in various national departments, while a further four (4) work for provincial governments, and eight (8) work for Universities. Within the National Government, the National Treasury, the Reserve Bank, and the Department of Trade and Industry have the greatest concentration of MESP 1 participants, accounting for nineteen (19) of the forty (40) national government employees. Table 1 shows the employment status for the MESP 1 participants.

Both employers and returned participants highlighted the benefits of the program. In addition to the specific training received, benefits mentioned included exposure to different educational models; exposure to other cultures – both U.S. and others through other international students; significantly improved confidence levels of the participants; etc.

*Local University Bursaries for Historically Disadvantaged South Africans (MESP 2)*

MESP 2 is an in-country training program initiated in response to declining and limited financial resources. With an objective of providing an even greater number of bursaries/scholarships to South Africans, the program does not require government service by bursary recipients. The bursaries continue to be for historically disadvantaged individuals. MESP 2 also assists the economics departments of the Universities providing the programs to develop the specialized programs of study.

Based on a competitive award process, current recipients of assistance under this program include: the University of Cape Town, University of Natal-Durban and Stellenbosch University. The subject areas of the programs offered include: Trade and Regulatory Policy Economics, Labor economics, Labor Market Policy, Health Economics, Resources/Environmental Economics, Trade and Industrial Policy Economics, Economics of Education, and Trade Policy and Modeling.

The funding will for this activity is mainly used to award bursaries to historically disadvantaged South African students, with fifty bursaries offered per year across the three universities. In total, 200 hundred bursaries will be available over 4 years; bursaries not awarded in any given year may be awarded in subsequent years.

While the course development funding is included in these programs, this work is the type of effort promoted under the fourth intermediate result.

When asked whether there is a continued need for the training of the historically disadvantaged population in economics and for economists in government, the general response was that there is still a premium on competent economists to work in government due to the continuing competition with the private sector. While U.S. training is excellent, the cost of U.S. programs is recognized as being higher, although the quality of the education is better. Several people suggested finding some way of including at least a limited overseas experience in any local training programs, such as those of MESP 2, e.g., a semester or term abroad.

<b>TABLE 1: EMPLOYMENT STATUS OF MESP 1 PARTICIPANTS</b>	
<i>National Government</i>	
	<b>40</b>
Development Bank of Southern Africa (DBSA)	1
Department of Environmental Affairs	1
Department of Foreign Affairs	1
Department of Minerals and Energy	1
Department of Public Enterprises	1
Department of Trade and Industry	6
Department of Transportation	2
Human Sciences Research Council	1
Interns	3
National Agriculture Marketing Council	2
National Intelligence Agency	1
National Treasury	7
Office of the Presidency	2
Reserve Bank	6
South African Medical Council	1
South African Revenue Services	3
Statistics South Africa	1
<i>Provincial Government</i>	
	<b>4</b>
Gauteng Department of Education	1
Gauteng Gaming Board	1
Limpopo Trade and Investment	1
Western Cape Provincial Treasury	1
<i>Universities</i>	
	<b>8</b>
Eastern Cape Technikon	1
UNITRA	1
University of Cape Town	2
University of the Northwest	1
University of the Western Cape	2
University of the Witwatersrand	1
<i>Private Sector</i>	
	<b>7</b>
Think Tanks	1
Government Consultant	1
State Owned Enterprises	2
Private Companies	3
<i>Other</i>	
	<b>12</b>
To be determined	1
Still to complete	11
<b>Grant Total</b>	<b>71</b>

***Strengthened Government Entities to formulate, implement and evaluate economic policies***

Activities under this Intermediate Result focus on strengthening the capacity of the South African Government to address economic policy needs. Implementation has been pursued through four direct contracts Harvard Institute for International Development under the CAER II IQC, Nathan Associates (SEGA/MESP), Deloitte-Touche-Tohmatsu (SEGIR IQC), and Chemonics International (SEGIR IQC). The Nathan, Deloitte-Touche-Tohmatsu (DTT), and Chemonics International contracts are still active. In addition, Interagency Agreements (IAA) with the U.S. Treasury, U.S. Department of Labor, the U.S. Department of Agriculture, and the U.S. Department of Justice/Federal Trade Commission. All of these except for the IAA with the U.S. Department of Labor are active agreements.

*Nathan Associates (SEGA/MESP) Contract*

The Nathan Associates (SEGA/MESP) contract is the primary mechanism for implementation under the Economic Capacity Strategic Objective. Under this contract, the Nathan Associates Team provides assistance to the South African governmental departments to 1) identify, formulate and evaluate approaches for increasing equitable economic growth, and 2) strengthen the capacity of the government to fulfill this role. This purpose is achieved through (1) short and medium-term technical assistance to government departments involved in economic policy formulation and implementation; (2) short-term training for capacity building within key units of departments or for key individuals within departments; and (3) research support to inform the economic formulation and implementation process.

Tables 2 and 3 summarize the assistance provided to date or currently planned. Table 2 identifies the fourteen (14) government departments or entities that have received assistance under the Nathan Associates contract.<sup>1</sup> Table 3 divides this assistance by the sector/subject area of the assistance provided, as well as, indicating the recipient of the assistance. As indicated by the large number of recipients and the breadth of the sectors assisted, it is clear that the strategy pursued is best characterized as “seizing targets of opportunities,” an approach consistent with the design of the strategic objective and the scope of work for the contract.

Of the above, work with National Treasury, Department of Trade and Industry, Department of Labor, Department of Arts, Culture, Science and Technology, Parliament, South African Revenue Service, Statistics South Africa, and the National Electricity Regulator are on-going or planned. Of the \$10.3 million total assistance, \$8.0 million represents completed activities.

Some of the specific activities implemented under this contract include:

- **Parliament:** Training in the budget process and analysis, macroeconomics and a three-week Williams College course in applied economic development. These courses have subsequently been built upon with locally-developed certificate and diploma courses for those Parliamentarians without an undergraduate degree, and a master’s in public policy for those with an undergraduate degree.

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<sup>1</sup> Since provincial assistance is combined under one item, the number of South African Government entities receiving assistance is actually greater than indicated.

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<b>TABLE 2: NATHAN ASSOCIATES SUPPORT TO GOVERNMENT DEPARTMENTS (COMPLETED, ON-GOING AND PLANNED)</b>		
<b>Governmental Department</b>	<b>Number of Interventions</b>	<b>Value of Assistance</b>
National Treasury	87	\$ 3,032,094
Department of Trade and Industry	28	2,132,283
Department of Labor	24	1,152,386
Department of Environmental Affairs and Tourism	19	737,405
Department of Agriculture	10	604,225
Department of Arts, Culture, Science and Technology	1	555,000
Parliament	9	554,555
Provincial Economic Literacy Workshops	8	445,991
Office of the President	11	413,062
South African Revenue Service	9	199,795
Statistics South Africa	3	97,131
Department of Public Enterprises	4	87,105
Department of Transportation	3	76,200
National Electricity Regulator	3	47,086
Other/Unspecified	6	157,870
<b>Total</b>	<b>225</b>	<b>\$ 10,292,188</b>

- **Employment Equity:** Completion of the employment equity registry of all companies and their plans, plus initial analysis of the results to determine how to conduct field audits and reviews. These activities established the databases and mechanisms for the government's monitoring of company compliance with employment equity legislation.
- **Labor Market Analysis:** Analysis of the impact of various pieces of legislation on the creation of new jobs. This contributed to government's exempting small and medium enterprises from some aspects of recent labor legislation.
- **Global Climate Change:** Research into the economic impact of global climate change on South Africa and demonstration of how South Africa might be able to benefit from the "Clean Development Mechanism" allowed under the Kyoto Framework Agreement. The work on "Clean Development Mechanisms" has led to a project involving Krueger Park, Working with Water, Limpopo Province Authorities and the Development Bank of South Africa.
- **Economic Impact of HIV/AIDS:** Development of an econometric model for National Treasury on the macroeconomic impact of HIV/AIDS that led to the first government projections on the budgetary impact of the pandemic. These budgetary effects were incorporated into the 2001 Medium Term Expenditure Framework.
- **Land Tenure:** Research into alternative forms of land tenure reform on traditional land combined with assistance from the University of Wisconsin's Land Tenure Center.



<b>TABLE 3: SECTORAL DISTRIBUTION OF NATHAN ASSOCIATES SUPPORT TO GOVERNMENT</b>		
<b>Sector/Departmental Partners</b>	<b>Number of Interventions</b>	<b>Value of Assistance</b>
Agriculture	4	\$ 175,586
<i>National Treasury, Department of Agriculture</i>		
Land/Land Tenure	4	289,950
<i>Department of Agriculture</i>		
Budgeting	23	936,060
<i>National Treasury</i>		
Taxation Issues	17	596,769
<i>National Treasury, South African Revenue Service</i>		
Public Private Partnerships	11	712,629
<i>Department of Trade and Industry, National Treasury</i>		
Economic Literacy	13	794,591
<i>Parliament, Provincial Governments</i>		
Energy	4	55,856
<i>National Electricity Regulator, National Treasury</i>		
Environment/Global Climate Change	19	737,405
<i>Department of Environmental Affairs and Tourism</i>		
Finance	14	1,221,665
<i>Department of Trade and Industry, National Treasury, South African Revenue Service</i>		
HIV/AIDS	6	95,171
<i>National Treasury</i>		
Industry/Industrial Development	2	86,166
<i>Department of Trade and Industry</i>		
Privatization/State Owned Enterprise Restructuring	9	222,577
<i>Department of Public Enterprises, National Treasury</i>		
Infrastructure/Investment/Investment Promotion	9	374,336
<i>Office of the President</i>		
Intellectual Property Rights	4	611,900
<i>Department of Trade and Industry, Department of Arts, Culture, Science and Technology</i>		
Labor/Labor Issues	26	1,365,550
<i>Department of Labor, Department of Trade and Industry, National Treasury</i>		
Macroeconomics/Macroeconomic Issues/Modeling/Statistics	24	780,240
<i>National Treasury, Department of Trade and Industry, Statistics South Africa</i>		
Management Improvement	10	422,257
<i>Department of Agriculture, Department of Trade and Industry, Department of Transportation, National Treasury, Office of the President, Parliament</i>		
SME Support	4	151,158
<i>Department of Trade and Industry</i>		
Trade/Trade Issues	7	362,104
<i>Department of Trade and Industry</i>		
Miscellaneous	15	300,208
<i>Department of Trade and Industry, Department of Transportation, National Treasury, Office of the President, Parliament</i>		
<b>Total</b>	<b>225</b>	<b>\$ 10,292,188</b>

Nathan Associates also provides technical assistance to the Department of Trade and Industry to support small business development and other broader issues of industrial and trade policies. These efforts were initiated under the Mission's private enterprise strategic objective, and then later transferred to the Economics Capacity strategic objective. Specific activities have included assistance to:

- The Centre for Small Business Promotion (CSBP) to review economic policy and regulatory environments facing small, medium and micro-enterprises.
- DTI's Executive Management Unit to assist the Unit to plan the relocation of the Department. This move, part of a revitalization project is expected to bring together the Department and associated institutions, currently scattered across Pretoria. The relocation is expected to improve DTI's functioning and is implemented in conjunction with the PPP activity.
- Technical assistance to the South African Company Registration Office, a unit within DTI, to enhance the effectiveness and efficiency in which the unit processes various corporate and disclosure filings.
- Assistance to the Micro-Finance Regulatory Council to evaluate its current functions and possible future role in the provision of a wider range of financial services to previously disadvantaged South Africans.

*Deloitte-Touche-Tohmatsu Contract*

Under this IQC Task Order, the Deloitte-Touche-Tohmatsu team works with the Department of Public Enterprises to accelerate South Africa's privatization program. While this activity originated under the Mission's private enterprise strategic objective, the responsibility for this effort was switched to the Economic Capacity strategic objective in 2000.

The objective of the USAID assistance is to assist with the restructuring of state-owned enterprises. Efforts concentrate not only on the mechanics of restructuring, but also on how best to achieve benefits for the South African population from restructuring. For the restructuring to be successful, additional capacity must be developed within the Department through skills development of staff via on-job-training, structured training programs and visits to successful restructuring programs elsewhere in the world. Although much of the emphasis of the assistance provided by USAID is intended to effectively drive the restructuring program of the Department, empowerment, performance management systems, and public education of the restructuring aims of the Government of South Africa 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 TELEKOM (state telecommunications company). Future work will also focus on ESKOM (the world's sixth largest electricity company) and TRANSNET (holding company for port and rail facilities). Another key area of effort will be to establish the mechanisms for monitoring performance of the companies in which the state retains holdings.

*Chemonics International Contract*

Chemonics International provides technical assistance to the National Treasury to assist the Public Private Partnership (PPP) Unit whose responsibilities include: granting approval to national and provincial departments to proceed with PPP projects; providing technical assistance in preparing, procuring, implementing and monitoring these projects; enhancing capacity of implementing departments to implement PPP projects through training, seminars and workshops; issuing policy guidelines from time to time; and acting as a resource centre for PPP and related issues.

The contract team helped establish the PPP Unit in the National Treasury and has been instrumental in creating the policy and regulatory framework for implementing Public Private Partnerships. In addition to training staff at the national level, the PPP Unit also trains provincial Treasury officials to enable them to approve PPP proposals at the provincial level.

To date the PPP Unit has sixty active projects with another forty under preliminary investigation. Of the active projects, four have closed contracts and another five are in final negotiation. Sectors covered include health, education, information technology, ecotourism, service to accommodation (private provision and management of government office space), and transportation (rail, road, air).

*U.S. Treasury Interagency Agreement*

USAID/SA has provided the resources to supply advisors to the National Treasury on taxation, intergovernmental fiscal relations, budgeting, and short term support to the South African Revenue Service.

*U.S. Department of Justice/Federal Trade Commission Interagency Agreement*

The Department of Justice and the Federal Trade Commission advise South Africa on competition policy issues and their application to the market process, as well as, assist in establishing institutional structures to support a competitive market economy. They provide long-term assistance through placement of advisors (usually one lawyer and one economist) at the Competition Commission for periods of up to twelve (12) weeks. In addition, they provide short-term assistance on sector specific issues in support of the long-term advisors. They are also establishing a library of competition policy texts and manuals. The Federal Trade Commission provided an advisor who has worked on streamlining the process of investigation and reporting at the Competition Commission, reduced their backlog, shown South African investigators how to develop a case, and developed templates for reporting.

*U.S. Department of Agriculture Interagency Agreement*

The U.S. Department of Agriculture provides services to the South African National Agricultural Statistical Services to help the South African National Department of Agricultural and Statistics improve the quality of agricultural statistics. Of particular concern are the statistics related to production on previously uncounted emerging or black farmers.

### ***Strengthened Economic Think Tanks to Formulate and Evaluate Economic Policies***

Activities under this Intermediate Result can be divided into three stages. The first stage is represented by four direct grants to South African NGOs designed to build capacity and finance the recipients' research agendas. The second stage was a series of similar grants made and administered by the Joint Center for Political and Economic Studies as a sub-contractor to the Nathan Associates SEGA/MESP contract. The third stage consists of research contracts issued by the Joint Center for Political and Economic Studies. Table 4 presents the basic data on these grants and contracts.

#### *Stage 1: Direct USAID Grants*

Two initial grants were funded under the Transition Support Fund – one to the African Institute for Policy Analysis (AIPA) and another to the National Institute for Economic Policy (NIEP). The AIPA grant funded a major research effort to develop policy proposals to promote “Growth with Equity.” The NIEP grant provided institutional support and resources to pursue their basic macroeconomic modeling and research agenda. SEGA funds were used to finance grants to the Labour Research Services (LRS) – for research related to labor and union issues – and to the Trade and Industrial Policy Secretariat (TIPS).

Of these four grants, only the TIPS grant is still active. TIPS was established to assist the Department of Trade and Industry in policy research and options. Funding under this grant is used to: (a) provide high quality, centralized and standardized trade and industry data; (b) train researchers and policy makers in the use of analytical tools for the formulation of policy; (c) evaluate trade and industrial policy options; and (d) link researchers and policy makers in order that they may formulate more effective policies.

#### *Stage 2: Joint Center for Political and Economic Studies Grants*

As a sub-contractor to Nathan Associates, the Joint Center for Political and Economic Studies continued the type of grants provided earlier by USAID, i.e., grants to black-led non-governmental organizations pursuing economic policy training and research. Their initial round of such grants included grants to: the Economic Policy Research Institute to support NGOs and policy makers in the implementation of strategies to achieve equity and economic growth; the African Institute for Policy Analysis for research on economic transformation and democratization; Disabled People South Africa for research on the economic situation of disabled people; LIMA Rural Foundation for research on using land rental as a mechanism to increase economic opportunities in KwaZulu-Natal; and National Institute for Economic Policy (NIEP) for a broad range of macroeconomic and sectoral research.

In a subsequent round of activities, the Joint Center granted funds to research units associated with universities, including: Center for Development Studies-University of the Free State for research regarding the non-payment for municipal services; University of Venda for research on the non-payment for improved water services; and Development Policy Research Unit-University of Cape Town for research regarding the South African labor market.

*Stage 3: Joint Center for Political and Economic Studies Research Contracts*

The shift to research contracts as opposed to grants was initiated in order to build a sense of “customer service” within research organizations by laying the foundation for the provision of products within specified time frames. While the idea of “delivering the goods” is necessary for organizations to broaden their financing base, several people noted that this shift has lessened the capacity building aspects of the activities under this Intermediate Result.

Three procurements for research efforts have been undertaken, two regarding the economic impact of HIV/AIDS and one regarding the economic impact of Global Climate Change.

<b>TABLE 4: GRANTS AND CONTRACTS IN SUPPORT OF STRENGTHENED ECONOMIC THINK TANKS</b>	
<b>Organization</b>	<b>Amount</b>
<b>Stage 1: USAID Direct Grants</b>	
<i>Closed</i>	
African Institute for Policy Analysis (AIPA)	\$ 886,360
National Institute for Economic Policy (NIEP)	915,000
Labour Research Services (LRS)	77,289
<i>Active</i>	
Trade and Industrial Policy Secretariat (TIPS)	868,839
<b>Stage 1 Sub-Total</b>	<b>2,747,488</b>
<b>Stage 2: JCPES Direct Grants</b>	
<i>Closed</i>	
Economic Policy Research Institute (EPRI)	260,500
African Institute for Policy Analysis (AIPA)	392,717
Center for Development Studies-University of the Free State	150,273
University of Venda	67,426
Development Policy Research Unit-University of Cape Town	147,992
<i>Active</i>	
Disabled People South Africa (DPSA)	250,000
National Institute for Economic Policy (NIEP)	350,000
LIMA Rural Foundation	150,000
<b>Stage 2 Sub-Total</b>	<b>1,768,908</b>
<b>Stage 3: JCPES Research Contracts</b>	
<i>Closed</i>	
Economic Impact of HIV/AIDS Research, Round 1	420,718
<i>Center for Health Systems Research and Development-University of Free State; Development Works; Ebony Consulting International; Economic Policy Research Institute; Kayamandi Development Services</i>	
Economic Impact of Global Climate Change	214,817
<i>Energy and Development Research Center-University of Cape Town; Center for Scientific and Industrial Research-Environmentek Pretoria; International Institute on Energy Conservation; Mineral and Energy Policy Center; University of Pretoria</i>	
<i>Active</i>	
Economic Impact of HIV/AIDS Research, Round 2	281,035
<i>Richard Tomlinson; Economic Policy Research Institute and the University of Cape Town; Center for Health Systems Research and Development-University of the Free State;</i>	
<b>Stage 2 Sub-Total</b>	<b>916,570</b>
<b>Total</b>	<b>\$5,432,966</b>

One round of HIV/AIDS research has been completed and the second initiated. The competitively awarded research contracts have resulted in assistance to universities (University of the Free State, University of Cape Town), NGOs (Economic Policy Research Institute,

Development Works, Kayamandi Development Services), and consulting companies (Ebony Consulting International), as well as, individuals (Richard Tomlinson).

The subject areas of this research have included: socio-economic impact of HIV/AIDS on households and communities to determine how the disease affects the economic decisions and positions of individuals and households over time (Round 1 and Round 2); effects and implications of HIV/AIDS on the construction sector and the housing delivery system (Round 1); effect of HIV/AIDS on the development of small and medium enterprises (Round 1); establishing an empirical basis for costing and evaluating feasible public policy interventions, especially through the social security system (Round 1); impact of HIV/AIDS on the demand for low-cost housing (Round 1); effect of HIV/AIDS on service delivery and municipal financial sustainability (Round 2); and the impact of HIV/AIDS on the University of the Free State (Round 2).

Global Climate Change research provided research funding to universities (University of Cape Town, University of Pretoria), NGOs (Mineral and Energy Policy Center, International Institute on Energy Conservation), and a quasi-governmental research institute (Center for Scientific and Industrial Research-Environmentek Pretoria). The subject areas included: valuation of the impacts of climate change and industrial mitigation options; linkages between Clean Development Mechanisms and environmental assessments; economic opportunities and barriers to link carbon offset finance to planned electrification activities; and the impact of climate change on agriculture. One contract under this set of awards provided an intensive training program to policy makers on the “Economics of Climate Change Project Implementation.”

***Strengthened Centers of Economics Training, especially within the Historically Disadvantaged Institutions***

The fourth Intermediate Result was designed to strengthen the capacity of at least one economics department in the system of historically disadvantaged universities and technikons in order to strengthen the in-country training of economists. Through a process of working with the Chancellors of the historically disadvantaged universities and technikons, the economics department at the University of the Western Cape was selected as the beneficiary of this assistance.

*Economic Center of Excellence (University of the Western Cape)*

Technical Assistance, commodities and short-term training are provided to the University of the Western Cape’s Department of Economics to promote a center of economics excellence at a historically disadvantaged university. The support includes curriculum and staff development, research and out-researches programs that will benefit other historically disadvantaged institutions in South Africa, provincial governments and non-governmental organizations. The Finance, Development, Training and Research Unit (FADTRU) was established to be the recipient of this assistance. Additional assistance is being provided in the form of 39 bursaries for undergraduate and honors and masters education at UWC through residual funding under an education grant to the South African Institute for Race Relations (SAIRR).

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The work with the UWC economics department and FADTRU has been difficult, but has also resulted in definite improvements. Complaints from the contractor side have included a lack of ownership and advancement of the program within the economics department, and an excessive management burden associated with the program. Similarly, the economics department expressed concerns over the lack of definition of the assistance to be provided and management inefficiencies associated with the program.

The program is defined by the following emphasis areas:

1. Economic empowerment for government, including (a) provincial training in economic literacy, macroeconomics, project appraisal, and local government finance; and (b) a Parliamentary training program in conjunction with the Economic Policy Research Institute.
2. Support within the faculty of economics, including computer labs for graduate students, library acquisitions, and bursaries. Student enrollment at the undergraduate level has increased from 400 to 900 in support courses; maintained approximately 150 to 200 in the third year (concentration) program. Postgraduate enrollment increased from 5-10 honors students and no Masters students to 23-25 honors students and 13-14 Masters students.
3. Academic program development, including an advanced diploma and an economic and public policy program.
4. Research. This element of the faculty's development has not been as successful as in other areas. In part, this comes from constraints in staff size relative to teaching loads, but also from a need to identify and develop a special niche for research areas in order to attract outside funding for research projects.

Discussions with the Dean of the Faculty highlighted strong support for the department of economics and FADTRU, but also a recognition of its current limitations, especially in terms of research output and integration with other special units in the faculty and University.

*Support for Specialty Centers in Economics*

In addition to the work with the University of the Western Cape, the MESP 2 program has also resulted in the strengthening of university economics departments through the development of new subject-area programs. Three historically white universities (University of Cape Town, Stellenbosch University, and University of Natal-Durban) have benefited from this assistance.

***Results Achieved to Date***

The discussion above has focused on the description of activities and mechanisms. It is extremely important to recognize the concrete achievements of this Strategic Objective. The following discussion highlights many of these, but is not a comprehensive listing of achievements.

**Indicators and Impacts of Capacity Building Efforts**

The indicators used to measure the impact of the strategic objective’s capacity building efforts focus on the number of individuals trained, as summarized in Table 5. The true impact of these efforts is shown in individual or institutional performance changes as summarized below:

- 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 (University of Cape Town, University of Natal-Durban, Stellenbosch University) – and continued work strengthening the economics program at UWC;
- Government departments have been assisted/strengthened – National Treasury, Department of Labor, Department of Environmental Affairs and Tourism, Department of Public Enterprises, Department of Land Affairs, Department of Trade and Industry, Department of Agriculture, Office of the President, Reserve Bank. (Note: no definition of ‘strengthened’ is offered – activities to date include placement of Mandela Scholars, short term training, Technical Assistance, and Research. The desired end state is presumably self-sufficient, highly capable, efficient departments fully capable of performing their responsibilities with respect to increasing equitable economic growth).
- Think tanks have been strengthened, largely through enhancing their capacity to undertake relevant studies that have an impact on the policy debate.

<b>TABLE 5: SELECTED CAPACITY BUILDING INDICATORS</b>	
Cumulative Number of Mandela Scholars Trained or In-Training (MESP 1)	✓ 71 scholars, 33-46% women
Cumulative Number of Mandela Scholars (MESP 2)	✓ 28 committed enrollments
Cumulative Number of Parliamentarians Trained	✓ 65 Parliamentarians enrolled /about to be enrolled in part time long term training; ✓ 250 receiving short term training;
Increased number of students registering for economics courses at UWC	✓ From 404 in 1998 to 1070 in 2002
Cumulative Number of short term training recipients:	✓ 1661

**Impacts on Government Policy**

In addition to the direct capacity impacts presented above, the Economic Capacity program has also contributed to macro level policy development and implementation. These results are

beyond USAID's manageable interest; however, it is clear from discussions with various partners and implementers that there has been a direct relationship between the studies and assistance USAID has funded, policy reforms adopted, and macroeconomic level impacts. Some of these macro-level impacts include:

- Upgrading in South Africa's credit rating;
- Improvement in policy scores of various indices (Heritage Foundation, the World Competitiveness Report, IRG's Competitiveness Ranking and PWC's Opacity Index);
- Increased spending on social services due to improved tax compliance;
- Increased decentralization of responsibilities from national to provincial governments;
- Reduced budget deficits;
- More efficient government provision of services through appropriate PPP outsourcing of government functions.

In addition, the program has also contributed to a long list of specific policies and policy-related results. Some of these are listed below.

- Improvements in systems for public budgeting
  - ✓ Development of 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 gender equality and comprehensive social security reform
  - ✓ Studies on the social impact of a basic education grant
  - ✓ Identification of the impact of a basic income grant on the SA economy
  - ✓ Study on the macroeconomics of a peoples budget
- Improvements in the South African tax system
  - ✓ Developing a more investment friendly tax code by developing a comprehensive 5-year tax reform program
  - ✓ Closed loop holes to spread the tax net wider and lower personal and company tax rates, and reduce tax incidence on the poorest
  - ✓ Implemented a capital gains tax
  - ✓ Shifted to residence based taxation
  - ✓ Change in mineral taxation
  - ✓ Proposal for retirement benefits taxation
  - ✓ Improved administration of gaming taxation
  - ✓ Strengthening the South African Revenue Service resulting in increased revenue collection
  - ✓ Analysis of energy taxation and the development of carbon based taxes

- Establishment of Public Private Partnerships (PPP) as a means to improve the delivery of government services
  - ✓ Establish the PPP unit in the National Treasury
  - ✓ Adoption of guidelines governing public – private partnerships and their subsequent improvement based on pilot PPP's
  - ✓ Support for the DTI campus PPP deal, thus contributing to further refinements of the PPP guidelines and procedures
  - ✓ Cumulative deals completed to date valued at \$127 million, with over 100 deals on the table

## QUOTES FROM THE CUSTOMERS

Comments from the National Treasury:

*“I like the way this program is structured with a focus on institutional development rather than high profile political issues — emphasis on capacity building and training continues to be a priority — investment in intelligence policy work, improved systems is valuable in enriching our transformation”*

*“The research has led to the policies we have developed going forward. There is increased need for training because our team has changed almost entirely there is also a need to shift focus from macro to micro/sectoral analysis — we need to build capacity to build sectoral micro models to feed into macro modeling.”*

*“Success has been achieved in drafting new laws and policies — now we need to build the capacity to understand the results”.*

Comments from Parliamentarians:

*“The program has opened our eyes. USAID’s commitment means a lot to us..... The program has opened opportunities for us. For example the newly formed budget committee members were chosen because they are seen to be empowering themselves through the USAID program.”*

*“The program has given us confidence..... I can go on for the whole day how the training has helped us do our jobs...Parliamentarians served on different committees without economic knowledge — we didn’t understand the issues. The program has improved the participation of members, improved the quality of debate, opened eyes, opened avenues, people fit more comfortably in their assigned positions especially in public finance and development economics, we now say its not economic growth but economic development we are after.”*

*“The Minister of Finance has said people should be encouraged to do the course because he has seen the difference... The Chief Whip wants all members to do the course...We now understand jargon — I now understand what the S&P upgrade means, what rand depreciation means (good and bad) ... it isn’t just the opposition who is asking questions ..... people now respect the finance committee...I can now stand up and say something and make an immediate impact — I could not do that 4 years ago.”*

*“People in the program are growing from strength to strength, we are including our parties. what we say goes to conference...we are influencing our ministers....”*

- Assist South Africa become a provider of technical assistance in the region on taxes, customs procedures, debt management and similar areas that ultimately impact on the South African economy and in support of South Africa's chairing of the SADC public finance center.
  - Improved financial policies
    - ✓ Codes and practices for the MFRC have been developed that will allow the microfinance sector to be prudently regulated without being stifled. This has led to a 25 percent increase in microfinance lending.
    - ✓ Identification of key constraints to responsible growth of the low end credit market
    - ✓ Review of the consumer credit law
  - Improvements in the framework for the restructuring of state owned enterprises and in actual restructuring actions
    - ✓ Developed a policy framework for the accelerated restructuring of state owned enterprises based on studies regarding the pros and cons of privatization conducted by AIPA with USAID funding
    - ✓ Developed policy guidelines and a protocol framework for corporate government principles
    - ✓ Transnet (Ports and railways), Telekom, Eskom, and Denel restructuring projects are in process
  - Improved market regulation
    - ✓ Developing the structure for enforcing anti-trust regulation by increasing ability of the competition commission to effectively regulate anti competitive mergers
    - ✓ Improved regulation of public utilities
  - Improved land reform program
    - ✓ Advice on how to structure traditional land tenure reform following from a conference hosted in 2001 – legislation will improve tenure security, including tradable use rights and the right to rent traditional land.
    - ✓ Combining problems of land tenure with the problems faced by tenants and workers on commercial farms through the proposed revision of bills relation to the land rights of tenants and restrictions on evictions.
    - ✓ Cost benefit analysis of land reform program
  - Improved understanding of trade issues
    - ✓ Research and capacity building on services exports and WTO
    - ✓ Research on the economic impact of AGOA
    - ✓ Studies on external trade and relative wage inequality in SA
    - ✓ South African standardized industry data based developed by TIPS has enabled economy wide policy modeling.
    - ✓ Tariff reductions
  - Improved understanding of the economics of environmental issues
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- ✓ Movement towards an economically viable strategy for natural resource rehabilitation of in some rural areas.
- ✓ Development of the African rural initiative to sustain the environment in the Limpopo Province
- Improved understanding of the economic impact of HIV/AIDS
  - ✓ Analyzed macro-economic impact of HIV/AIDS through a forecasting model which is informing debate on HIV/AIDS impact on South African society resulting a tripling of budget allocation to dealing with HIV/AIDS
  - ✓ Increased understanding of the impact of HIV/AIDS on companies, in particular understanding the cost effectiveness of different HIV/AIDS treatment regimes. The studies have not only had policy implications, but have contributed to large firms' decision to finance private treatment for their employees.
  - ✓ Specific sectoral studies on the economic impact of HIV/AIDS
  - ✓ Analysis of the socio-economic impact of AIDS on households and communities
- Improved system for the management of Intellectual Property Rights
  - ✓ Partnership between Government, South African universities and a US think tank to strengthen SA's intellectual property rights
  - ✓ Rollout of the community of science data base. The University of Natal has received lead organization grants of more than \$6 million and several million dollars more in co-investigator grants, from the US. Another benefit has been the caliber of the collaborations that have been setup with US researchers at prestigious universities.
- Improved understanding of labor issues
  - ✓ Analysis of labor legislation leading to easing constraints on small enterprises
  - ✓ Assistance with drafting and implementing employment equity legislation
  - ✓ Development and implementation of a code of good practice to list the rights of disabled people in the work environment
  - ✓ Analysis of the impact of various pieces of legislation on the creation of new jobs.
- Improved environment for small and medium enterprise development
  - ✓ Changes in labor laws exempting smaller enterprises in order to increase job creation possibilities
  - ✓ Simplification of licensing and registration procedures for small and medium enterprises

## **REVIEW/EVALUATION OF RELATIONSHIPS AND SYNERGIES**

The design team uncovered significant complementarities between the Economics Capacity program and other mission strategic objectives, but minimal levels of tight synergy between them. There is definite synergy, however, between the Economics Capacity program and the missions' goal and sub goal. It appears that, to some extent, the Economics Capacity program has become the locus or "dumping ground" for policy work that the mission determined was

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no longer within the strategic purview of other programs, but was still necessary for the other programs to achieve their results.

The question to consider is to what degree activities related to other programs should be directly related to the focus of the Economic Capacity program in a constrained funding environment and to what degree should this program continue to dilute its focus in order to work on issues related to other mission areas.

If USAID/SA determines that the SO should continue to support these diverse objectives, then perhaps it should consider dismantling SO4 and adding policy related Intermediate Results to each of the other strategic objectives. While this runs against the trend, the team believes that this would enable better management for results. If, however, USAID/SA believes there is a continued need for the Economic Capacity program, as is the consensus of the design team, then there is a need to focus these activities more strategically on issues that will further progress towards achievement of the missions sub goal and goal.

The one exception to this call for program focus is the work on Intellectual Property Rights. This represents a soft earmark that is unlikely to go away. Therefore the mission has to incorporate these activities under some strategic objective. It is not inappropriate to continue to finance these activities under the Economics Capacity program; however, the trade-off is a continued dilution of the program's focus and potential re-institutionalization of the trend to "dump" activities that do not seem to fit elsewhere within this program. It is not anticipated that the IPR work will contribute directly to the results under most of the proposed areas for focus discussed below.

## ***Other USAID/South Africa Strategic Objectives***

### ***D/G – Civil Society***

The Economic Capacity strategic objective has provided expertise related to evaluating capital investment proposals for the justice system, medium term expenditure review budgets for the same, and a model of similar justice procedures. The program has also studied the economic consequences and policy implications of non-payment of municipal services with the ultimate aim of improving the institutional and financial capacity of local government in South Africa. The research asserts that they have demonstrated the population's faith in local government and that non-payment is more a result of inability-to-pay than unwillingness-to-pay. The D/G strategic objective team asserts that they demonstrate the population's mistrust of local government. Clearly there is a need for better communication between the teams regarding the results of this research which has the potential of feeding directly into the continued focus of the D/G program regarding the strategic development of local government initiatives. The Economic Capacity program has also facilitated the work of the D/G program through its work on tax reform such that NGOs can now qualify for tax benefits and government grants. Furthermore, there may be synergies or enhanced complementarities that can be built between the work of the two teams in enhancing the economic literacy of NGOs and in training NGOs to undertake applied research in order to effectively engage with government in policy formulation.

A potential area of conflict between these two strategic objectives, as well as, the Employment strategic objective, is that of land tenure reform. There is a need to consolidate work across strategic objectives on this highly sensitive issue to ensure that the real issues are addressed, rather than dancing around the edges of this critical area. Whether or not the basic issues of redistribution are being address anywhere in the USAID/SA program remains to be seen.

### ***Education***

The Education strategic objective sees itself more as a provider of assistance to the Economic Capacity program, than a client of their activities. Both work in tertiary education and the design team recommends a continuation of the Economic Capacity programs efforts to provide quality tertiary opportunities in economics. Specifically, work with UWC certainly advances the goals of the Tertiary Education Linkages Program (TELP). The establishment of an Economics of Education program under the MESP 2 activity can be expected to benefit the Education program in the future. The Education Team backstops SO4's training, and has provided funds from expiring grants (EOC, SAIRR) to be used by the Economics Capacity program (Parliamentary Training, SARS College, South African Tax Institute, UWC bursaries).

### ***Health***

The Economic Capacity Team now has responsibility for the management of the Boston University HIV/AIDS research and has undertaken other HIV/AIDS analysis activities on its own. The Health strategic objective continues to support the significant contribution of the Boston University work, but is uncertain of the value-added of other studies currently being undertaken. They acknowledge that these maybe a useful training ground for South African researchers, but the value to the health objective is marginal.

The Health Team recognizes the value of the new health economics program sponsored under MESP 2 at the University of Natal given the current shortage of health economists in SA. They also see significant complementarities in working with provinces on budget issues and capacity development.

### ***Employment***

In 2000, the Economic Capacity strategic objective assumed responsibility for implementation of the bilateral agreement between the Employment strategic objective and the Office of Public Enterprises. The rationale for this move was to allow the Employment strategic objective to reduce its emphasis on policy issues. The Employment program also provides funding for much of the work with the MFRC.

In the past, the research and analysis of the Economic Capacity program has been complementary to the work of Employment objective, particularly the work with the Ministry of Agriculture, the work on labor issues and SMEs. Furthermore, this objective is quietly working on land reform through their privatization work and land deals that are redistributing land. As noted above, there is a need to consolidate work across objectives on this highly sensitive issue.

The Employment objective would like to see the Economic Capacity program focus more on the financial sector, working to “liberate” money available in the banking sector and channel it towards job creation. Given strategic options facing SO4 and the clusters identified by the bridging team, it is possible to argue that a focus on financial systems could have the greatest impact on the issues facing South Africa today. The focus assumes that: there is a resolution of political turf issues (treasury vs central bank as regulator); and a government willingness to “take on” commercial banks. Such a focus would need to remain narrow for any significant impact in three years, especially given the need to develop a better understanding of the issues that currently prevent the desired flow of resources.

### ***Housing/Urban Services/Environment***

The Economic Capacity Team now has responsibility for the management of GCC policy activities. These activities are important in that they meet Congressional Earmarks, however, the mission needs to determine to what degree they can continue to accept GCC funds within their strategic focus and where there activities are best managed. The design team believes that this is a management, rather than a design, decision.

Research into the effects and implications of HIV/AIDS on the construction sector and on the demand for low cost housing has been instrumental in the development of innovative cutting edge strategies not only to provide mortgages but to insure those mortgagees against the risk of HIV/AIDS. Other studies completed by the economic capacity program have also been of relevance to this objective. Of particular importance was the economic analysis for the development credit authority, research on capital markets and bond financing, research on small business finance, public private partnerships and research on banking sector reform.

This strategic objective team, like the employment team, believes that the greatest contribution the Economic Capacity objective could make to their work is to focus on the financial sector.

### ***Regional Center for Southern Africa (RCSA)***

The idea underlying collaboration between the Economic Capacity strategic objective and the RCSA is that South Africa can be used as a training site and laboratory from which other countries can learn; such collaboration provides South Africa with the opportunity to change its image in the region, as well as to learn from the experiences of other countries in the region. South African participants in these programs met during the design team’s work all affirm the significant value added of having participants from the region in their training programs.

Examples of such training include:

- **Competition:** The Economic Capacity objective finances an IAA with the U.S. Department of Justice and the Federal Trade Commission to provide technical assistance to the Competition Commission. This activity is complemented by an RCSA grant with the OECD to run three courses in South Africa for competition commissions throughout southern Africa.
- The RCSA sends customs officials from across the region for training at SARS.

- The RCSA sends parliamentarians from the region and co-funds training in the Economic Capacity-sponsored program. This has not been accomplished without management problems.

There is also significant potential for synergy and complementarity between the activities under these programs regarding work on issues relating to telecommunication and energy regulation. The needs are enormous. Few in South Africa are fully conversant with regulating what is currently in place, let alone being prepared to regulate in the market environment toward which the country is moving. Regulators are being asked by the government to look at efficiency, safety, environmental regulation, etc. There is a need to organize processes to look after customers and data, to build capacity in modeling so that new directions and the advisability of various options are understood. Finally, the regulatory frameworks for the newly privatized industries have yet to be established, so the regulators have no idea what to regulate. Given the costs involved in establishing a program in this area, the expertise of the RCSA and the regional organizations with which they work should be tapped to the maximum if USAID/SA decides to continue to focus on these activities. If they should decide to scale down activities in this area, the RCSA and other donors should be encouraged to pick them up.

### ***Other Donors***

The Economic Capacity Team has done an excellent job in coordinating efforts with other donors, as illustrated by the variety of co-funding of activities that are on-going. Work on HIV/AIDS has involved DFID, AusAID, SIDA, CIDA, GTZ, France and the United Nations.

USAID/DFID collaborate extensively on assistance to the Department of Public Enterprises on restructuring, as well as, regulation and other Department of Trade and Industry interventions, plus work with the National Treasury on public private partnerships.

DFID has expressed interest in increased collaboration with respect to work on poverty analysis, Trade, and restructuring.

The EU is also providing significant funding to DTI. USAID should look into leveraging DFID and EU funding to complete work they have started, if it is decided to refine the focus of the program away from restructuring and regulation.

## **PROGRAMMATIC RECOMMENDATIONS**

This section provides the Bridging Design Teams recommendations concerning the future programmatic direction for the Economic Capacity strategic objective.

### ***The Current Budget Situation***

As highlighted in Table 6 the estimated carrying costs for the program as it is currently constituted is \$4.7 million for FY2003 and \$4.3 million for FY2004. These figures involve the following “assumptions:”

- No adjustments are made to the program, i.e., the program is not immediately focused.
  - No new activities are undertaken under the Nathan Associates contract, thus only existing commitments would be financed. It is important to note that the funding
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requirements for activities to be implemented over the course of FY2003 are already met. The FY2003 funds listed in Table 6 are for FY2004 expenditures. These expenditures generally represent hard commitments that must be funded.

- The planned extensions of the Deloitte-Touche-Tohmatsu and Chemonics International contracts are executed and incrementally funded over FY2003 and FY2004.
- The Interagency Agreements with the U.S. Treasury and the U.S. Department of Justice/Federal Trade Commission are continued.

<b>TABLE 6: BUDGETARY REQUIREMENTS TO MEET CURRENT “COMMITMENTS MORTGAGES”</b>		
<i>Contract/Activity</i>	<i>FY2003</i>	<i>FY2004</i>
<b>Nathan Associates</b>	<b>\$ 2,173,464</b>	<b>\$ 1,034,359</b>
Mandela Economics Scholars Program	756,573	638,889
<i>MESP 1</i>	253,963	206,199
<i>MESP 2</i>	353,610	332,690
<i>Other (Aurora)</i>	150,000	100,000
Joint Center “Grants” Program	136,000	0
<i>LIMA, NIEP, DPSA</i>	36,000	0
<i>HIV/AIDS Round 2</i>	50,000	0
<i>Other (Joint Center)</i>	50,000	0
University of the Western Cape	220,000	0
Support to Government	560,000	49,600
<i>Intellectual Property Rights</i>	255,000	0
<i>MFRC</i>	250,000	0
<i>NALEDI Sector Jobs Study</i>	55,000	49,600
Other (Nathan Associates)	500,891	345,870
<b>Deloitte-Touche-Tohmatsu</b>	<b>954,153</b>	<b>1,100,000</b>
Full funding for current agreement	254,153	0
Planned Extension	700,000	1,100,000
<b>Chemonics International Planned Extension</b>	<b>500,000</b>	<b>1,100,000</b>
<b>U.S. Treasury</b>	<b>600,000</b>	<b>600,000</b>
<b>U.S. Department of Justice/Federal Trade Commission</b>	<b>200,000</b>	<b>200,000</b>
<b>USAID Administrative Costs</b>	<b>300,000</b>	<b>300,000</b>
<b>GRAND TOTAL</b>	<b>\$ 4,727,617</b>	<b>\$ 4,334,359</b>

## ***The Need to Focus***

As noted at various times above, the Economic Capacity strategic objective has opted for breadth in the range of its activities rather than depth. As a result, a number of innovative activities have been undertaken, but the program has also had a problem “telling its story” and conveying the nature of its achievements. A more focused program can significantly improve the ability of this program to “tell its story.”

The funding environment for the program appears to be significantly constrained for the near future. If the low budget scenario of \$3.5 million for FY2003 and FY2004 becomes operative, there will not be adequate funding to meet the carrying costs identified above. This will by necessity force a focus on the program. It is hoped that the options presented below will allow such a focus to be made in a strategic, rather than an *ad hoc*, manner.

## ***Focus Options***

Based upon the program’s work to date, the design team identified six (6) program clusters that could form the basis for the future program. These clusters are:

0. Historically Disadvantaged Capacity Building
  1. Public Finance
  2. Enterprise Restructuring and Regulatory Framework
  3. Financial Systems
  4. Land Tenure
  5. Other Areas
    - a) Environment/Global Climate Change
    - b) HIV/AIDS
    - c) Trade
    - d) Small and Medium Enterprises
    - e) Labor
    - f) Intellectual Property Rights

“Cluster 0: Historically Disadvantaged Capacity Building” is offered as either a standalone cluster for program focus or as a cross-cutting cluster that should accompany any other chosen cluster from among Clusters 1-4. Clusters 1-4 are intended as mutually exclusive options that are intended to address serious issues and have measurable development impact. “Cluster 5: Other” is not offered as a program option, but is simply included to highlight other areas of previous work. The Intellectual Property Rights activity listed under Cluster 5, however, will need to be continued in either this strategic objective, or another one, due to the Congressional mandate to pursue this work.

The condensed time period for the design team did not allow for the development of detailed designs in the above clusters, nor did it allow for the preparation of detailed budget estimates for work in these areas. Nevertheless, the design team is confident that using a strategy of “depth over breadth” will easily absorb the resources available under any of the budget scenarios proposed for consideration (\$3.5 million, \$5.0 million or \$7.0 million annually).

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### ***Historically Disadvantaged Capacity Building Cluster***

This cluster focuses on training and institutional development to support capacity within the historically disadvantaged population to effectively participate in the economic policy process. The view of the design team is that this collection of activities represents the essential core of the Economics Capacity Building Strategic Objective. Thus, **these activities are offered either as a standalone option for program focus or as a mandatory element accompanying one of the other clusters.**

This cluster is composed three sets of activities:

1. Mandela Economic Scholars Program;
2. Center of Excellence in Economics at the University of the Western Cape; and
3. Parliamentarian Training.

If it should be the case that the \$3.5 million budget scenario is likely to hold, the design team believes that strong consideration should be given to only pursuing this cluster as the focus for the program. In this case, some form of limited U.S. based training program could be reinstated, but with a more targeted focus than with the original Mandela Economics Scholars Program. This could be in the form of full degrees in the U.S. or as a “semester abroad” type program. In addition, additional programs under MESP2 could be instituted, preferably at one of the historically disadvantaged universities, rather than at other historically advantaged universities. In such a case, it would be possible, but not ideal, to merge these activities into the Mission’s education strategic objective. If such a merger were to occur, attention to maintaining the “economic focus” of the training programs would be strongly suggested.

This cluster directly complements activities under the Mission’s Democracy/Governance, Education, Health and Environment programs.

The total investment to date for these activities is \$9.6 million. As shown in Table 7, current carrying costs (FY2003-2004) to meet existing commitments and plans is \$2.7 million, including an additional \$842,000 (not included in Table 6 above) to fund a further two years of the Parliamentarian Training program.

<b>TABLE 7: HISTORICALLY DISADVANTAGED CAPACITY BUILDING CLUSTER</b>		
Activities	Past & Current	Future Commitments
Mandela Economics Scholars Program	\$ 7,300,747	\$ 1,395,462
<i>MESP 0</i>	<i>2,211,776</i>	<i>0</i>
<i>MESP 1</i>	<i>4,923,211</i>	<i>710,162</i>
<i>MESP 2</i>	<i>165,760</i>	<i>685,300</i>
Center of Excellence in Economics	1,293,553	470,000
Parliamentarian Training	980,179	842,105
<i>Nathan Associates</i>	<i>348,600</i>	<i>0</i>
<i>Educational Opportunities Council</i>	<i>631,579</i>	<i>0</i>
<i>Continued Program</i>	<i>0</i>	<i>842,105</i>
<b>TOTAL</b>	<b>\$ 9,574,479</b>	<b>\$ 2,707,567</b>

*Mandela Economic Scholars Program*

The original Mandela Economic Scholars Program provided scholarships for historically disadvantaged students to study economics and related subjects in the United States. The MESP 2 program includes bursaries to historically disadvantaged students and institutional support to participating universities: University of Cape Town, University of Natal-Durban and Stellenbosch University. The current MESP 2 program supports three programs in trade, one in the economics of education, one in health economics, one in labor economics, and one in environmental economics.

New MESP 2 programs could be added based on the ultimate focus selected for the Economics Capacity Building strategic objective. Other modifications could include the incorporation of a “summer abroad” unit for study and exposure in the U.S. Such a program would provide exposure to another culture, alternative learning experiences, and as a result, a boost in participants’ self-confidence. Another possibility would be to create an “Economics Institute”-like program for all MESP 2 participants in order to redress potential deficiencies in mathematics or statistics. At least two of current the MESP 2 institutions are independently offering such a program. Such a program could be offered at one of the MESP 2 institutions, or at the University of the Western Cape, in cooperation with the MESP 2 institutions.

*Center of Excellence in Economics at the University of the Western Cape*

There is still a need for such a program. Further, despite the difficulties noted by all parties to this element of the program, significant progress has been made. What is now required is to raise the FADTRU unit and the UWC faculty of economics from a “center of competence” to a “center of excellence.” This is a goal that is shared by the faculty and the Dean of the Faculty. The goal of excellence must be set, however, with identifiable targets. It is not clear that FADTRU has a clear idea of where it needs to go and what it needs to achieve to become a centre of excellence. Such a move requires more than simply producing more of the same. Identifying such targets is an effort that is best done by FADTRU, the Department of

Economics, and other elements of the Faculty. The end point should be a leading institution in its field within the region, as is the case with several special units at the UWC.

To this end, the design team recommends that the following items be considered:

1. Funding for FADTRU be run through official university channels, for example, through the office of the Dean of the Faculty rather than managed directly by Nathan Associates.
2. Closer integration of the activities of FADTRU with those of the Department of Economics.

At the moment, FADTRU is something of a stand alone. Such integration could include greater engagement of younger staff in the activities of FADTRU and the use of FADTRU resources to strengthen the Department's activities, e.g., the development of a new degree in Economic Development, or the greater use of post-graduate students in research activities.

3. Strengthen the academic profile of the Unit.

In addition to the preparation of discussion papers (currently underway), a range of other academic outputs (accredited journal articles, books, policy briefings etc.) should be expected. The Unit could easily become a think tank for debate and new ideas, implying a range of seminars, workshops, and conferences. It would also imply inviting leading academics and policy makers to speak at the University and, in the case of the former, to spend time teaching and researching within FADTRU. Finding ways to get international scholars to spend time in FADTRU would be desirable, as would encouraging foreign PhD students to work on themes identified by FADTRU, perhaps in conjunction with South African PhD students. Ideally, the Unit will become a focal point for cutting edge research and thinking.

4. Focus on the long term sustainability of FADTRU.

Such an effort could entail activities such as: the generation of research grants, tendering for state training contracts, securing of scholarships for good post-graduate students, building linkages with government departments and with other universities both national and international, securing endowment funds, etc.

This could also involve or require improved marketing of FADTRU. Formal marketing material is one way, but it could also include an identified office for the Unit, a publications list, a web page, a schedule of seminars and conferences, press releases, etc. Ultimately, no amount of marketing can make up for a poor product, but an improved profile will assist in attracting resources and good people.

5. The Director of FADTRU to become a full-time appointment.

The Director of FADTRU has dual responsibilities, in the Department and in the Unit. For the short term at least, the Unit should have a full-time director

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dedicated to building the institution. This would require resources to either second the current Director from the Department to FADTRU or to recruit a new Director from outside

While there are current plans for up to an additional \$470,000 to go to FADTRU, part of these funds, as well as any additional funds, should be conditional upon the achievement of progress towards the creation of a true “Center of Excellence.”

#### *Parliamentarian Training*

Parliamentarian Training to date has occurred in two stages. The first stage was implemented by Nathan Associates. Subsequently, funding was taken from a grant to the Educational Opportunities Council under the Education strategic objective and passed to the Economic Policy Research Institute (EPRI), who in conjunction with the University of the Western Cape has been implementing the second stage of the training.

Funding is currently available to continue this training through FY2003. An obligation in FY2003 is required to continue the program. The estimated costs for continuing this program in 2004/2005 is \$842,000.

#### **Public Finance Cluster**

A focus on this cluster would increase the efficiency and effectiveness of public finances. The functions to be strengthened or supported are those of budgeting, taxation, intergovernmental fiscal relations, macroeconomic analysis, public private partnerships and support to public finance institutions within other SADC members. The South African partners would primarily be the National and Provincial Treasuries, and the South African Revenue Service.

Expanded efforts under a Public Finance Cluster focus would include capacity building at the provincial, and perhaps municipal, levels, as well as continued work at the National level. Strengthening of non-governmental training sources in the budgeting and taxation areas would be an appropriate expansion of the MESP 2 program. This cluster focus would provide a link to the proposed Poverty Alleviation Unit in the National Treasury, and support the proposed requirement of “business plans from line departments in order to identify and document the purpose and rationale for proposed programs. On-going work on Public Private Partnerships would continue and be brought to their expected conclusion.

As shown in Table 8, past investments in these areas has totaled almost \$8.7 million and activities requiring approximately \$2.9 million are currently planned.

Pursuit of this cluster would directly complement all areas of the Mission’s program. For example, improved management of fiscal resources is an important area for governance, while improvements in the generation and management of public resources, along with strengthened personnel in provincial treasuries, would be expected to improve funding for education and health services. Continued work on intergovernmental fiscal relations would continue to strongly complement and support work under the Urban Services strategic objective. There would be an additional strong complementarity with the program in the RCSA since the strengthening of South Africa’s public finance institutions would lead to improved training and technical assistance in this area to other SADC countries.

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<b>TABLE 8: PUBLIC FINANCE CLUSTER</b>		
Subject Area/Current Implementers	Past & Current	Future Commitments
Budgeting/Intergovernmental Fiscal Relations	\$ 4,150,560	\$ 1,200,000
<i>Nathan Associates</i>	<i>936,060</i>	<i>0</i>
<i>U.S. Treasury</i>	<i>3,214,500</i>	<i>1,200,000</i>
Taxation	596,769	0
<i>Nathan Associates</i>	<i>596,769</i>	<i>0</i>
<i>U.S. Treasury (funding is included under the previous heading)</i>	---	---
Public Private Partnerships	3,269,189	1,725,000
<i>Nathan Associates</i>	<i>587,629</i>	<i>125,000</i>
<i>Chemonics International</i>	<i>2,681,560</i>	<i>1,600,000</i>
Macroeconomics	642,419	0
<i>Nathan Associates</i>	<i>642,419</i>	<i>0</i>
<b>TOTAL</b>	<b>\$ 8,658,937</b>	<b>\$ 2,925,000</b>

***Enterprise Restructuring and Regulatory Framework Cluster***

Under this program cluster, work would focus on (1) establishing the capacity for the South African Government to restructure its State Owned Enterprises and manage its remaining holdings in such enterprises; (2) the restructuring of key sectors, including electricity/energy, telecommunications, and port and rail transportation; and (3) establish a regulatory framework for the prevention of monopolistic practices and the regulation of key sectors. These efforts would be expected to contribute to the more efficient provision of government services. Likely government partners would include the Department of Public Enterprises, the Competition Commission, the National Electricity Regulator, the Telecommunications regulatory body (ICASA), and possibly the Department of Transportation.

Work under this area would include the continuation of the Deloitte-Touche-Tohmatsu work with the Department of Public Enterprises, the on-going and planned work with the National Electricity Regulator, and the on-going work with the Competition Commission. The principal expansion of the program would be an intensive involvement in establishing the regulatory framework for restructured sectors. Pursuit of the restructuring of the targeted sectors without such a regulatory framework could be a recipe for disaster. The National Electricity Regulator has no clear idea of what assistance it wants or needs. Telecommunications regulation, involving the strengthening of ICASA, could be a significant and expensive task.

A focus on this area could involve the establishment of an Economics of Regulation program under MESP 2.

<b>TABLE 9: ENTERPRISE RESTRUCTURING AND REGULATORY FRAMEWORK CLUSTER</b>		
Current Implementers	Past & Current	Future Commitments
Nathan Associates	222,577	0
Deloitte-Touche-Tohmatsu	1,485,082	2,054,153
U.S. Department of Justice	1,055,252	400,000
<b>TOTAL</b>	<b>\$ 2,762,911</b>	<b>\$ 2,454,153</b>

This program focus would strongly complement similar efforts at the RCSA. There are minimal complementarities with other Mission programs.

***Financial Systems Cluster***

Selection of this program cluster would lead to work on all areas of financial regulation, bank supervision, and financial policy coordination and rationalization. The ultimate goal would be to “liberate resources” currently in South Africa’s banking system to finance service delivery for the historically disadvantaged population in key areas. Pursuit of this cluster would require early analytical work to identify impediments to the financial system’s participation in the financing of service delivery. Probable government partners would include the National Treasury, the South African Reserve Bank, MFRC, etc.

While work to establish Johannesburg as Africa’s Financial Center would fit within this area, the design team recommends that this only be pursued if Millennium Challenge Account funding is available.

A key requirement for effective work in this cluster is the resolution of the debate between the National Treasury and the Reserve Bank regarding the responsibility for regulating the financial sector.

If successful, such a program focus would be of enormous support to both the Mission’s Employment and Urban Services objectives.

<b>TABLE 10: FINANCIAL SYSTEMS CLUSTER</b>		
Current Implementers	Past & Current	Future Commitments
Nathan Associates	1,033,549	188,116
<b>TOTAL</b>	<b>\$ 1,033,549</b>	<b>\$ 188,116</b>

***Land Tenure Cluster***

This program cluster would provide research, technical assistance and training to the reform of South Africa’s land tenure systems. The principal partner would be the Department of Land Affairs and various research groups around the country.

While not yet costed-out, assistance for the implementation of land tenure reform would likely require significant resources if done to scale. Communal tenure reform research requirements exist, but are small compared to the likely training required for proper implementation. A possible move into other land tenure issues/areas carries a definite political risk, but also high impact.

A focus in this area could overlap with work under the Mission's Employment and Democracy/Governance objectives. Coordination and rationalization of work on land tenure across the different programs is required.

<b>TABLE 11: LAND TENURE CLUSTER</b>		
Current Implementers	Past & Current	Future Commitments
Nathan Associates	289,950	0
LIMA	150,000	0
<b>TOTAL</b>	<b>\$ 439,950</b>	<b>\$ 0</b>

***Miscellaneous Areas Not Fitting the Above Clusters***

This cluster is composed of work in the areas of environmental economics/global climate change, HIV/AIDS, trade, small and medium scale enterprises, labor, and intellectual property rights. Activities under this cluster are not/not recommended for continued funding, with the exception of the work on intellectual property rights, which is essentially a Congressional earmark.

The recommendation for not continuing work in these areas is not due to the quality of past work in these areas, but due to the relative perceived needs in other areas, the quality of partners, and the need to focus the program.

<b>TABLE 12: “OTHER” CLUSTER</b>		
Activity Areas	Past & Current	Future Commitments
Environment/Global Climate Change	\$ 952,222	\$ 90,000
HIV/AIDS Research and Analysis	869,493	0
Trade	1,230,943	0
Small and Medium Scale Enterprises	140,658	10,500
Labor	2,293,573	0
Intellectual Property Rights	56,900	555,000
<b>TOTAL</b>	<b>\$ 5,543,789</b>	<b>\$ 655,500</b>

### ***Deciding on a Focus***

The design team strongly recommends a “depth over breadth” approach, i.e., that no more than one cluster from among Clusters 1 – 4 be chosen. The process of choosing a focus cluster will depend upon a variety of factors, but the most important of these will be the willingness of the relevant government department(s) to jointly articulate policy goals towards which the focused program will work and against which the program will be judged.

The design team suggests that the following items be used as criteria in selecting between clusters and selecting activities within clusters:

- Government Commitment and identification of desired end state of assistance
- Effects on empowerment of the historically disadvantaged
- Effective capacity building
- Policy Relevance
- Promotion of effective implementation of policy reform
- Effects on gender issues
- Likely impact on youth.

## **IMPLEMENTATION RECOMMENDATIONS**

### ***Management Issues***

Over the course of the Bridging Design Team’s review, four general management issues were identified: Team Management, Budgeting Priorities, Audit Vulnerabilities, and Monitoring and Evaluation Issues.

#### ***Team Management***

The Economic Capacity Strategic Objective has blossomed into a proliferation of activities. Some members of the SO team are concerned that the decision making process is “too unilateral,” leaving them in the dark on how or why activities are selected and even more

important, how priorities are set. Individual management responsibilities are one small part of the team process. Team ownership of the SO and its activities are critical to its long-term success. The process of making programmatic decisions in meetings with contractors without the involvement of all team members, including members from support offices, contributes to this situation.

Best practice suggests that partners can better plan and jointly identify end of assistance visions if they are aware of the budget and length of our collaboration. During the rapid appraisal of activities, at least two partners indicated that they had no idea of the funding, scope or timing of USAID assistance.

### ***Budgeting Priorities***

The SO team is two months into FY 2003 and there is a funding crisis. While there are cases where a team may need an early infusion of resources, there appears to be a funding crisis looming that could result in the team losing two of its implementation partners.

While part of the current problem arises from contracting delays in USAID/W, the wide-extent of programmatic activities appears to have contributed to the current situation. The sudden need to acquire funds from another strategic objective in order to proceed with a contracting action at the end of FY2002 arose from a delay in the transfer of funds from the RCSEA, but is yet another example of the problem.

Finally, the original Mandela Economic Scholars Program (MESP 1) was incrementally funded for all students, i.e., each year's intake was funded on a year-to-year basis. This approach is contrary to Agency policy as stated in ADS 253.

### ***Audit Vulnerabilities***

The mission is in the process of establishing basic documentation and audit requirements for all strategic objectives. The mission's standard must be put into place immediately and a concerted effort to document this program's compliance with the requirement is necessary. A team member was asked to randomly select 15 activities from a list of activities and check to see whether the documentation was in place to demonstrate: (1) why the activity was selected; (2) when it was approved; (3) budget commitments for the activity; and (4) reporting requirements for the activity. This information was not readily available for many of the SO activities. Subsequently, copies of this information for some activities were acquired from the contractor files; however, the team files appear to be incomplete and vulnerable to an audit.

The incremental funding of long-term training under MESP 1 contravenes ADS 253. This represents a potential audit liability. It may be possible to get an *ex post* exception or waiver to this requirement. The design team recommends that the Economics Capacity Team explore this option with the Mission's Legal Advisor and PPDO, if such an exception or waiver is not yet in place.

On a less serious, but still problematic, level, there is the requirement that all research funded by USAID should be submitted to CDIE for inclusion in their database. Of the 263 studies conducted to date, only one was available on the CDIE database in October 2002. This situation needs to be remedied.

## STRATEGIC OBJECTIVE INDICATORS 1

### Step Up to the Plate: Tell the Real Story!

#### *The History*

The Results Package prepared in 1996 described the SO level indicator as follows:

***Roles and contributions of USAID-assisted individuals and institutions in improving the economic environment to promote economic growth and equity.***

The assumption was that if the key institutions and newly trained people were actually able to formulate, evaluate and implement policies, the proof would be found in their ability to help develop an environment that strengthens and promote growth with equity.

The presentation of this indicator would be in the form of an annual assessment of the economic environment and changes since the previous assessment. The role, if any, of USAID-assisted individuals and institutions in the process would be used to determine SO success. The views of stakeholders would be solicited as additional means of assessing the importance of the changes which were documented in the assessment.

Washington, while acknowledging the outstanding work of the SO team, struggled with attempts to attribute improvements in the economy to the SO team. Further, all attempts to argue that the team was exceeding expectations were rejected because no targets of performance had been set for improvements in the economic environment, so the process of rating really did not apply.

In 1998/1999, the SO indicator became a weighted average of all IR indicators. Debating the merits of this indicator is really not necessary because it is proving to be equally unsuccessful in aiding the teams' ability to tell its story.

#### *Getting The Real Story Out*

This is not an era in which a team can afford to "under-tell" its story. Funds are tight and the competition is strong. Every effort must be made to get the best story possible in the hands of decision-makers. Even more important, if you are achieving outstanding results, as you operate on the cutting-edge, why not get credit and kudos for your accomplishments? While the Economic Capacity Building Objective has consistently told a good story, the real depth of the program's reach is not at the fore-front of its major reporting document. The information extracted for stories one and two below demonstrates the team's dilemma.

### ***Monitoring and Evaluation Issues***

Monitoring and evaluation of the actual impacts of the strategic objective are very weak. Reporting requirements of various implementing partners are not consistent. Some are required to report on SO/IR indicators, while others are not. Some are required to disaggregate data based on gender and racial status, while others are not. One contractor reported that they are not required to report against any indicators, while offering to do so.

Currently, the program lacks top-level (strategic objective) targets. This lack of targets makes it impossible to tell a good story and may be leading to management indiscipline. Not being

tied to policy and capacity indicators appears to give the program flexibility in responding to opportunities as they arise. This flexibility has resulted in a proliferation of activities that are achieving results that appear to be outside the team's performance monitoring plan. Thus, the team needs stronger top-level indicators. Agency TIPS 14 and 15 should be used to guide the mission in establishing better indicators. Also see the series of text boxes on "Strategic Objective Indicators."

## STRATEGIC OBJECTIVE INDICATORS 2

### Step Up to the Plate: Tell the Real Story!

#### *Story One:*

- **Tax reform:** USAID has assisted the South African Treasury and the Revenue Service to develop a capital gains tax and move from source-based to residence-based taxation. USAID efforts have helped improve the audit, compliance and adjudication of tax disagreements. Additional work is needed on implementing the current reforms, and on harmonizing fiscal policy in the region.
- **Inter-governmental Fiscal Relations:** USAID has provided the analytical methodologies to shift implementation responsibilities from the national to the provincial governments. Further assistance is needed in assuring that implementation of programs does not suffer, and that procedures for accountability, transparency and effective use of resources are put in place.
- **State Asset Restructuring and Public Private Partnerships (P3):** This program is the lynchpin of government's efforts to attract foreign capital. USAID has assisted the development of a program for national government public-private partnerships and has been the lead donor in implementing this essential aspect of government's approach to service delivery.
- **Competition commission:** USAID was there at the birth of the Competition Commission and without the assistance provided through and IAA with the US Department of Justice and the Federal Trade Commission, the Competition Commission would not have become an effective tool in limiting the harmful aspects of anti-competitive behavior in SA.
- **Employment Equity:** USAID assistance helped write the Employment Equity legislation and without it, the program might not have gotten off the ground. USAID assisted the SA Government to successfully drafting the implementation rules and regulations.

## STRATEGIC OBJECTIVE INDICATORS 3

### Step Up to the Plate: Tell the Real Story!

#### *Story Two:*

- Seventy-five (target: 62) high quality policy studies were completed for government departments; 36 (target: 30) high quality economic studies were produced by local think tanks for Government; and 806 out of a targeted 650 full-time students were enrolled in economic courses supported by USAID.
- **Capacity Building:** USAID training programs continued to address the shortage of trained economists from among the historically disadvantaged population. Nine black South Africans returned home with advanced degrees from U.S. universities. As a result of the training, the National Treasury has begun to solicit greater involvement by the Parliamentary Finance Committees in budget development and review.
- **Policy Studies:** USAID, in collaboration with Australia's foreign assistance agency began a program to support analysis of the economic impact of HIV/AIDS on different sectors, vulnerable groups and provinces in South Africa.
- **Public-Private Partnerships:** USAID helped the National Treasury establish the Public-Private Partnership Unit in early FY 2001. The Unit has already completed deals to form five partnerships including a nearly \$400 million partnership to equip, operate, maintain and expand the second largest hospital in South Africa.

#### *Conclusion:*

Both stories were told in 2001. The elements listed in Story one were included in an Action Memorandum for the Director. Story two includes elements from the Annual Report written the same year. Each set of elements reflects notable results, however, the first list sounds like the elements that would be included in a policy/capacity building SO that is achieving outstanding results. They clearly indicate that the program is working collaboratively and effectively with the government to formulate, evaluate and implement economic policies. These are SO level results. Story two on the other hand, tells a story that is rich in training numbers and studies. At most, the elements listed do an excellent job of demonstrating outstanding intermediate level results.

It's time to conduct an impact study. To date, 164 persons have or are in the process of receiving long-term training and 1,661 have benefited from short-term training. In addition, the program has contributed to the completion of 263 quality studies. The results reported are anecdotal. Most of the information is coming from the participants or contractor reports on an ad hoc basis. An impact study examining the linkages between the research conducted, the people trained, the technical assistance provided, and the policy changes introduced would demonstrate the reality behind the reports of impact and the extent to which the mission can truly attribute the training and studies to the macro level impacts.

## STRATEGIC OBJECTIVE INDICATORS 4

### Step Up to the Plate: Tell the Real Story!

*It's time to tell the real story and get the long over-due credit and recognition.*

When the Economic Capacity Building strategic objective was developed, the focus was relatively straightforward. The SO team did not view the extent of its reach to be *policy reform*. It was willing to settle for success being defined in terms of the possibility that one of the participants would be associated with policy change. The weighted average indicator to a large extent confuses the SO success rather than helps it. Most readers can understand indicators that report on “# of students trained or # of outstanding studies.” Coming to terms with an *overall SO weight of 1.58 on a scale of 1.0* is a bit daunting.

#### *Stepping Up to the Plate*

In response to the bridging design review, the Economic Capacity Objective is being challenged to select the program cluster area(s) it plans to work in for the next two to three years. Apart from the training, each cluster reflects a set of activities that involve capacity building as well as policy analysis, adjustment and implementation. The capacity building elements in this program involve training, technical assistance, systems and procedures development and/or improvement, personnel realignment, etc. Each policy measure involves a series of actions that will have to be taken before the new policy is enacted or adopted. Once a policy or regulation has been enacted (agreed to), it has to be implemented. There is structure to the capacity building and policy/regulatory reform process. Achievements in either area take time and works much more effectively and efficiently when the necessary actions for change are structured.

The SO team may be operating on the cutting edge with its program achievements; however, it is lagging behind many of its USAID counterparts in reporting on capacity building and policy reform and implementation. Numerous SO teams are reporting their program success using tools that are well described in the Agency's Measuring Institutional Capacity in Tips Number 15 and a similar set of TIPS for Monitoring the Policy Reform Process—TIPS 14. The Economic Capacity Building Team needs to *step up to the plate* and do likewise.

## **ANNEXES**

## ***Statement of Work***

### **ARTICLE I-STATEMENT OF WORK**

#### **BACKGROUND:**

The Objective of USAID/South Africa's Economic Capacity Building SO is to improve the capacity of historically disadvantaged South Africans to improve the analysis, design and implementation of economic policies. The original SO funding ceiling was just under \$30m and the contract ceiling for the prime contract was just under \$20m. The contract allowed USAID two options to increase the contract and these were exercised, bringing the contract ceiling to \$25.7m. USAID/South Africa's revised Country Strategy Statement in 1999 led to an increase in the SO funding ceiling to \$42m.

With funding received for FY02 the prime contract ceiling has been nearly reached and the SO ceiling is within \$1.5m of being reached. If the SO receives the \$5.2m+ expected in FY03, there is insufficient authorization ceiling to obligate the money.

USAID/SA has begun the process of designing a new strategy to take it through 2010, but it is not anticipated that this will be completed and accepted until 2004 at the earliest. It had been planned that the Economics SO would design a new strategy in 2002 that would allow its work to continue into the period covered by the new Mission strategy. However, it makes more sense for the Mission to design its new strategy and for the Economics SO to adhere to that new strategy, than the opposite. Thus, the Economics Capacity Building SO needs a Bridging Design to carry it for the two-three years necessary until the Mission can design its new strategy and the SO can design something complementary.

While no firm likely funding levels for the next three years is possible, the planning levels call for \$5-8m per year.

#### **PURPOSE:**

A team of experts in economics and program design will make recommendations on what the Economic Capacity Building SO ought to do for the period from mid-2003 through mid-2006 while the Mission is designing its new strategy after which the SO can design its new five year strategy. As this is a Bridging Design it is not anticipated that any major changes in direction will occur and that the focus will be on continuing activities that are already being implemented, are in the pipeline or are complementary to existing work. New activities can be suggested so long as they can fit within the current Economics SO strategy. The team will:

- A. Assess the work carried out to date by the SO for best practices/lessons learned thus far; what types of activities have worked most effectively and why; what have not worked and why. This is not expected to be a full evaluation, but a quick assessment to inform the Bridging Design
- B. Review
  - 1) Review proposed continuations of current activities and make recommendations as to which appear to have the most merit. These include continued work on:

- a) Public private partnerships at the national and provincial level
  - b) State asset restructuring including the privatization/restructuring of Eskom and Transnet plus continued work on ports restructuring
  - c) Land tenure reform, implementing agreed policy changes
  - d) Improved regulation of the micro-credit sector (credit to small businesses, consumers, mortgages)
  - e) Regulation of anti-monopoly practices
  - f) Movement toward a single financial regulator and making Johannesburg the “financial capital of Africa”
  - g) Implementing Employment Equity (Affirmative Action)
  - h) Global Climate Change policy issues and research on the economic impact of these issues
  - i) Company law reform
  - j) Tax reform
  - k) Intergovernmental-fiscal policy reform
  - l) Parliamentary training in economics
  - m) Support to the University of the Western Cape in economics training and research
  - n) Research on the economic impact of HIV/Aids
  - o) Bursaries (scholarships) for historically disadvantaged South African at South African universities
  - p) Training in the international trade rules and regulations plus help in the preparation of South Africa’s positions in upcoming WTO trade negotiations
- 2) Suggest
- a) How to improve support relationships with other USAID/SA SOs
  - b) How to improve collaboration, coordination, synergy with RCSA activities
  - c) Whether to change SO operational modalities, increase focus (where to focus or what to drop) – go deeper or go wider in focus
- 3) Review proposed new activities that could begin during the 03-06 period including:
- a) Expansion in regulatory policy reform, especially with ICASA (communication and telecommunications) and NER (electricity regulator) plus the single financial regulator, if one is established. Help develop specific regulators to support restructuring/privatization efforts such as in rail, port, and road transport regulation.
  - b) Development of a “Facilitation Unit” in government to study the twin problems of poverty and unemployment, propose solutions and, where the

- unit should be housed (Office of the President, National Treasury, Department of Social Welfare? Other?), pilot test some of the ideas.
- c) Re-establish the Mandela Economic Scholars Program whereby historically disadvantaged South Africans were sent to the US for training at the MA and PhD levels (use for the top MESP-2 students as a motivator?) How to better use the MESP-2 students? Placement, research, internships, mentoring?
  - d) It is stated that policy is reasonably good but the focus must now be on micro-economic issues which is interpreted to mean the implementation of policy. How ought the SO respond.
  - e) The SO has been the only USAID/South Africa SO to work on the provincial level. Should this be expanded as part of the implementation effort? Expand to the local authority/district level and thus directly complement work of the Housing/Environment SO or the Democracy and Governance SO? Select a province to work intensively and thus develop a model for provincial economic planning and implementation strengthening?
  - f) Re-establish the open competition for NGO, economic Think Tank contracts rather than the targeted competitions of recent years. Switch back to grants that emphasize capacity building from current NGO contracts that emphasize deliverables and time lines
  - g) Expansion of Parliamentary work to include provision of research and analytical capabilities plus training outside the formal BA/MA economics courses to include, for example, specialty courses on budgeting, environmental economics, trade. Brookings-type course for the new Parliamentarians to be elected in 2004.
  - h) Increase work on BEE issues (black economic empowerment), strengthening of organizations, policy issues, capacity building?
  - i) Other activities the Team might recommend be begun
- 4) Review how the Economics SO supports other SOs and make recommendations about to improve synergies and mutual support.
  - 5) Make recommendations on the current staffing mix of the Economics SO
  - 6) Review the contracting mechanisms used by the Economics SO and make recommendations as to how they can be simplified or improved (current mechanisms include three separate major contractors – one general contractor and two specialized ones working on P3 and privatization; and IAAs with three separate US government agencies)

**TASKS:**

The team shall:

- A. Review relevant documents such as the PIRs

- B. Meet with leading experts in South Africa to review the current economic situation in South Africa to ensure that the proposed Bridging strategy emphasizes key constraints.
- C. Meet with SO counterparts in government to assess current and past implementation activities, SAG support for possible new interventions, and the need for additional USAID assistance
- D. Meet with other donors to assess the degree of donor coordination and how it can be enhanced
- E. Meet with current contractors to assess their work, their plans and capability to implement new interventions.
- F. Meet with members of the Economics Section at the US Embassy in Pretoria to assess the degree of collaboration now and how it can be improved.
- G. The Team will meet with other SO team leaders and implementers to assure the highest degree of compatibility of the proposed new design
- H. Recommend courses of action based on assessments of demonstrated SAG commitment, other donor support; these shall fit within the Agency's and the Mission's priorities and predominate capabilities.
- I. Prioritize areas for new activities, and those areas in the current portfolio that ought to continue or be phased out.

**PROPOSED LEVEL OF EFFORT:**

A 5 member team of contracted experts and direct hire staff, combining appropriate technical skills with area and sectoral experience has been assembled for this task. Ric Harber is designated as the Team Leader and will be available for two weeks. Ruth Buckley from USAID/W, Scott Allen from the RCSA and Alan Hackner from USAID/SA's PPDO will be available for the entire period. Shirley Erves from REDSO/ESA will be available for only the second week.

**WORK SCHEDULE:**

After arrival, the Mission's Economics SO Team and the Mission's PPD Office will brief them on their perceptions of the current economic situation in South Africa, the current portfolio and planned new interventions. The Economics SO team will have set up appointments for the first week, and upon consultation with team members set up additional meetings as requested. The approach will be roundtable discussions on specific areas with clients and implementing partners. USAID/SA will participate in these discussions if requested by the team. There will be one trip to Cape Town for two round table discussions (the SO's education program and research program on HIV/Aids and environmental economics )and for a discussion with Parliament on the SO's support program there.

The Team will debrief the Economics SO Team Leader and the lead person from the PPD Office at the end of the first week.

The Team will produce a draft final report to be presented at the end of their work. Comments on this will be provided to the Bridging Design Team Leader within one week and an electronic copy of the final report is expected by the end of the first week in December.

The Economics Section of the US Embassy will be invited to each of these meetings.

**ARTICLE II-RELATIONSHIP and RESPONSIBILITIES:**

Neal P. Cohen (Team Leader for the Economics SO) is the Team's principle contact in the Mission. The contractor will maintain a close relationship with and consult frequently with him. The SO will prepare a list of potential interviewees and will schedule appointments as requested by the team.

PPD will collaborate with the Team to assure their work meets Mission requirements on the nature of the Bridging Document.

USAID will provide office space and computers or other logistics support for the contractor team. Motorpool support will be provided, when available.

***List of People Interviewed***

Ismail Adams, Professor of Economics, University of the Western Cape.

Aijaz Ahmad, Chemonics Chief of Party and Acting Head of Public Private Partnership Unit, National Treasury

Paul Barbour, Economic Advisor, Department for International Development (DFID)-Southern Africa.

Horoon Borat, Director, Development Problems Research Unit, University of Cape Town

Rebecca Black, Team Leader, Environment/Urban Services Team Leader, USAID/South Africa.

Willie Boeijs, Special Advisor, National Electricity Regulator.

Frikkie Booysen, Senior Lecturer, University of Free State.

Neil Boyer, USAID/SA

Amy Carr, Nathan Associates

Rashad Cassim, Chief Executive Officer, Trade and Industrial Policy Strategies.

Regis Chapman, U.S. Treasury Advisor on Intergovernmental Finance

Neal Cohen, USAID/SA

Jacci Connely, Nathan Associates

John Crowley, Team Leader, Health Strategic Objective, USAID/South Africa.

Gabriel Davel, Chief Executive Officer, Micro Finance Regulatory Council.

Andy Dijkerman, Deloitte-Touche-Tohmatsu

Bridget Dillon, Social Development Adviser, Department for International Development (DFID)-Southern Africa.

Don Foster-Gross, Team Leader, Education Strategic Objective, USAID/South Africa.

Amanda Gillett, Senior Program Officer, Australian Agency for International Development.

Gerda Gräbe, Programme Manager, National Electricity Regulator.

Martin Grote, Chief Director: Tax Policy Chief Directorate, National Treasury

Brian Goulden, Consultant, USAID/Regional Center for Southern Africa.

Rudy Gouws, Economist, Rand Merchant Bank

Vusi Gumede, Policy Co-ordination and Advisory Services and NEPAD, Office of the President.

Brenda Haskins, Land Tenure Center, University of Wisconsin.

Alan Hirsch, Chief Director: Economic Sector Policy Co-ordination & Advisory Services,  
Office of the President.

Professor Huda, Head of the Economics Department, University of the Western Cape.

Lynelle John, Local Government Consultant, LK John Consulting.

Riad Khan, Department of Public Enterprises

Joel Kolker, Team Leader, Employment Strategic Objective, USAID/South Africa.

Murray Liebrandt, Head of the Economics Department, University of Cape Town.

Astrid Ludin, Deputy Director General, Consumer and Corporate Regulation Division,  
Department of Trade and Industry.

Sue Lund, Senior Transaction Advisor, Public Private Partnership Unit, National Treasury

Kenneth Macquene, Executive Co-Director, Economic Policy Research Institute.

Q.D. Mahlangu, Member of Parliament, Chairperson of the Select Committee and Finance,  
South African Parliament.

Ajay K. Makan, Director: Restructuring of State Owned Enterprises, Telecommunications and  
Energy, Department of Public Enterprises

Nompilo Mali, USAID/SA

Elias Masilela, Chief Director, National Treasury.

Colin McCarthy, Professor of Economics, Economics Department, University of Stellenbosch.

Helena McLeod, Economist, Department for International Development (DFID)-Southern  
Africa.

Roland Mirlees, Nathan Associates

Simphiwe Mngadi, Joint Center for Political and Economic Studies

Francis Moloi, Director, Trade Negotiations/WTO, Department of Trade and Industry.

Stanley D. Mupanomunda, Finance and Investment Manager, USAID/Regional Center for  
Southern Africa.

Vui Nasana, Chief Director, Land Reform and Support Systems, Department of Land Affairs

Nhlanhla Nene, Member of Parliament, Chairperson of the Budget Committee, South African  
Parliament.

Ingrid van Niekerk, Executive Co-Director, Economic Policy Research Institute.

Elizabeth Ninan, Joint Center for Political and Economic Studies

Morley Nkosi, Chairman of the Board, National Institute on Economic Policy.

Emmy Reinten, Agricultural Research Council (ARC)-Roodeplaat, Elsenburg.

Mike Roth, Land Tenure Center, University of Wisconsin.

Michael Samson, Director of Research, Economic Policy Research Institute.

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Siphosi Sibanda, Director, Land Tenure Division, Department of Land Affairs.

Randall Spalding-Fecher, Energy & Development Research Centre, University of Cape Town.

Professor Chris Tapscott, Dean, Faculty of Economic and Management Sciences, University of the Western Cape.

Teresa Yates, Land Tenure Division, Department of Land Affairs.

## ***Interview Notes***

**11 November 2002**

*Initial Briefing by SO Team*

### **Structure of Roundtables**

- Discussion of what has happened
- Discussion of what is going on
- Discussion of counterparts would like to do over the next two years
- Exit of SO Team Members for any other discussions when necessary

### **SO Management**

- Neil Boyer - Agriculture, Environment and HIV/AIDS
- Nompilo - Public Private Partnerships (Privatization), Employment Equity, Micro-Finance Regulatory Commission, IPR, UWC, MESP2
- Dikagiso - not yet known
- Program Office - Steffi, Joanne Lawrence
- Neal - National Treasury, Parliament, Interagency Agreements
- Project Counterparts - Alan Hirsch overall (Office of the Presidency){Just took over from a less involved person.}, Nasima Badsha, Khali Guma (Central Bank), someone at Treasury, Frans Matsi (Labor), Stephen Gelb, Ismail Adams
- Joel Kolker deals with the commitment of funds

### **Other SOs and RCSA Relationships**

- *Employment (former Private sector/ag):* Ag focus is on private marketing. Looking at non-traditional coops and working with National Department of Agriculture (NDA). Bilateral funds are moving slowly. Now looking at Ag finance (Land Bank and commercial banks) vs. Rural Finance (small scale, cooperative finance). Heading towards organic farming. Working primarily with Deputy Director General for Agricultural Economics (Masapula). {SO4 working with Land Affairs side - DG Gillian Mayenda - focusing on land tenure issues.} Employment SO would interact with Economics if there is to be transfer of land by assessing the use.
- New issue arising on the "commonage"-vacant areas in/around municipal areas. Frequently rented out to small farmers or used as a social safety net for grazing, etc. D/G looking at the use of the commonage as a way to satisfy "land hunger," avoiding Zimbabwe situation. Number of

issues...type of tenure, which's responsible, environmental issues, social safety net, etc. Thus, issues across 3 SOs (DG, Economics, and Employment). Provincial and Local Affairs is weak. Issues for Municipal Finance (commonage in some areas represents 30% of revenues). Private sector side is working on micro-finance. SO4 working basically on the policy side of things. Good relationship.

- *Health* - Economic Impact of HIV/AIDS. Problem of joint funding on this due to Washington limitations on the use of HIV/AIDS funds. One study was an in-depth look impact on six firms. (Boston University)
- Now looking at Cost Efficacy of Treatment. Funding came from the Health SO with implementation by Economics SO. (Boston University)
- SO4 also funding research using its own funds.
- *Education* - Cooperation is good. Some excess funds being used for SO4 type activities. SAIRR and EOC are counterparts.
- *D/G* - Issue of commonage. Problems with the Solidarity Center.
- *Housing/Urban Services/Environment* - SO4 participates in analysis of loans, also using some of the GCC funds, e.g., looking at Climate Change Impact on Agriculture; trying to sort out the focus of this study.
- *RCSA* - Wanting to shift away from coordination (an annual meeting) and want to move towards working on the same topics. They buy-into a contract for specific aspects of an issue into to avoid the current problems with implementation. Common areas would be: taxes; financial policy; regulatory/competition programs; trade; at least interest in land tenure/reform; privatization and P3; training.

### **Contractors**

- Nathan is the primary contractor. Of the subs, Joint Center has been actively involved, but others have not gotten as much as they would like. Personnel are changing.
- International Intellectual Property Institute (IPI) plus SARIMA (Intellectual Property Rights [IPR] work) as a result of soft-earmark under FAA Committee Report. Sub- contractor working under Nathan. "Difficult" relationship.
- Chemonics-Working strictly on Public Private Partnerships. Working with National Treasury. Under SEGIR, will extend for two years.
- Deloitte-Touche-Tohmatsu - Working on Privatization. Program wasn't working previously under SO5, but when the group was upgraded to a Department started to move. DTT attitude problems. This is now in phase II following a fully competitive process. Relationship has

improved amazingly. Under SEGIR, will extend for two years. They are pushing a focus onto the efforts due to funding constraints.

- US Treasury IAA - Now working very well, including significant cost-sharing.
- US Department of Justice/FTC IAA - Working on competition policy, anti-monopoly, etc. working with the Competition Commission. Work is going well and is needed.
- US Department of Agriculture IAA - Working with National Department of Agriculture on agricultural statistics. Issues with NDA on the amount of money to be committed to developing this and maintaining a serious statistics unit. So not moving forward; looking to pull the plug on this.
- Note: An idea might be to use the FEWS approach combined with five year censuses. This would not get at the "demographics" of producers, but would work to improve macro-crop estimates.
- US Department of Labor IAA. Terminated.

### **Funds**

- Funding has increased to \$5-6 million a year. SO ceiling and Nathan funding ceiling are being reached.
- Seems to be coming down to \$4.5 - 5 million annually.

### **Review of Current Program**

#### National Treasury

- Good working relationship. Work on Taxes, Inter-governmental fiscal issues, and Financial Policy. Tax work is good. Three entities: Southern Africa Tax Institute (SATI) funding under EOC, looking at one more year of SO4 funding; SARS College focusing on the nitty-gritty of tax implementation; also EOC funded through FY03; Major relationship issue between SARS and US Treasury, thus the relationship has been terminated.
- SARS would like to set up a relationship with the IRS.
- Inter-governmental fiscal relations (Momo) working with both SO4 and SO6. SO4 working at provincial level and SO6 working at local/municipal level.
- Financial Policy - UST work on money laundering/ counter-terrorism; not USAID funding. Another area is the move towards a single financial regulator and financial market center (promoting Johannesburg).

#### MESP 1

- Job placements. Improvements coming. Worked through establishment of an internship program.
- People have generally stayed with government, defined broadly.
- Reason for changing based both on cost and sustainability issues.

#### MESP 2

- Local bursary program.
- Awarded on the basis of a competition between all the Universities and Technikons.
- Has been more difficult to implement than expected.
- Trying to work to improve the University programs to match the needs of government policy needs.
- Consider: A new competition to identify new universities. Possibly limited to disadvantaged universities.
- Question: Was there ever a needs assessment done for economists in government? Answer: Apparently not despite the provision for this in the original bilateral grant agreement.

#### UWC

- Difficult situation, but still has made major progress. Enrollments up, especially in economics. UWC doesn't seem to be taking ownership.
- Nathan complaining about problems. Moving to more HC implementation...university pays then bills Nathan.
- How to stimulate action and add work with other departments, e.g., Department of Government, IT, etc.

#### Parliamentary Training

- Training 40 members for a BA, 4 going for MA. New group to start in January. All for degrees in economics.
- As a result of the training, the Parliamentarians can propose changes to Finance bills.

#### HIV/AIDS Research

- Issue of whether to continue. Government has increased budget support for dealing with HIV/AIDS. The need is to look at how to mainstream these efforts and move it down to provincial, local and firm levels.

### Environmental Economics

- Research and training looking at GCC issues. Carbon sinks, water usage, etc. Group being worked with is becoming an NGO that is currently dependent on USAID funding.
- Housing and Environment working with DEAT on alternative energy sources, climate change and other issues. Problems with DEAT.

### Regulatory Policy

- MFRC (Washington plus Employment SO) now fully funded.

### Trade

- TIPS finally spending money. Has been very involved in training government. Their annual conferences have moved beyond just DTI.

### Employment Equity

- Assisted in development of policy
- Assisted in development and implementation of code of conduct
- Now assisting with Code of Disability

### Land Tenure Reform

- Work with DLA: Training, Review of Legislation, Visits; combining results of Stakeholder Workshop.

### Privatization/P3

- DTT contract working with Public Enterprises. Earlier was institution building? Established a restructuring unit.
- Moving towards implementation - IPOs (Telkom).
- Port restructuring study covering both policy and packaging of assets.
- Possibly some work on TRANSNET and ESKOM.
- Good collaboration with DFID
- P3 (Chemonics) working with National Treasury. Similarly establishing a special unit, and assisted with establishment of regulatory framework and policies. Unit works with all Departments etc. to identify P3 options.

### **Future Options (3 years)**

- Neil: Treasury; HIV/AIDS mainstreaming - what issues food, water, sanitation, medicines, etc. Who does it? Public or Private Sector? Looking at implications etc. for each ministry for service delivery; Fold environment into land tenure; Need move to working more with provincial governments to help spur implementation.
- Nompilo - Can't do a lot new. Would need to be funding DTT, Chemonics, and Nathan. Focus on Regulation issues.
- Dikagiso - Consider merging of Employment and Economics SO

### **Indicators**

- Perhaps move towards measuring impact on service delivery

### **Thoughts on Becoming More Specific in Agenda**

- Would need to be more selective with partners, i.e., those that share our Agenda.
- Currently the program is awfully spread around, thus not getting deep.
- Treasury; Privatization/P3/Regulation, Land Tenure could be key areas

### *Meeting with Contractors*

- Purpose of the meeting is to get an overview of what the contractors have done and would like to do.

### **Deloitte-Touche-Tohmatsu**

- Working with Department of Private Enterprises.....work on restructuring of state enterprises, as well as privatization, with the purpose of increasing contribution to the economy.
  - Contract has an extremely high burn rate.
  - Activities: Prepare for Telkom initial public offering. Launch a program of reform in the Ports sector. TransNet over PortNet and SpoorNet. Looking at a P3 arrangement for management of ports. Third, Employee Stock Ownership Programs...policy and regulations to promote ESOPs in all State owned enterprises. Fourth, working on public relations/communication.
  - Most of these schedule 2 enterprises restructuring really involves the restructuring of industries.
  - DPE tends to look at the individual pieces and identify approaches then aggregate without looking at cross-effects. DTT pushing for a more top-down view of things.
  - Government looking to move things much more quickly than is practical.
-

- Also working with DFID in Ports sector.
- Question of capacity - not there currently (DPE might think so), definitely with the additional 18 month extension.

### **Chemonics**

- Working on P3 issues. Started two years ago.
  - First established a regulatory framework for P3.
  - Departments and Ministries would initiate projects, but Treasury would provide key approvals....feasibility, tendering process, and just before signature of concessions.
  - Involves National, Provincial and Local entities.
  - After developing the regulations, also developed implementation manuals and training courses.
  - Developed reporting information and database of P3 projects, tracking progress.
  - Have also established a revolving fund for project development. Fund would finance the early development of proposals, with reimbursement upon completion of the transaction.
  - Have included Economic Empowerment criteria and requirements.
  - Chemonics works with the project teams to ensure needs are met.
  - Have 100 projects, 60 active, 40 under preliminary investigation; 4 closed, 5 in final negotiation.
  - Sectors of involvement: Health, Education, IT, ecotourism, Service to Accommodation (Ministry offices), Transport (Rail, Road, airport, etc.)
  - Establishing a standard contract for the concessions.
  - Also working with World Bank and DFID
  - Starting to spin off into other SADC countries.
  - Could work more closely with other SOs
  - Coming plans: finalize standardization; want to close two transactions in each sector; get into contract implementation;
  - Extend P3 units to provincial level with authorities with Provincial Treasury. Creating secondments from provinces.
  - If had an orderly pullback, would leave 4 specialists in Treasury. 800 civil servants have been through the training.
  - The proposed 2 year extension would include an exit strategy so that assistance could be terminated.
-

## **US Treasury**

- Working on Intergovernmental Financing
- Now has co-financing with UST
- Withdrawal of funding...Regis doesn't know if UST would add their own funds to continue.
- Has worked on the intergovernmental resource allocation framework and taxation. Currently working on Provincial borrowing authority.
- Looking at Infrastructure borrowing and financing
- Remaining problems exist in implementing national policy. Thus, the proposed focus is to shift to implementation and away from policy formulation.
- Constraint in terms of management capacity due to legislation. 60% of funds are automatic pass through to provincial levels. Thus, to affect budget allocations must work with provincial budget authorities.
- Believes that many of the allegations of lack of provincial and local capacity are lack of national leadership.
- Notes that Line Ministries are much less involved in budget process due to the provincial allocations. Functional allocations are made at the provincial level, not the national level. Thus, to affect budget resource use need to be working at the provincial level.

## **Nathan and Associates**

- Broad overview of activities
- MESP1 (70 trainees) and MESP2 (bursaries plus some institutional strengthening in specific fields...Masters Degree)
- SEGA - Grants/contracts, now principally HIV/AIDS research
- SEGA-Government support
- SEGA - short-term training, including initial Parliamentarians
- SEGA - UWC/FADTRU. Staff and department may be over-stretched.

### General/Miscellaneous Comments

- MESP 1 - If continue might want to have a government buy-in/contribution. For MS \$50-60k per student for training costs.
  - MESP 2 - Add a semester or break abroad for the participants.
  - MESP Alumni Association formation in process.
  - Issue of shift to contracts rather than grants limited the capacity building aspects of that element. The one capacity building
-

element has been the integration of technical assistance into these efforts.

### **OECD Work With Competition Commission**

- Advising on competition policy, regulations and judicial review through short-term TA and workshops. Now a focus on electricity regulation.
- Note this is RCSA activity, although managed by USAID/SA. Lack of information/coordination with DTT that is starting to work on related topic with DPE.

### **Question of Focus/Agenda**

- Nathan would like a bit more focus. The trick would be to bring along the partners.
- How the agenda to be developed would determine the acceptance. Consultative approach would be necessary to ensure success/acceptance.
- DTT would like more of a push agenda, but also notes that needs a consultative approach that establishes a shared agenda.
- Suggested to focus on implementation to make an impact on people's lives.
- Vote for if you were to combine with SO6 focus would be on municipal issues around poverty, environment, and finance.
- Merger with SO5 would be agriculture, SMME issues and finance
- New direction such as the poverty alleviation unit

### **12 November 2002**

*Breakfast Meeting with Amy Carr, Nathan Chief of Party*

- Why was government employment requirement dropped from MESP 2?
- Ans: Essentially will have too many students and a feeling that there is a greater need for economists also in the private sector, as supported by the private sector poaching of good people.
- Where is Environmental work going?
- Ans: Has probably reached a point where this is self-sustaining.
- Where is HIV/AIDS work going?
- Ans: Not clear.

*Roundtable at Office of the Presidency*

- Explanation of purpose of the team.

- Office of the Presidency is the point of coordination for economic policy.
- Some discussions of possible program areas -- 10 Years After Report; Poverty and Unemployment Institute
- Is there a need for continued training of disadvantaged population in economics? What is the need for economists in government?
- Ans: There's still a premium on competent economists to work in government. Problem is the pull from the private sector. The question is how best to do this. US training is excellent, but there are also good schools in RSA. Also more cost effective. Further the question of trying to guide people into particular areas. Now have the Trade Area covered; need Industrial Relations; Labor; Development; environmental; etc.
- Perhaps have a local Masters, then a limited competition for PhD in the U.S.
- Perhaps applied training specific short-courses. Economic literacy type programs. Specific IV types of programs.
- Lot of thinking currently around a planned growth and development summit. Some sort of interventions around such a cross-cutting initiative.
- Need for broader economic education (general population), e.g., better understanding of the SOE restructuring program. Issue of whether Govt. Policy is helping or not with the employment problem, etc. Possibly some sort of short-term course on managing public understanding.
- Regarding the 10 Year Review, not clear that needs additional assistance. Now doing preliminary work. Three components: (1) Govt. Departments reflecting on achievements, changes, failures; (2) Indicators of various items; and (3) Special studies when information is insufficient.
- Regarding Poverty Institute/Program. DPRU is already doing a lot. Also some work at HSRC on-going. Thought, perhaps start with some conference type of work to identify "holes." Lot of organizations working on the topic. Needs to get a political read-out, then some sort of integrative study/effort on the dynamics of poverty. Would probably not have a program proposal ready until 2nd Qtr of next year.
- There is an on-going policy project in communications.
- Concerns on the problem of skills mismatch and how to bridge those. How to get people that are almost employable to being employable via some sort of PPP. This group looks like University/Technikon graduates but lacking particular employable skills; likewise, for high school graduates; finally, those less educated. International experiences? Youth internships? This is an issue for the growth/employment summit (April '03)

- Special TA providing a group of experts to advise on particular issues. Perhaps used to help build up the poverty proposal?
- Given budget constraints, what would you propose as the 3-5 areas for focus?
- Ans: Creating jobs in areas where outsourcing of services are being done in Europe or US. Labor-intensive employment opportunities/promotion... "new economy" types of jobs.

*Meeting with DFID and AusAid*

- DFID working with DPE, DTI, Treasury, Office of the Presidency
- AusAid work on HIV/AIDS.
- Explanation of the purpose of the Team. Purpose of the meeting is to talk about the current and past collaboration and their future programs.
- DFID is just releasing its regional strategy. Shifting towards helping South Africa help the rest of Africa. Also pushing towards a "pro-poor" agenda.
- DFID: Work with Treasury...past has been providing a "slush fund" for assistance, but looking at how to make it more focused.
- DPE: About to select a contractor for significant assistance...restructuring and regulation, plus assistance to the entire process. Only DFID and USAID working in DPE. This is not overlapping or replacing USAID assistance.
- DTI: Also significant assistance coming. This is largely the EU money. Sector wide approach. Other donors not interested in joining in due to the problems with DTI. Not TA based. Disbursement against MTEF targets or Performance Management Targets.
- Note: USAID could contribute to the program with TA.
- Looking at poverty analysis with Treasury, but less interest with Treasury. Treasury is proposing a Poverty Strategy Unit in Treasury.
- Department of Social Development...setting up a social policy research (and training) strategy. Linking up Natal Development Studies with Oxford
- Something coming from Statistics South Africa.
- HIV/AIDS research. Has been effective on pulling together donors. DFID Working towards a multi-sectoral strategy on HIV/AIDS. Working largely with Health. DFID wants to be involved at the beginning of programs. Idea to establish a resource center/information-clearing house. DFID is planning to fund a research network. Need is for research coordination. The DFID program will work to take the research into actual applications. Pulling together government, civil society, and private sector in the program. DFID is looking at a 40 million pound program.

- Trade: Hope to continue joint work on policy analysis and trade negotiations. DFID developing a regional trade support program (are coordinating with Gabs). Also working with TIPS.
- AusAid: Total RSA program about \$5 million. Has focused on capacity building. TA to government departments. Lots to Treasury/Taxation (local government finance), Stats SA, Education (further ed, higher ed policy), some health. Also has an NGO window program (HIV/AIDS, water/sanitation, and food security). Will probably be scaling back on the government capacity building. Looking at moving in Agriculture that has a heavy environmental element (working in KZN, Limpopo and Free State).

*Lunch with Mission Management*

- Need to identify commitments that need to be funded and those that are just problems.
- Budget levels are 3.5 to 5 million per year of EG funds. Other flavors may be used if other teams willing to give it.
- Need an accordion approach based on performance, if/then approach.
- Prioritization (where/if there is flexibility) should focus on those activities that support other elements of the Mission program.

*Meeting with USAID/SA Senior Staff*

- What has been the nature (Productive, Unproductive, Useful, Useless, critical or not) of collaboration with the Economics SO?
  - P3 areas -- SO4 at National level, SO6 at Municipal Level; mixture of SO5 efforts as well.
  - Finance -- SO6 Housing/municipal, SO5 SMME finance, SO4 general and SMME
  - HIV/AIDS research has supported SO6; Likewise on environment.
  - GCC Issues: Was a key country. Needed to attribute funding. Passed on \$300,000 of funding for the research.
  - Need for management training
  - Local area development - collaboration was not outstanding/could have been better. No clear reason why it didn't work.
  - Sense that SO4 has a lot of little activities, some of which may or may not be really worth a lot.
  - Environment-Could be an area to drop, but have an issue of GCC earmark attribution
  - Perhaps some questions on the composition of the P3 interventions.
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- Capital Market Development is critical for both SO5 and SO6. (Still an issue of getting banks to service majority population. Any way for SO4 to promote this?)
- Previous SO6 and SO5 interventions to demonstrate viability of the majority population were unsuccessful or disasters.
- Major call for alternative finance mechanisms
- Call for continued training
- Possible new MESP2 areas - Finance; Public Administration; Ag economics
- Education providing backstopping on training. Not contributing to their program.

**13 November 2002**

*Meeting on State of the Economy at U.S. Embassy*

- Presentation by Rudy Gouws, Rand Merchant Bank
- Mining down to 8% of GDP, Ag&For 3%
- Exports gold 29 vs. 233 other
- Strong increase in reserves currently
- Exports/GDP have been rising steadily since late 80s (1987); around 25% of GDP
- Growth trends looking at least positive compared to downward trend line 60s-94
- Post-94 fiscal policy has been very prudent, expenditures/GDP declining with Revenue/GDP increasing. 2001 spending increasing a bit with some tax cuts. Deficits around 2% of GDP
- Macro policies are promoting growth, but micro policies could be a constraint.

*Roundtable at National Treasury*

- Expression of appreciation for assistance and the flexibility of the program
- Don't know how much has been disbursed from the program. Looking for some way of getting that information together.
- US Treasury has been requested to terminate assistance to SARS due to a problem in the relationship.
- Expressed need to have a more orderly planning process for the assistance to Treasury/Finance.
- Budget Policy

- Capacity Building (TA and Training) is appropriate and needed in general and to support the transformation process.
  - Work has been on MT Budget Process, but now looking at consolidating accounts, i.e., consolidating extra-budgetary institutions. This process will probably require assistance.
  - Provincial Treasuries: USAID has provided a number of training programs at this level. Expect/want to see this continue; also municipal finance need.
  - PPP Unit: Treasury is budgeting to take on much of the core funding. Assistance will probably focus more on specific transactions.
  - Analytical capacity on infrastructure finance and project screening: Needs more work and assistance. Largely training.
  - Major need for capacity development at the provincial and municipal levels in these independent authorities. Would need to be voluntary by province.
  - Macroeconomics: Benefited from two areas...Research (lies behind many of the past policies); Training has been limited but will become much more important. Will be looking more at sectoral level. Turning towards CGE modeling. Will promote relations with line ministries where modeling capabilities don't exist.
  - Looking at 5 research areas....competition in the banking system; savings promotion and linking to intermediation in SA; understanding the structure of inflation pass-through; legislative design and implementation in selected areas involving financial institutions. Some internal some requiring assistance; not known at this time.
  - Question of how to use the research work to influence public debate.
  - Taxation: National Treasury, Southern African Tax Institute; and SARS assistance.
  - National Treasury: Will need to review provincial funding policies. Many have been trained based on the SATI. Continuing priority (provincial level training).
  - Received funding for Intergovernmental Tax Study...fed into provincial tax measures. National Treasury needs to build capacity to review the provincial submissions.
  - Issue of synchronizing exchange control and tax (e.g., dividend) policies.
  - Need to improve quantitative analytical capacities, e.g., revenue projections. Need to quantify through micro-simulation models revenue impacts of proposed changes. BIGGEST PRIORITY
  - Need to be able to work on distributive analysis of changes.
  - Significant assistance was provided on the development of the Royalty Bill.
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- Need to move towards a more uniform effective tax rate by sectors. Thus, need quantitative analysis needed.
- Creating South Africa as Financial Center....tax issues (financial institutions and taxation of derivatives) are a big part of this.
- There's a major program with DFID to work on the environmental tax issues.
- SADC Assistance: Need to coordinate tax policies to promote intra-SADC trade. Database creation; management type workshops (VAT and Revenue Estimation and Transfer Pricing and Double Taxation Treaties).
- How to fund an independent tax authority. How to use an Inspector General function, performance review.
- Need a tax expenditure budget by sector.
- Incidence studies. Want to pair with local academic institutions to back up the capacity building on these issues.
- There's a need for coordinating SADC and bilateral programs.

*Roundtable at Department of Public Enterprises*

- DPE priorities....consolidate on-going projects or break logjams.
- In transportation, key item is working on the ports restructuring items. Concessioning of Blue Train, monitoring mechanisms on Spoornet to test efficiency measures. Similarly on passenger and commuter rail work to identify what to be done.
- Want to move towards only accepting assistance for particular gaps/issues; thus, shorter-term assistance.
- Note: Restructuring and privatization seems to really be moving forward.
- In defense the goal is to strip out the non-defense elements.
- Active restructuring actions are becoming less important than the efforts to improve efficiency and monitoring performance.
- Desired assistance in the future is less for help with deals and more for building monitoring systems and benchmarking of performance.
- Energy Sector--Eskom being divided into four sections. Focus on divestiture of ESKOM production facilities. Looking at a multi-market structure. Transmission will become a separate SOE.
- Original mandate was to finish restructuring by 2004; some will press into 2005.
- PPP Unit Presentation (see hardcopy)

**14 November 2002**

*Meeting at National Treasury re Poverty Institute*

- Explanation of the Team's Purpose
- Idea behind the Institute would be to identify policies/interventions to address poverty, unemployment, social welfare issues, etc.
- Key emphasis in Treasury has been to expand resources running into these areas. Focus has been with University of Natal and Oxford University.
- Treasury is to establish a Poverty Reduction and Development Unit. Purpose to prioritize efforts under MTEF. First without numbers to establish political priorities. Unit is to create enhanced research and analytical capacity to step back to look at these types of issues.
- Issues to look at: Demographic and poverty characteristics/projections; Efficiency and efficacy of spending...expenditure incidence and expenditure tracking survey type work; Effectiveness of Land Reform/Redistribution; Job Creation...public works etc.
- World Bank is working to create a macro-model with micro-linkages.
- Building evidence-based decision making, capacity building in National and Provincial Treasury, dissemination of information to other Departments.
- Current status...initial interest from SIDA and DFID. Not looking for a huge donor funded project. May later come up with a specific request if needed.
- USAID work is currently complementing this effort...research at UCT; Land Reform work; HIV/AIDS research; Small business and finance.
- Treasury is working with Health Department on improving HIV/AIDS interventions and approaches.
- Business needs to restructure its approach to HIV/AIDS
- USAID HIV/AIDS Research--8 in the first round; another 10 currently; plus Boston University work.
- Establishing a National Agency for administering social welfare and social grants in aid. Wanting to look at U.S. Programs such as food stamps, work programs, etc. Looking at controls, issues, etc. Possible need for assistance in establishing the structure.

*Meeting on Regulatory Activities*

- National Electricity Regulators (NER)...Previous assistance to attend training courses in the U.S. Future need....more formal training (same courses).

- Issues surrounding the pending changes. Moving on consolidation of distribution systems. Unbundling of ESKOM. Need to prepare for this change. Capacity Building (training), systems and approaches. Looking to change from Electricity Regulator to Energy Regulator. Capacity in modeling. How to manage new roles, etc. Need to put together regulations, etc. (Need to define the future NER structure.)
- Link to Regional Electricity Regulators Association. RCSA....focus on capacity building. Likewise a Utility Regulatory Association.
- TIPS....Clearing house for research, strong links to DTI on Trade. TIPS is expanding out into some related issues, e.g., economics of regulation training. Looking to build research capacity in regulation and related topics. Trying to build a network to develop a research program on regulatory issues.
- DTI Business Law Reform: Four areas....past USAID assistance on consumer credit, corporate law (including IPR) and processes. Would like to continue relationship with these experts. Also discussions on IPR indigenous knowledge....register of names of indigenous names and products. Need for broader IPR reform....policy, legislation, and regulations.
- MFRC: One credit law, replacing usury and other laws. Variety of regulations/issues ... credit bureaus, registry of securities, property transfers, collateral registry; Contract enforcement and related legislation...review and redrafting.
- Assistance to date on MFRC usury act and credit agreement acts. Policy on credit markets regulation.
- Approach taken to date for financial reform this has been ad hoc. Financial Services Board is taking another look. Issues of Treasury and DTI coordination. In last 18 months, a number of reviews have been done to identify the problems.
- Some issues of infrastructure finance have been addressed, but there are still issues in the whole financial system.
- Lots of these issues are with Treasury and cross over with SARB. Issue of single financial regulator.
- Weakness within civil society, especially consumer advocacy.

*Meeting with Parliamentary Trainees and Trainers*

- Explanation of purpose of the meeting
  - Appreciation for the program which has "opened our eyes."
  - When program began, thought was for a smaller scale, working only with the Finance Committee.
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- Initially was done at Williams College, then transplanted to South Africa last year.
- Noting and encouraging the SADC participation in original program, but not in the last session since breaks are not the same. What to ensure that other SADC members are able to participate.
- Following the particular training course, desire was expressed for more formal/degree type programs. Using a series of step programs to provide a certificate program, diploma, then on to Masters.
- At start of year there were 42, now down to 40. Also 4 registered at Stellenbosch for MS.
- Proposing to take 20 people into a second intake, 23 people on the list. Mix of IFP and ANC and NP.
- Still need the July course, but with two tracks. Second group would do a two week intensive course and the first group would do a one week intensive, more advanced program.
- Want to send people abroad?
- Have agreement that if any in the new group dropout, the dropouts will have to repay the costs.
- The members of the new Budget Committee are participants in the program.
- New participants may even be a larger number due to very high demand.
- DTI establishing a research/resource unit to the Parliament.
- New Budget Committee will work to track actual expenditures on a monthly basis and report to Parliament quarterly.
- Also pursuing other short-courses on special topics.
- Treasury is offering training, but wants something prior to inform their understanding.
- Training has improved MPs engagement in committee work, quality of debate in Chamber. People feeling more comfortable in positions due to the knowledge acquired.
- Minister of Finance has noted the difference (improvement) in participants etc.
- People are much more prepared.
- Looking ahead to the next elections and new MPs coming, what orientation is required?
- Noting EU funding, but no one knows what they do.

- Note: This is an incredible program that promotes effective legislative participation. Major D/G support program.
- Issue of also supporting Provincial legislatures. Not clear if wanting the long-term training or just short-term training.

**15 November 2002**

*Meeting UWC and UCT Re MESP2 and FADRU Support*

- UWC has been on-going for about 4 years.
  - Program defined by four legs:
    - 1) Economic Empowerment for Government (about 5 projects, Economic Literacy, Macroeconomics, Project appraisal, local government finance); covering all 9 provinces about 1000 officials.
      - Impact: People able to accurately question, interrogate policies, etc.
      - Parliamentary training programme. Have gotten University approval of the special program.
    - 2) Support within the Faculty ... Computer labs for graduate students. Library acquisitions. Bursaries (SAIRR). Enrollments undergraduates 400 to 900-support courses-effective maximum without more staff etc.; 150-200 third year (concentration), about the same #; postgraduate 5-10 to 23-25 Honors; 0 to 13-14 Masters. Noting a problem of competing for MESP students as post-graduate.
    - 3) Academic programme development....Advanced Diploma; economic and public policy programme;
    - 4) Research...Not as successful in terms of numbers. Need to identify a niche for research areas. Possibilities include micro-simulation models. Completed UN program on microfinance. SA Bureau of Standards project. Other individual research papers.
  - Constraint of staff size. Despite having approved positions, can't fill them. May be holding onto current Masters Students. Junior staff wants to do research, but teaching load constrains.
  - Have had 2 MESP1, but one has left.
  - Future Vision: Want to move department of economics to a school of economics. Want to restructure curriculum.
  - Recent Departmental Review...University is to provide more support to fill vacant positions. Dean's view is that the Department needs to grow.
  - Stress more on postgraduate program. Carnegie is funding a trade and investment program (with U of Pretoria).
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- FADRU to turn into a section 21 trust.
- Not marketing the unit sufficiently.
- UCT has two MESP1ers.
- MESP2 (UCT)...Trade & Regulation plus Labor and Labor Market Policy. Programs established 2001. This year is first intake, two in each program. Is forcing departmental specialization. Had many more applicants, but people have to face the same admission requirements as others. Have modified program to allow for a two year Masters Programme. Problems included math/stats, also being out of economics.
- UCT program also includes staff development.
- Also includes extension training for government and NGOs in the specialty areas.
- Stellenbosch - Program on Trade Policy plus Education. Supports the same general comments provided by UCT (Murray). Had six students in the Trade Policy programme and one in the Education programme.
- Issues with Support: UWC has had nothing on paper regarding what support planned. Problems in management through Nathan. Question of operational efficiency.
- Good experience with Nathan on getting external contacts and technical assistance.
- There is more on-going cooperation between UCT, Stellenbosch and UWC.
- People are wondering why four/five specialized trade programs.
- SEGA/MESP has not had adequate communication of on-going activities. Sharing of research.

*Meeting with Dean of Faculty (Tapscott)*

- Review has recommended a separate review of FADRU
- Need to increase research output in order to build more momentum
- Organizationally would like to see the financing running through the Dean's office
- Concerned about FADTRU sustainability
- Need a closer relationship between FADTRU and the economics faculty.
- Pursuing a visiting scholars programme
- Will provide some suggested “conditions” for continuing support

*Roundtable on HIV/AIDS Research*

- Explanation of Purpose of the Team
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- Free State: Household surveys - Looking at household impacts of illness and death on household incomes and expenditures, especially caused by HIV/AIDS. Identify ways to address problems. Multi-year surveys. Not a blind/random sample. Seems that started only with infected households.
- Unable to involve black economists/researchers in the program due to the area (Free State).
- Also impact of HIV/AIDS on Free State University. Institutional audit and epidemiological modeling. Will be looking at the HDIs to be merged into UFS.
- Pitching for further work on health economics in general
- EPRI - Impact of HIV/AIDS in rural setting (Eastern Cape) and urban setting (Soweto).
- Eastern Cape was in one of the poorest areas of the country. Sample selected based on hospitalization of children for malnourishment. 30 households. HH incomes, expenditures and assets. At this level little difference between HIV/AIDS affected and others. Except that it "erases grants."
- Soweto: 100 HH - 50 infected and 50 non-infected initially. Covering HHs over time.
- All surveys are using common questions.
- DPRU: First foray into HIV/AIDS. Working with survey institutes to get data gathered, then analyze it. Latest HH survey, three questions on HIV/AIDS. Thus, proposing to use that. But the identification question, doesn't track. So, turned to Ante-Natal clinic data to generate infection rates for HH in the HH Survey. Talking about applying this to the Census Data for 2001.
- Note: Question of doing this research without building HDI capacity plus small samples and validity. Thus, making policy proposals based on weak basis.
- Idea: Better approach may be to put people together working with DPRU and/or SALDRU....places that have research capacity.
- Pitch for more poverty related work....looking at the dynamics as related to health and other types of issues.
- Problem is that HIV/AIDS is blamed for all HH ills.
- Generally good reviews for Joint Center management.

*Roundtable on Environmental Research*

- Explanation of purpose of the team
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- Ag Research Council at Elsenburg; AgriLink Project (SO5); some project working on promoting some indigenous plants as ag crop and maintenance.
- Possible future: Indigenous plants, patent rights, etc. Research on using the plants for job creation, etc. Organic farming and how to promote. Ag research and training. (This stuff is the Ag Program and not the economics program.)
- Working for Water: Nature restoration program....clearing alien plants and reestablishing indigenous plants. Cost-benefit analysis of working for water that was used to prioritize activities. Training of Natural Resource Economists via Bureau of Land Reclamation short-courses.
- Carbon sink work and plans. Fantastic looking end product without need for much further USAID funding.
- Need to link up with other NRM economists in the region.
- Proposed future work....alien species, GCC and carbon sink stuff, and IPR type work with indigenous plants. Wanting research support.
- Energy & Development Research Centre (EDRC) - Works on Development and Energy Policy.
- Looking at implications of climate change emissions limits etc. SA has very high levels. Looking at the economic impact of carbon emissions increase. Also global to regional emissions standards.
- EDRC research work is feeding into course work that it provides or offers.
- Issues here as well as within HIV/AIDS on the public release of research.
- Future possibilities: Macroeconomic impact of GCC investments and renewable energy. Could also include trade aspects. GCC rather than mitigation need to work on adaptation, what are the costs of adaptation in various areas (note: there is a research network working on this.)
- Question of how to link with the recent openings in Treasury.
- Other future work: How to generate and justify funding for provincial conservancy areas...possible work in "recreation economics."
- What analysis of impacts of air pollution/particulates?

**18 November 2002**

*Meeting with Health SO Team*

- Most useful work has been BU Research started by Health Team and managed by so4
- Smaller research efforts have been less useful, not a continuing priority

- Collaboration with HEARD UND, including placing a Health Economist on staff via the Health Program
- No known future needs
- A future research need may be costing of ARV drugs, best mechanisms to be determined
- How to move treatment and prevention into SME's, issue of actual implementation, not analysis.
- Would like a less ad hoc approach to these multi-sectoral issues

*Meeting with Land Affairs*

- DLA and LIMA are involved partners
- There is a proposal from LTC
- Last conference was not to be a once off event. Was looking at a three year implementation programme.
- Land Reform = Restitution Programme, Redistribution Programme, Land Tenure Programme
- Past activities: Conference on Land Tenure Issues. Pulled together stakeholders. There was weak legislation on commercial land and no regulations on communal land. Review and discuss proposals.
- USAID provide quick response to assist the conference.
- Currently putting together a volume on the conference.
- Land Rights Commission legislation covering commercial land. Weak thus now consolidating. Preparing communal land rights bill. Now under consultation. Will also need to prepare regulations and procedures.
- Challenges of implementation: Legislation gives back land rights etc. Problems with traditional authorities. There is a shortage of skills in the tenure rights programme. On-going programme to develop core skills.
- Communal Land Rights Bill: Work begun in 1997; 1999 a stillborn Bill; May 2001 Workshop; November 2001 Conference. Now bill is in public domain and being "consulted." Bill confirms, strengthens land tenure rights. State currently holds land in trust for people who have purchased it--now trying to return it in full ownership. Legalizing occupied land and provides de jure rights.
- Includes transfer of land to a community...customary or community tenure section 16(1)a; for areas internal to such outer boundaries will transfer to families via deeds of land tenure rights (use rights) (Sec 16(1)b). After time can be converted to title deeds.

- Challenges: Customary tenure where does allocation occur. Traditional authority or democratic institutions that would include, but curb the power of traditional leaders. Primary problem with KZN.
- Includes Land Rights Boards to channel resources and serve as a conduit between center and the democratic institutions. About 14 million affected.
- Implementation will require significant levels of staff that will require capacitation.
- Research looking at implementation costs and economic benefits.
- Commercial Land: Focused on rural areas. This area focuses on those living on commercial farms. First legislation was Land Reform Labor Tenants Rights Act; then Extension of Security of Tenure Act when tenancy was abolished, they became simple farm laborers - wage payments rather than use rights - act provides their use rights; now working on consolidating legislation and implementation actions. Largest backlog of actions in KZN and Mpumalanga. About 6 million people affected. Main challenge is to maintain balance between the groups.
- Need to identify/develop alternative dispute resolution systems.
- Future USAID Roles/ Opportunities: Assistance to legislation development process through research on a number of topics.
- What South African institutions can work on this...UWC-PLAS, UND-Economics/Ag Economics, Wits-Center for Legal Studies.
- Priority 1 - Research
- Priority 2 - Capacitation within Government; lessons learned, etc.
- DLA has a 3-year proposal, but have only heard about 1st year funding (Total approximately \$500,000).

**19 November 2002**

*Meeting with NIEP*

- Update on Research
  - Receiving commissioned research from DTI, COSATU, other elements of the Labour Movement, Department of Labour
  - Core research moving away from econometric macro-modeling towards more developmental oriented issues.
  - Land and Agriculture - Working on economic benefits of redistribution and use-rights and title-rights.
  - Environmental clean-up from ISCOR dumping....working with NUMSA and others knowing what went on.
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- HIV/AIDS-Linking with the Chamber of Mines to get long-term data and working on understanding where that is going.
- Modeling: Government departments wanting capacity building in this area. DTI, National Department of Agriculture, and Department of Labour-- macroeconomic modeling plus micro-simulation
- Have built partnerships with National Development Agency (South African version of ACBF), initially 7 months with renewal options - institutional assessment of capacity; establish civil society network. NDA had been in Treasury now over to Social Development.
- Another Partnership is with Morris Webb Race Relations Unit ... Purpose to develop 20 researchers per year. NDA was to fund, but hung-up within the bureaucracy. Unit located at University of Natal.
- Another Partnership is with DTI. DTI is now focusing its research into a single unit, rather than on a division by division basis. Also working with another 8 institutions.
- Other possible partnership is with DBSA, Angloplas (community development).
- Expanding research capacity beyond economists to other disciplines - public admin and social research.
- Working with Parliament - capacity building of committee chairs.
- Adding partnerships with other Universities in Johannesburg to provide short-term training.
- Have been working with HDUs' economics departments.
- Organizationally, are adding more senior researchers and bringing on others on an as-needed basis.
- Dialogue forum for policy issues.
- Note: NIEP continues to be on the forefront of key issues.

### **20 November 2002**

*Breakfast with Peter Aborn et. al. re DTI Campus PPP*

- Description of the project
  - SO4 related effects: Development of a model for accommodation incorporating complex outside requirements
  - Developing capacity within DTI to pursue other PPPs (another has begun)
  - Developing and training a PPP Management Unit
  - Externalities: SME development, urban planning and redevelopment.
-

*Meeting with DTI-Trade Policy Unit*

- Division promotes trade (not deal based) by analyzing target countries and growth potentials and constraints. {Broad market analysis.}
- Works on weeding out trade obstacles.
- Zellick presented an FTA proposal with SACU. Zellick supposedly making promises of assistance for capacity building.
- Also some form of discussion of an investment framework agreement.
- Views AGOA as positive, exposing SA to potential areas. Also recognizes that the AGOA benefits are transitory, etc.
- Suggests possible fund to support negotiation travel, perhaps TA, etc.
- Note: Work with this unit could end up being conflictual with regard to the FTA with the U.S.
- Waffling around about what sort of assistance might possibly be required. In short has no idea.
- Comes back to travel assistance. Non-starter.
- Trying to get an idea of what sort of capacity development might be needed -  
- no response/ no idea. Perhaps some impact studies.

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