



2005 First Quarter Progress Report

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INTRODUCTION

The Support for Economic Growth and Analysis and Mandela Economics Scholars Program II (SEGA II) began on August 27, 2004 and continues through August 26, 2007. SEGA II has been designed to support the Economics Capacity Strategic Objective of the USAID South Africa results framework. This first quarterly report of SEGA II documents progress made towards achieving USAID's objectives for this program as reflected in the Statement of Work:

- Working with public sector agencies and civil society organizations, perform policy reform analyses that will improve the policy and regulatory environment that reduces poverty and unemployment within a supportive macro-economic environment (emphasizing small business development, trade, investment and intellectual property rights, agriculture and land reform and socio-economic impacts of HIV/AIDS in South Africa).
- Working with these same institutions, and employing both formal and informal training mechanisms, builds South African capacity for policy reform concerning selected priority issues relevant to improving the economic environment in South Africa.
- Collaborate with other donors, in particular the UK's Department for International Development (DFID), in achieving these results.

SUMMARY OF OBJECTIVES AND ACHIEVEMENTS

SEGA II set itself three main objectives for this quarter:

1. ***To establish the administrative operation of SEGA II.*** This included the recruitment of staff, finalization of sub-contracting agreements, procurement of office space and equipment, and the implementation of office procedures and systems. This has successfully achieved and the office is now fully operational.
2. ***To complete and submit an implementation plan for CY01.*** Through extensive discussions with USAID, DFID, and our main counterpart agencies, the first year of the project has been fully scoped and budgeted. A complete and detailed implementation plan was submitted to USAID within 90 days of inception.
3. ***To initiate one activity in each of the priority technical areas.*** A few projects were completed in the first quarter, but more importantly, good progress was made towards the implementation of a much larger number of activities, across the full scope of the program. This will form the main focus this report.

TECHNICAL AREAS

While the SEGA II statement of work is diverse, it is clearly unified by its focus on capacity development and a strong orientation towards poverty and unemployment. It identifies 10 technical areas (of which eight are now active) covering a wide range of issues and clients. In each area, activities have been designed to enhance the capacity of government, its regulators, NGO's and universities to design and implement economic policy in South Africa. This is to be achieved through policy research, technical advice and a variety of short and longer term training modules. Progress, by each technical area and activity, is described below and summarized in Annex A.

TA 1: Strengthening the Impact of Pro-poor Programs (SIPP)

SIPP is co-funded by DFID and was established to assist the National Treasury (NT) to incorporate pro-poor concerns into its tax and spending programs. In late 2004, NT conducted its own internal call for proposals, from which 14 research projects were short-listed. This shortlist was then submitted to NT's research committee (a panel of four Deputy Director Generals) for approval. Five projects were approved for priority implementation and the SEGA II team has begun contract negotiations with NT's preferred consultants. These five projects are expected to begin in the second quarter of 2005.

SIPP will begin with an inter-governmental workshop on the policy implications of recent poverty analysis in South Africa. This workshop will bring together the country's leading academics and senior policy makers to discuss the state of poverty and unemployment in South Africa, and to identify future research priorities. The workshop will be complimented by SIPP's first research project - an extensive analysis of the patterns and determinants of vulnerability in rural South Africa. Poverty and unemployment are concentrated outside of the main urban centers, but little is known about the characteristics and dynamics of households in 'rural' South Africa. This work will help to fill some of these information gaps.

The next three SIPP activities will focus on specific government welfare programs: the primary school nutrition program (see Box 1); old-age pensions; and the child support and disability grants. Expenditure on social grants has risen fourfold over the last decade to around R40 billion in 2004 (approximately 11% of the total budget, or 3% of GDP). This research should provide for a comprehensive assessment of South Africa's main poverty-relief interventions and will improve Government's ability to budget and monitor these programs.

Box 1**The Primary School Nutrition Program – Baseline Study**

The Primary School Nutrition Program (PSNP) was implemented in 1994 to improve the health and active learning capacity of public primary school learners. Since its inception, the PSNP has been managed and funded through the Department of Health. In April 2004, this responsibility was transferred to the Department of Education, and from January 2005, it will be known as the National School Nutrition Program.

The PSNP targeted 15 000 poverty stricken schools and about 5 million learners. These targets have already been exceeded, and in 2004/05, the PSNP is expected to reach more than 5 million learners in just under 18 000 schools. Funding for this program is forecast to rise from R840 million this year, to more than R1 billion in 2006/07.

Given the change in responsibilities and increased size of the program, Government has decided to undertake a baseline study against which the PSNP can be monitored and assessed. This study will include an evaluation of the reach, efficiency, cost-effectiveness and impact of the PSNP and should contribute to improvements in the targeting and implementation of this program. SEGA II will oversee the design and pilot stage of the baseline study and has assisted National Treasury in the issuing of an open-tender for this activity. This tender is likely to be awarded in February 2005.

TA 2: Parliamentary training

SEGA/MESP (implemented by Nathan Associates) provided extensive formal economic training to South African parliamentarians over the last 6 years. USAID funding for this training is expected to end with SEGA/MESP (or be transferred to DFID). Given the success of this program and the strong relationship that has been forged between USAID and Parliament, SEGA II will continue to provide targeted capacity support to Parliamentarians. Possible activities include short and policy orientated workshops and the provision of a long-term adviser to the Budget Committee to help develop and manage an economic research program. These options were discussed with the Chair of the Budget Committee in late 2004 and a formal request is expected from Parliament in the second quarter of 2005.

TA 3: Microfinance policy reform

Access to affordable finance is a real constraint to economic development in South Africa. Poor South Africans are unable to access the formal banking sector and pay extraordinary high rates (21-30% per month) in consumer credit markets. The Microfinance Regulatory Council (MFRC) has done well to reduce predatory lending and a new Consumer Credit Bill has been written to improve regulation in the non-banking sector. SEGA II will continue to work with the MFRC in building analytical and policy formulation capacity and to help Government in the implementation of this new Bill.

Five specific projects were identified by the MFRC and USAID (PRIME) for priority funding. The first, an evaluation of consumer credit markets in South Africa, will help Government to formulate an approach to interest rate policy in these markets (as required by the Consumer Credit Bill). Domestic consultants will be co-funded by Government, with SEGA II providing international expertise. The other four projects aim to assist the MFRC in establishing a national credit register, extending finance to SMME's, and supporting the development of various types of non-bank financial institutions. These are unlikely to commence before mid-2005 (the MFRC is to be disbanded and replaced by a new National Credit Regulator in the first half of this year).

TA 4: Agriculture and land reform

The Department of Land Affairs (DLA) has recently implemented legislation to transfer public land to the communities that live on this land (Community Land Rights Act, CLRA). SEGA II might contribute to this new legislation in two possible ways. First, it could provide technical assistance to the Department directly, to help manage and monitor the implementation of this legislation. Secondly, it could fund a limited number of research studies to collect and collate primary information from the beneficiaries of this program. These options have been discussed with Government and a formal response is expected in the second quarter of 2005.

SEGA II will also fund follow-up work on the Evictions Pilot Study recently completed under SEGA / MESP (see Box 2). An advanced statistical tool has been developed and tested and the research team is ready to begin a national survey to measure the extent and impact of farm evictions in South Africa. The study is due to be completed in mid 2006. The results from this research will contribute to the Department of Land Affairs policy on land evictions and help Government to identify and assist the most vulnerable communities.

Box 2

Land Eviction Study

South Africa's ambitious land and labor reform initiatives, designed to redress past imbalances and promote development, might have led to deterioration in relations between farm owners and farm workers and increased rural unemployment. Farm owners blame minimum wage legislation for increased retrenchments and urbanization, while labor unions argue that landowners have evicted tenant workers to avoid future land claims. Currently, there is no reliable data available on the reasons for and extent of these evictions.

The Department of Land Affairs appointed a consortium, led by Social Surveys and Nkuzi Development Association, to develop a research program to evaluate the extent and impact of this problem. The first stage of this research involved the design of an appropriate statistical tool, which was then tested in a number of pilot sites. Preliminary results from these pilot studies show that farm dweller evictions occurred more frequently than predicted, in 8% of rural households.

In the next stage of the study, survey teams will interact directly with evicted people to gather information on the cause of evictions and the impact of these evictions on their lives and the communities in which they have settled. Team leaders are currently being selected and fieldwork is expected to begin before the end of the next quarter.

TA 5: HIV/AIDS

South Africa has one of the fastest growing HIV/AIDS epidemics in the world. By 2001, the adult prevalence rate reached 20.1 percent with more than 5.0 million people infected and 50,000 new infections per month. It is now broadly accepted that this pandemic will have an adverse impact on the economy, leading to rising poverty and inequality, but many of the channels through which this will occur remain largely unexplored.

SEGA II will tackle two broad areas of work on the economics of HIV/AIDS. First, the program will assist government in costing and monitoring the impact of HIV/AIDS on health care workers and the delivery of basic care and treatment to HIV/AIDS patients. Three large studies have been identified: an assessment of the cost and efficiency of different home-based care models; an evaluation of the roll-out of ARV treatment at specific pilot sites; and an analysis of the prevalence of HIV/AIDS amongst professional nurses. Secondly, SEGA II will support analysis of the impact of HIV/AIDS on the macro-economy and different industry sectors. All of these studies are expected to commence in the second quarter of 2005.

TA 6: Regulatory reform

SEGA II was not expected to do any work in this technical area in the first year of the program. This assumption was overtaken by dramatic developments in the South African telecommunication's sector late last year.

To date, the South African telecommunication's market has been dominated by a single fixed-line operator and three cell-phone companies. International rates are high and access to broadband internet services poor. This has proven to be a real constraint

to employment in labor intensive industries, such as call-centers, and raises the cost of working and living in South Africa.

In August 2005, the South African Government proposed a number of reforms in the telecommunications sector, including the substantive liberalization of Voice Over Internet Protocol (VOIP). If implemented effectively, these reforms could change the telecommunications landscape in South Africa forever and have a significant impact on economic development. There is some possibility that SEGA II will provide support to ICASA (Independent Communications Authority of South Africa), the telecoms regulator, to assist it in the implementation and regulation of these important reforms.

TA 7: Environmental economics policy

There is unlikely to be any work in this TA in the first year of the project. SEGA II will continue to monitor developments in this area and will inform USAID if any prospective activities arise for future consideration.

TA 8: Intellectual property rights

There is unlikely to be any work in this TA in the first year of the project. SEGA II will continue to monitor developments in this area and will inform USAID if any prospective activities arise for future consideration.

TA 9: Support for higher education

SEGA/MESP has provided foreign (MESP I) and local (MESP II) bursaries to a large number of South African economics students. It also supported the University of the Western Cape as a 'Center of Economic Excellence (CEE)'. This funding will come to an end in December 2005 and SEGA II will see this activity through to completion. SEGA II has begun discussions with the relevant universities and new contracts will be issued in the second quarter of 2005.

TA 10: Complementary activities

The above technical areas cover most of the key aspects of poverty and unemployment in South Africa, but not all. Notable exceptions include labor market issues and the impact of trade and investment on employment and the poor. SEGA II has made good progress in formulating and initiating work activities in these areas, of which two have been completed: a seminar for CCMA commissioners on recent developments in mediation and arbitration practices in the US; and a two-day workshop for union officials on trade negotiations and agreements.

The CCMA (Commission for Conciliation, Mediation and Arbitration) workshop arose from the collaborative efforts of the United States Federal Mediation and Conciliation Service (FMCS); the United States Consulate; the National Productivity Institute (NPI); and the Commission for Conciliation, Mediation and Arbitration (CCMA). The workshop brought together FCMS Directors, US Labor Attaches,

Program Heads from the NPI and 30 CCMA commissioners from 9 provinces to discuss a wide range of issues, including:

- Preventative mediation, relationship building
- Collective bargaining processes
- Alternative dispute resolution
- Quality control
- Mediator satisfaction

A second workshop completed this quarter was organized by the Solidarity Center, in conjunction with the Congress of South African Trade Unions (COSATU). Building on a previous workshop, this activity seeks to develop capacity amongst the leadership of the country's three labor federations (COSATU, FEDUSA, NACTU) in the area of trade policy and analysis. A third and final trade workshop will be held in the second quarter of 2005.

More substantive research on trade and investment will begin in the second quarter of 2005. SEGA II has worked with South Africa's largest trade union federation (COSATU) to assist them in developing a research proposal to understand the impact of trade reform on the poor (see Box 3). This is likely to be submitted to another donor for funding, but SEGA II will remain involved in an advisory capacity. The South African Institute for International Affairs (SAIIA) will receive support for research on South Africa's regional trade policy, and a comprehensive study on South Africa's investment policy regime will be done in conjunction with the National Treasury.

Box 3

Trade and Poverty

Poverty and trade liberalization are both difficult to measure. This makes it near impossible to undertake broad-based empirical work in these areas (eg 'the impact of trade liberalization on poverty in South Africa'). That said, it should be possible to identify poverty-related effects of specific trade policy changes (Litchfield et al 2003).

McCulloch, Winters and Cirera (2001) propose an extensive framework to explain the various links between trade liberalization and poverty. They argue that the relationship between trade and poverty is complex and case specific and requires a detailed understanding of the way and channels through which such influences occur. In particular, they identify three pathways through which trade liberalization can have a direct effect on poverty:

- Price transmission – trade liberalization affects the prices of goods consumed and produced by the poor;
- Enterprises – trade liberalization affects households through its impact on profits, employment and wages; and
- Taxes and spending – trade liberalization affects the government's fiscal position.

They also provide a number of specific methodologies for evaluating the impact of trade liberalization in each of these channels. Most of these methodologies can and should be applied to South Africa. Although this will not provide a complete picture, it will certainly help to identify the possible winners and losers from future trade reform.

Finally, SEGA II will contribute to enhancing economic capacity within and beyond Government through focused short-term assistance and training. In the first quarter of 2005, this included assistance to an initiative to sustain Computable General Equilibrium (CGE) modeling capacity within South Africa. CGE models are particularly useful for evaluating the impact of government policy on different households and sectors of the economy. This initiative is led by a group of researchers and the National Treasury, to which SEGA II will provide international expertise on a retainer-type arrangement. SEGA II also contributed towards the travel costs of a senior National Treasury official to enable him to attend and present at an

international conference: “Eradicating Poverty through Profit: Making Business Work for the Poor”.

BENCHMARKS

The following table provides a summary of the key objectives and results for SEGA II, as established by USAID and included in the Task Order. Existing targets, taken from the Performance Monitoring Plan for USAID/South Africa's Economics Capacity Building Strategic Objective, have been added to show some of the proposed contributions of SEGA II and to facilitate USAID monitoring of the progress of the project.

	Objectives	2005 (Aug-27-2004 to Aug-26-2005)		2005 Quarter 1	
		<i>Anticipated results</i>	<i>Proposed SEGA II Targets</i>	<i>Performance</i>	<i>Comment</i>
Sustainable capacity-building	Strengthen human resources in economics and policy	Number of historically disadvantaged people completing long term advanced degrees and placed in jobs as economists	N/A	N/A	MESP ended
		Number of people selected for training	N/A	N/A	MESP ended
		Gender Equity – percent women trained	N/A	N/A	MESP ended
		Proportion of graduates working for government	N/A	N/A	MESP ended
	Strengthen centers of economic excellence in teaching and research at historically disadvantaged universities.	Full-time equivalent students	N/A	N/A	Program ended
		Outreach programs with govt, Parl., bus., NGOs	N/A	N/A	Program ended
		Quality Research papers	N/A	N/A	Program ended
Assessments and analyses	Strengthen government departments that deal with policy matters.	Number of directorates strengthened	5	-	Research activities to commence in Q2 2005
		Number of quality policy studies completed	30	-	
		People in economics training	200	81	
		Gender Equity – Women in Training	40%	25%	
	Strengthen think tanks to formulate and deal with economic policy options.	Number of quality studies produced	10	-	Research activities to commence in Q2 2005
		Number of seminar, conferences, and workshops attended by think tanks.	8	3	
		Black Economics Professionals working on assisted activities	20	-	Research activities to commence in Q2 2005
		Gender equity – qualified women economists working on assisted activities	12	-	

DELIVERABLES

The following deliverables were prepared during the period October 1, 2004 – December 31, 2004.

Technical Area	Activity	Date	Document title.type
Complementary	CCMA	Oct 4	CCMA summary.doc
Complementary	CGE	Dec 9-10	CGE WS1.doc
Complementary	Business for the Poor	Dec 10-12	Dixon trvl rpt.doc
Complementary	Solidarity	Nov 10-11	Solidarity WS2.doc
Complementary	Presentation	Nov 5	SACU Expansion.ppt
Complementary	Presentation	Nov 12	EPAs and Trade in Services.ppt

ANNEX A: SUMMARY OF ACTIVITIES

Project	Description	Objective	Indicative Budget \$	Status
<i>TA1: Strengthening the Impact of Pro-poor Programs (SIPP)</i>				
Poverty workshop	Discussion of key research questions and gaps, between leading academics and senior policy makers	To promote evidence-based policy making	35 000	Scheduled for March 05
Land-based vulnerability, labor markets and social protection	Analysis of the patterns and determinants of vulnerability and food security in rural South Africa; and a review of government policies in these areas	To recommend new and better policies	150 000	Scheduled to begin April 05
Intra-household dynamics in resource allocation	Analysis of the flows of social grants to different types of households and the impact of these grants on household members	To evaluate the allocation and effectiveness of social grants	110 000	Scheduled to begin Feb 05
Data quality and availability	Design and implementation of consistent database of income, poverty and employment information for internal policy analysis	To improve access and use of data within NT	35 000	Awaiting more information from NT
Primary School Nutrition Program	Baseline study and evaluation of the reach and effectiveness of the government's school feeding scheme	To provide baseline data for future M&E	175 000	RFP issued, scheduled to begin Feb 05
Social grants projections	Examination of population dynamics and the likely evolution of the economic position of welfare beneficiaries	To estimate the cost and improve targeting of social grants	60 000	Scheduled to begin Mar 05
<i>TA2: Parliamentary training</i>				
Parliamentary Workshop Series	Short workshops on particular areas of reform legislation.	To bring legislators to a common knowledge base		Awaiting formal confirmation from USAID and the Budget Committee
Institutional support to Budget Committee	Long-term adviser to the Budget Committee to help manage research program / establishment of a permanent shared, nonpartisan Budget Analysis Office within Parliament.	To provide and organize knowledge for policy analyses	150 000	
<i>TA3: Microfinance policy reform</i>				
Consumer Credit Act	Evaluation of credit conditions and interest rates in different consumer credit markets	To recommend methodology for determination of interest rate ceilings	70 000	Scheduled to begin Dec 04
Non-Bank Financial Institutions (NBFI)	Implementation of select proposals from SEGA/MESP assessment of NBFI	To help formalize NBFI	70 000	Scheduled to begin late 05
Establishing National Credit Regulator	Provision of technical advice to assist in the establishment of a National Credit Regulator, including a feasibility study of a national credit register	To support establishment of national credit regulator	50 000	Scheduled to begin Feb 05

Project	Description	Objective	Indicative Budget \$	Status
Encouraging enterprise lending among commercial microlenders	Investigation of mechanisms to encourage commercial microlenders to increase lending to SMEs	To expand finance for SMEs	20 000	Scheduled to begin late 05
Credit union development	Assessment of policy and legislation for development of credit unions and cooperatives	To improve Cooperatives Act	20 000	Scheduled to begin late 05
<i>TA4: Agriculture and land reform</i>				
Evictions - national survey	National survey of incidence and socio-economic impact of farm evictions	To inform policy on land evictions and highlight vulnerable communities	120 000	Scheduled to begin Jan 05
Technical adviser to DLA	Provision of full-time or part-time technical adviser to DLA	To coordinate research and monitoring activities	80 000	Awaiting formal confirmation from Department of Land Affairs
CLRA pilot studies	Design and implementation of CLRA pilot studies in three different provinces.	To monitor and evaluate implementation of the CLRA		
<i>TA5: HIV/AIDS</i>				
Home and Community Based Care (HCBC)	Assessment of characteristics, cost and efficiency of different HCBC models	To recommend appropriate models for scaling up HCBC programs	190 000	Approved and scheduled to begin Jan 05
Roll-out of ARV treatment in the Free State Province	Monitoring and evaluation of the roll-out of ARV treatment at specific pilot sites	To highlight progress and obstacles to ARV roll-out	25 000	Scheduled to begin Feb 05
Impact of HIV/AIDS on health care workers	Analysis of the prevalence of HIV/AIDS amongst professional nurses its impact on attrition and productivity	To assist in human resource development and planning	50 000	Scheduled to begin Feb 05
Macroeconomic impact study	Evaluation of the economic impact of HIV/AIDS, by sector	To demonstrate the economic cost of HIV/AIDS	20 000	Scheduled to begin April 05
SA Journals of Economics and Development Perspectives	Publication of special editions, focusing on the economics of HIV/AIDS	To publicize research in this area	20 000	Scheduled for publication Jan 05
<i>TA6: Regulatory reform</i>				
VOIP reform	Assistance to ICASA in implementing and regulating VOIP reforms	To facilitate cheaper and better telecoms access	20 000	To be determined
<i>TA9: Support for higher education</i>				
MESP 2	Provision of bursaries and support to select academic departments and courses	To facilitate post-graduate education in economics amongst historically disadvantaged students	200 000	Ends Dec 05

Project	Description	Objective	Indicative Budget \$	Status
UWC / Center of Economic Excellence (CEE)	Financial support and assistance to the economics department at UWC	To develop and sustain a CEE at UWC	55 000	Ends Dec 05
Placements and internships	Assistance to MESP graduates in finding employment in Government departments or agencies	To help graduates find permanent and appropriate employment	10 000	Ends Dec 05
<i>TA10: Complimentary activities</i>				
Development through trade	Provision of support to South African Institute of International Affairs' (SAIIA) trade research and advocacy program	To inform policy makers and business leaders on trade policy developments	35 000	Approved and scheduled to begin Jan 05
Trade training for union leadership	Facilitation of two workshops on trade theory and policy for union leadership	To inform union members and leaders on trade policy developments	50 000	Workshop 1 complete Nov 04 Workshop 2 scheduled for Mar 05
Investment policy and incentives	Analysis of the relative impact of investment incentives and other investment support initiatives on business decisions and investment	To inform policy makers on optimal investment policy	35 000	Scheduled to begin Feb 05
Southern Africa Tax Institute (SATI)	Bursaries for South African participants in SATI training courses	To enhance tax knowledge amongst policy makers	10 000	Scheduled for mid 05
Commission for Conciliation, Mediation and Arbitration (CCMA) workshop	Facilitation of CCMA workshop with US mediation and arbitration experts	To enhance knowledge of senior CCMA commissioners	5 000	Complete October 04
CGE modeling	Provision of dedicated technical assistance to National Treasury CGE unit	To sustain CGE modeling capacity in Government and the country	35 000	Workshop 1 complete Dec 04 TA scheduled to begin March 05
J. Dixon / conference	Co-funding of travel costs to attend conference on "Business for the Poor"	To support capacity building of senior NT officials	3 000	Complete December 04