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# **Support for Economic Growth and Analysis/Mandela Economics Scholar's Program, 1998–2005**

Final Report

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# **Support for Economic Growth and Analysis/Mandela Economics Scholar's Program, 1998–2005**

Final Report

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# 1. Introduction

From 1998–2005, Nathan Associates Inc. headed a consortium of organizations that implemented USAID’s Support for Economic Growth and Analysis (SEGA) and Mandela Economic Scholar’s Program (MESP) in South Africa. The program built the capacity of the South African government to develop policies and programs for achieving social equity and economic growth. Many project activities were unusually productive because they came at a time critical in the country’s history. In particular, the project helped the new democratic government establish a stable, market-based economy, and complete the transition from apartheid, which had discriminated against the vast majority of the population and resulted in decades of economic stagnation. During this historic period of transition, South Africa faced immense challenges: acute distribution problems, rising unemployment, high levels of poverty, a legacy of unskilled and illiterate workers, an inability to implement bold programs effectively and quickly, inadequate delivery of public services, inadequate infrastructure, the growing menace of HIV/AIDS, and a perceived critical shortage of black economists to advise decision makers.

To help the government meet these challenges head on, SEGA/MESP was tasked with increasing the capacity of government, universities, nongovernmental organizations, and think tanks to produce information and analysis for the country’s macro- and microeconomic agenda. The project’s guiding principle was that good economic policies are founded on good economic analysis.

SEGA/MESP gained credibility early by creating effective networks of policymakers and researchers, and taking action to strengthen the analytical foundations of policy debates. The project’s flexibility and ability to respond quickly and effectively to South Africa’s evolving needs and priorities also helped make the project a success.

SEGA/MESP was funded under USAID’s Strategic Objective 4—Improved capacity of key government and nongovernmental entities to formulate, evaluate and implement economic policies—which encompassed four intermediate results:

- IR 4.1: Strengthened human resources in economics and policy analysis for key government entities.
- IR 4.2: Strengthened government departments that deal with economic policy matters.
- IR 4.3: Strengthened think tanks to formulate and deal with economic policy options.
- IR 4.4: Strengthened centers of economics training in historically disadvantaged institutions.

Over the life of the project, IR 4.1 was accomplished primarily through MESP. In the first phase (MESP I), Nathan funded and supported 50 scholars from the historically disadvantaged population in their pursuit of post-graduate economics degrees in the United States. Almost all of the graduates were placed in essential government jobs, and 80 percent worked for the government longer than required under their agreements. In MESP II, Nathan helped three local universities establish seven master's degree programs in economics, and provided bursaries to 70 historically disadvantaged students. The project also established an innovative and highly effective training program in economics and budget management for members of Parliamentary committees; through this program, dozens of Parliamentarians earned diplomas, certificates, and honors degrees. Cumulatively, 42 percent of participants benefiting from this long-term training were women.

IR 4.2 was achieved through a combination of direct technical support and short-term training of government departments or agencies involved in economic policy formulation and management. Our primary partners included the National Treasury, the Department of Trade & Industry, the National Assembly, the Micro-Finance Regulatory Council, the South African Revenue Service, the South African Department of Labour, the South African Department of Environmental Affairs and Tourism, and the Department of Social Development.

IR 4.3 was accomplished by working with NGOs and universities—the newly emerging strata of “economic think tanks”—to implement research programs to support policymakers in formulating and implementing strategies for equitable growth. The project produced nearly 100 major research studies on a wide range of topics, including budget issues, macroeconomic modeling, exchange rate management, financial sector development, labor market regulations, intellectual property rights, support to the disabled, land tenure reform, global climate change, small business development, intergovernmental fiscal relations, and a broad range of sectoral research. Perhaps the most notable contribution came from the project's pioneering support for research on the economic impact of HIV/AIDS in South Africa.

The implementation of IR 4.4 was designed to improve the capacity of one economics department at a historically disadvantaged university so it could become a center of excellence in teaching and research. The Committee of Vice-Chancellors of Historically Disadvantaged Universities selected the University of the Western Cape for this purpose. Although the program continues to struggle, the academic programs in economics at UWC improved notably as a direct result of project support, with undergraduate enrollment more than doubling and a new post-graduate program starting.

By the end of the project, SEGA/MESP had delivered more than 200 distinct activities involving economic policy analysis or training for South African professionals. Throughout, Nathan Associates made maximum use of local experts to cultivate local skills in policy research and economics training, while engaging outstanding international experts to provide local partners with deep exposure to international best practices. In nearly every area, SEGA/MESP produced high-quality economic research and analysis that had a substantial impact on the country's emerging policy framework.

Given the long duration and broad scope of SEGA/MESP, this report provides a concise review of life-of-project achievements rather than a full chronology. We summarize (1) activities that built capacity or influenced policy formulation, and (2) lessons learned from challenges and successes. The lessons of successful activities exemplify best practices; the lessons of challenges may be instructive for future projects.



## 2. Program Highlights

All SEGA/MESP activities were formulated to help the Government of South Africa attain vital economic policy goals. In late 2002, when SEGA/MESP had been operating for four years, a USAID assessment report noted that the mission’s economic capacity program—much of which was implemented through this project—was making major contributions to economic development that reflected impacts “beyond USAID’s manageable interest.” The report stated that “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.”<sup>1</sup> These impacts included

- Reducing budget deficits and establishing a credible commitment to competent fiscal management;
- Upgrading South Africa’s credit rating;
- Developing techniques to improve the efficiency of public service provision through public–private partnerships; and
- Improving scores for South Africa in global indices, such as Heritage Foundation’s Index of Economic Freedom, the World Economic Forum’s Global Competitiveness Index, IRG’s Competitiveness Ranking, and PWC’s Opacity Index.

For three years after the assessment report was written, SEGA/MESP continued to support government departments with high quality research and training to strengthen economic policy management and establish a foundation for rapid and equitable growth.

At the operational level, SEGA/MESP made many important contributions to the achievement of USAID’s strategic objective of improving the capacity of government and nongovernment entities to formulate, evaluate, and implement economic policies (SO4). The project also stimulated an exciting national dialogue on critical policy issues, thereby helping to foster transparency and inclusive policy deliberations. SO4 encompassed four intermediate results that involved strengthening (1) human resources, (2) government departments, (3) economic think tanks, and (4) centers of economics training, especially at historically disadvantaged institutions. We review project highlights by means of this framework.

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<sup>1</sup> USAID/Pretoria, *Economic Capacity Building Strategic Objective Bridging Design*, December 9, 2002, p. 17.

## **HUMAN RESOURCES IN ECONOMICS AND POLICY ANALYSIS (IR 4.1)**

SEGA built capacity by strengthening human resources in economics and policy analysis through MESP I and II; by providing parliamentary training in economic policy, which improved the understanding of budgets and macroeconomic policy; and by providing short-term training and capacity building in specific national directories. The result: a new generation of black economics professionals, some of whom had been excluded under the previous government, in public service in key ministries, including the National Treasury, Department of Trade and Industry, and the Office of the President.

### **Mandela Economics Scholars Program I**

The Mandela Economics Scholars Program I (MESP I) was one of the project's most successful activities, and the first program that then-President Mandela allowed to use his name—a strong indicator of his commitment to black education. MESP I began in 1996 under an earlier contract managed by the Institute for International Education (IIE). Nathan Associates took over the program in 1998. The program provided funding and support for previously disadvantaged South Africans selected to pursue graduate degrees in economics and related fields at more than 25 major universities in the United States, and provided additional training opportunities at prestigious institutions like the Economics Institute in Boulder and other programs developed in South Africa. Even though the previous education of many of these scholars lacked the rigor of their American or European counterparts, all 50 scholars supported by SEGA/MESP—and the 20 scholars who had been managed by IIE—completed their graduate programs, returned to South Africa, and attained positions as mid-level public servants or as faculty members or researchers at academic institutions. The program produced a quantum leap in the supply of well-trained young economists from disadvantaged groups serving in the public sector. It created a cadre of professionals who are likely to be the next generation of public service leaders—Deputy Directors General, Directors General, Ambassadors (see Exhibit 1). In comparison to many of their civil service colleagues, MESP scholars are more skilled, more likely to base decisions on evidence, more willing to engage in constructive critical dialogue, and more capable of bringing a comparative perspective to discussions and decisions.

Though the MESP I scholars were required to serve in government for at least as long as they were supported in the United States, almost all remained in public service well beyond this requirement, thus greatly increasing the cadre of mid-level professional technocrats working to resolve South Africa's pressing economic problems (Exhibit 1).

The success of the program is attributable to rigorous selection criteria that included evidence of candidates' commitment to public service and the New South Africa; strong pre-departure training; tailored assistance with entrance exams and school selection; and close supervision and in-service training (e.g., attendance at American Economic Association meetings, networking among scholars in the United States) that encouraged continued awareness of economic issues in South Africa. Aurora Associates International, a Nathan subcontractor, provided excellent management of MESP scholars in the United States.

## Exhibit 1

### *Creating the Next Generation of Public Service Leaders*

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In 1998, SEG/MESP began funding 50 young South Africans obtaining postgraduate degrees in economics at U.S. graduate schools. Today, from the Department of Trade and Industry, to the Office of the Presidency and the National Treasury, MESP scholars are in leadership positions and are making a difference in the South African economy. For example, Mr. Francis Moloi, who graduated from Harvard with an LLM in international Trade Law, became Director of Multilateral Trade Relations for the Department of Trade and Industry—a key position as DTI seeks to increase market access for South African products worldwide—and then Ambassador to India. Dr. Yasmin Dada-Jones and Dr. Ashraf Kariem work in the Office of the Presidency. Keenly interested in health policy before she entered the program, Dr. Dada-Jones earned a doctorate in health economics from the University of Maryland. Mr. Basu Sangqu, with a master's degree in applied and policy economics from Vanderbilt University, is South Africa's Ambassador to the African Union, an international organization that promotes unity among African nations. In February 2003, Mr. Brian Biyela was named Deputy Director, Intergovernmental Budgeting for the Provincial Budgeting Chief Directorate at the National Treasury. Mr. Biyela interned at Nathan Associates while working on his master's degree in Development Economics at American University.

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MESP I alumnae have made done much to improve the quality of policy development, particularly at the National Treasury, the Reserve Bank, and the Department of Trade and Industry. They leverage their social capital, cross bureaucratic boundaries to solve problems, and mentor other young economists, demonstrating to the public sector “establishment” that a new generation of very capable economists is emerging from historically disadvantaged groups. Their example is also raising the stature of the economics profession as an excellent career choice for university students.

Finally, the project helped the scholars launch the Mandela Economics Scholars Alumni Association (MESAA) with the hope it would become the largest professional association of black economists in South Africa and foster debate on important economic issues. Though still in its infancy, the association plans to encourage research among its ranks, and to promote advanced economics training throughout the country. Speaking at the launch of MESAA, the Deputy Minister of Finance Mandisi Mpahlwa, who completed an advanced degree in economics through another program, said “This program serves as an example of the important role that social investment can play in enhancing human capital... The enormous talent that is present here tonight encourages me that we have put in place a strong foundation to ensure a prosperous future.”

## **Mandela Economics Scholars Program II**

The second phase of the Mandela Economics Scholars Program (MESP II) took a cost-effective approach to building on the achievements of MESP I by providing previously disadvantaged South Africans opportunities to earn master's degrees in economics and related fields at South African universities, while strengthening the capacity of these universities to provide graduate training in economics. MESP II worked with three of South Africa's top universities—Stellenbosch University, the University of Cape Town, and the University of KwaZulu Natal—to

establish or strengthen graduate specialties in fields of economics and to attract excellent students from disadvantaged backgrounds. New programs included environmental economics, health economics, trade and regulation, labor economics, and economics of education.

The implementation of MESP II turned out to be more difficult than expected because fewer students were interested in applying for the local bursaries than for overseas degree programs. This obstacle highlighted the need for local universities to do more to market the program and recruit students and to better support students in remedying deficiencies in their educational backgrounds.

Even so, the program supported 70 students in three years of induction (2002, 2003, and 2004). In addition to this direct support, all three universities reported that MESP II had positive spillover effects, boosting general enrollment and enhancing graduate programs. For example, one professor said that “while the SEGA students have benefited from studying at Natal, our department has also been enriched by their presence.”

Both MESP I and II afforded participants many opportunities to learn from one another outside the classroom, such as attendance at the annual American Economics Association meetings for US-based scholars, and the Trade and Industrial Policy/Development Policy Research Unit (TIPS/DPRU) annual forums for the MESP II students. The forum is a vehicle to help create and sustain a network for researchers, policymakers, and other stakeholders to discuss ongoing research and to discuss policy-relevant issues arising from research. As such, these activities allowed the students to strengthen their skills, network with colleagues, and gain experience in current economic issues and practical research applications. If sustained, the MESAA can support continued education and further transformation of the economics profession in South Africa, particularly among those from disadvantaged backgrounds. Nathan Associates strongly recommends continued donor sponsorship of opportunities for young South Africans, using MESAA as a resource for funding bursaries, research grants, networking, and dialogue on national issues.

## **Parliamentary Training in Economic Policy**

Before SEGA/MESP became involved in Parliamentary training, USAID became involved in 1999 through the Economic Literacy Training program for members of committees handling budgets and macroeconomic policy. Participants proved to be highly motivated to learn more about economics and finance. At the request of Parliament, USAID and Nathan Associates worked with Parliamentary committee members and three local partners—the Economic Policy Research Institute (EPRI), the University of South Africa (UNISA), and the Finance and Development Trade and Research Unit (FADTRU) at the University of the Western Cape (UWC)—to expand the program to include intensive short courses and long-term courses leading to certificates, diplomas, and honors degrees.

The project worked first with UNISA to provide assistance to Parliamentarians pursuing a Certificate in Economic Principles. Nathan then worked with UWC to develop a new type of undergraduate program for professionals who cannot attend regular classes. This program, which covers roughly first- and second-year economics, is now open to all applicants. Parliamentarians

and other students who do well in this program are eligible for UWC's honor's program in economics. Four participants from Parliament went on to a master's degree. In March 2004, 35 Parliamentarians received advanced diplomas in economic policy; the Minister of Finance, Trevor Manuel, delivered the keynote address at their graduation ceremony, and singled out the Parliamentarians for their success.

Additionally, the Association of Public Accounts Committees (APAC) was established to support Public Accounts Committees in the national and provincial legislatures, which are mandated to review the spending of government departments and public enterprises, especially by way of the Auditor General's regular reports. The committees consist of elected politicians with limited terms of office. APAC advises each committee on its responsibilities and functions, responsibilities of reporting organizations, and how to read and analyze financial statements. USAID, through SEGA/MESP, provided funding to enable APAC to publish *Effective Public Accounts Committees: A Best Practice Handbook for Public Accounts Committees in South Africa*. The EU sponsored a reprint for distribution to Parliament.

Complementing these formal education programs, USAID organized highly regarded short courses on special topics such as "sustainable economic strategies in a globalizing world" (in 2003). SEGA/MESP funded many of these courses, including one to introduce new Parliamentarians to economics following national elections held in 2004.

Many post-apartheid Parliamentarians entered these programs with backgrounds in freedom-struggle politics, rather than standard preparation for university coursework. The programs were therefore customized to emphasize policy and practical applications. The results have been very positive. All participants reported considerable improvement in their understanding of Parliamentary debates and budgets. In addition, senior government officials commented that committee meetings and Parliamentary debates became more productive as a result of USAID's training programs (see Exhibit 2).

In the program design, USAID envisioned that Parliament would not only embrace the training program, but eventually fund the program itself. As of the close of SEGA/MESP, Parliament had taken full responsibility for these activities.

## **Training and Capacity Building in National Directorates**

SEGA<sup>2</sup> delivered or contributed to customized short-term training programs for client government departments. High-level training was offered on topics such as

- Basic economics literacy,
- Public utility regulation,
- Public finance,
- Analysis and measurement of poverty and inequality,
- Environmental resource management,

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<sup>2</sup> This section refers to the project's SEGA component only.

## Exhibit 2

### *Senior Officials Comment on the Value of Parliamentary Training in Economic Policy*

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"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 take the course because he has seen the difference. The Chief Whip wants all members to take the course...We now understand jargon—I now understand 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...."

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- Macroeconometric modeling,
- Financial market reform,
- Performance budgeting and financial management,
- Municipal budgeting, and
- CGE modeling.

These courses were extremely important during the period of South Africa's transition into an open society and market-based economy. When SEGA began operations, few analysts in South Africa's public service were aware of evidence-based decision making methodology, and many lacked training in basic concepts such as tradeoffs due to scarcity, and price-based resource allocation mechanisms. Moreover, at a time when many public servants knew little of conditions outside South Africa, this training exposed them to much more information about international best practices.

Another high-impact contribution of the project was to support the establishment of the Southern African Tax Institute (SATI).<sup>3</sup> Housed at the University of Pretoria, but run with UNISA and the University of the Witwatersrand with input from major universities outside of South Africa, SATI provides high-quality training in public finance, tax policy, and tax administration for officials throughout the SADC region. The largest groups are from South Africa, Rwanda, and Sudan.

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<sup>3</sup> SATI also received support from Nathan's SADC/TIFI project, through USAID/RCSA, and other funding sources.

In developing short-term training courses, the SEGA project emphasized the importance of co-funding by government departments to encourage them to prioritize training needs. The proportion of government co-funding increased over the life of the project. For many activities, the departments contributed more than half of the funding.

## **GOVERNMENT DEPARTMENTS DEALING WITH ECONOMIC POLICY (IR 4.2)**

The main indicator established by USAID to track progress on IR 4.2 (strengthened government departments dealing with economic policy matters) was the “number of quality policy studies” produced for key departments. Over the life of the project, Nathan Associates delivered well over 300 policy studies, providing analytical support for evidence-based policy formulation and policy management in 14 government departments. The training discussed above was also critical in achieving sustainable outcomes for IR 4.2. In addition, the SEGA project implemented or co-funded numerous conferences and workshops that strengthened policy departments by fostering open discussion of research findings and dialogue on economic policy. These events contributed greatly to cementing the new culture of transparency and participation in the policy process.

To implement the research agenda, USAID and Nathan Associates worked closely with departments to identify analytical priorities. SEGA used South African researchers to strengthen local capacity for policy research and to forge links between economic policymakers and economic researchers. Whenever appropriate, Nathan teamed the South African researchers with international experts to upgrade local research capacity and inculcate international best practices.

The primary beneficiaries of SEGA support were the National Treasury, the Department of Trade and Industry, the Micro Finance Regulatory Council, the Department of Labor, the Department of Land Affairs, and the Department of Environmental Affairs and Tourism.

### **National Treasury**

The National Treasury was SEGA’s most important client. The project’s technical support deepened the Treasury’s capacity for rigorous policy analysis by engaging local and international experts in analytical studies and by fostering rich public debate on policy issues. SEGA also contributed to the consolidation of Treasury leadership in the economic policy process through targeted short-term training, both in-country and abroad. The impact of assistance was greatly enhanced by the cooperation and support of senior Treasury managers under the strong organizational leadership of Maria Ramos as Director-General and Trevor Manuel as Minister.

Through SEGA, USAID helped the Treasury institutionalize professional staff development and understand how good economic analysis drives economic policy. These developments have helped the Treasury attract and retain many of the nation’s best public sector economists—a sign of enduring success. In addition, by emphasizing the common language of economic analysis, SEGA improved technical communication and understanding between the Treasury, the Parliament, and other executive branch departments.

The Treasury's drive to use high-quality research as a basis for determining policy has been instrumental in putting the economy on track for long-term growth. The SEGA project, in turn, contributed to the Treasury's research agenda (in some instances, in collaboration with other departments). Research undertaken for the Treasury through SEGA included studies on

- The volatility of the Rand,
- Prospects for establishing a common monetary area in the SADC region with the Rand as regional currency,
- The international competitiveness of South African industries,
- Competition in the banking sector,
- Township residential mortgage markets,
- Pricing behavior in the agricultural sector,
- Options for introducing mining royalties in the new Minerals bill,
- The distributional incidence of government expenditure,
- The distributional incidence of government revenue,
- Causes of sharply increasing costs for disability grants,
- Benefits and costs of basic income grants, and
- The macroeconomic effects of HIV/AIDS.

The Reserve Bank of South Africa also collaborated on many of the studies involving monetary policy and financial markets.

Quite a few of SEGA's studies directly affected policy decisions. For example, the agricultural pricing study was undertaken when food price inflation was one of the most politically charged and hotly debated issues facing the government. The analysis helped to turn back a tide of support for agricultural price controls. The study on the macroeconomic effects of HIV/AIDS, combined with technical support to the Treasury to quantify the costs of a national anti-retroviral (ARV) treatment program, demonstrated to the Cabinet that the benefits of the ARV roll-out would exceed the costs, even in narrow economic terms; this analysis helped overcome resistance in some quarters to introduction of the publicly funded treatment program. Likewise, the study on Rand volatility changed the focus of monetary reform from defending the Rand's external value to targeting domestic inflation, as well as seeking ways to control volatility and not defend a specific forex rate.

Two other influential studies emerged from a credit law review that identified research topics on financial market development: banking sector competition and township residential mortgage markets. The Reserve Bank and National Treasury appointed a joint task team for the banking sector study, and SEGA provided the team with research input. The resulting report offered recommendations for enhancing competition in financial markets. Even though the Ministry did not release the report to the public until September 2005, implementation of some recommendations was already being pursued. To investigate the market for township residential mortgages, Nathan Associates supported Shisaka Consulting in carrying out multidonor-funded research of residential property markets, especially secondary markets. The lack of low-cost mechanisms for securing mortgage credit makes home financing very costly, particularly for low-income individuals. Overall, Shisaka's research validated its hypothesis that "the secondary

property market in Black townships in South Africa is ineffective and inefficient...due to the legal, institutional and procedural constraints ... rather than the financial factors regularly identified by policy makers. Not only does this constrain the economic growth potential of these townships, it also undermines the asset creation potential of the state's subsidized housing scheme.”

One of SEGA's most important and sustainable contributions was developing the capacity of Treasury staff to recognize and articulate research needs, engage high-quality research services, and then guide, absorb, and synthesize the research results as a basis for action. SEGA also provided direct technical assistance to the Treasury, including assistance for development and quarterly upgrading of a sophisticated macroeconomic forecasting model. This assistance, provided primarily by Professor Ben Smit and the Bureau of Economic Research at Stellenbosch University, included a workshop involving modeling experts from the Treasury, academia, and other government departments, as well as the IMF. The purpose was to enhance the government's capacity to manage and upgrade the forecasting model, and to apply modern econometric methods such as co-integration techniques.

With SEGA's support, the Treasury also extended its analytical capabilities by drawing on structural CGE modeling techniques to forecast the distributional impact of government policies. This analysis built on earlier work involving estimation of the economic impact of HIV/AIDS. In addition, SEGA supported the development of an intergovernmental resource allocation framework to determine budget transfers from the national to provincial governments, as well as work on provincial borrowing authority, and a modeling course for South Africans and modelers elsewhere in the region at UCT.

Work on the tax system was well covered by the U.S. Treasury, but SEGA sponsored a weeklong tax policy symposium in July 1999. The event brought together government officials, international experts, and tax specialists from donor countries to examine all aspects of the Katz Commission's report on tax policy and the Owens report on tax administration, and to develop a clear course of action for tax reform in South Africa. Experts included Dr. Cnossen of the University of Erasmus, Dr. Slemrod of the University of Michigan, and Dr. Aaron of the Brookings Institution. Attendees included the Director General of the Ministry of Finance, representatives from the South African Revenue Service and Department of Treasury, and representatives of the U.S. Treasury, DFID, and the OECD. The Deputy Minister of Finance hosted the first working dinner and the Minister of Finance presided over the closing. The result of this workshop was a five-year program for tax reform. At this point, most of the items in the program have been implemented.

## **Department of Trade and Industry**

The Department of Trade and Industry (DTI) was a second major beneficiary of SEGA research, training, and technical assistance. As it did for the National Treasury, the project engaged in a range of policy issues, especially trade and trade-related policies, public-private partnerships, and microfinance regulation.

## **Trade Policy**

SEGA enhanced the government's understanding of the prospects for development through trade, and its capacity to formulate trade policy and negotiate trade agreements. Project contributions included work on exports and the WTO; tariff reductions; the economic impact of AGOA; and the impact of trade on relative wage inequality.

The project supported the Trade and Industrial Policy Strategies (TIPS) department in developing a standardized industry database, and integrating the data into economy-wide policy modeling. In partnership with DFID, SEGA co-funded the Development through Trade Program undertaken by the South African Institute for International Affairs (SAIIA) in 2002. This program produced timely research related to trade policy, and engaged a broad range of stakeholders in discussions about related issues. Among other things, the SAIIA program led to the publication of numerous editorials in the press and two major reports: *Africa after Cancun: Trade Negotiations in Uncertain Times*, by Peter Draper; and *Africa, Special and Differential Treatment, and the Doha Development Agenda*, by Peter Draper and Nkululeko Kumalo. The first paper was presented at a SAIIA workshop that involved private sector stakeholders as well as academics and government officials. Though USAID's work with DTI on trade was halted when the United States and SACU initiated intensive discussions on a new Free Trade Agreement, the SAIIA program's effect on debate in South Africa was described in a letter by Tshediso Matona, DTI's Deputy Director-General for International Trade and Economic Development: "I have no doubt that this is good work that is helping keep the trade policy discourse in the public domain in this country and outside, as a subject that is on the global agenda with all its implications for developing countries like ourselves and our region."

Another high-profile initiative focused on the economic impact of the African Growth and Opportunity Act (AGOA), which eliminated duties in the United States on a wide range of imports from Africa. DTI staff, including Chief Economist Dr. David Kaplan, worked in close cooperation with SEGA staff and clothing industry representatives to develop a project to assess South Africa's potential under AGOA and to advise on policy requirements for realizing that potential. Conningarth Economists, a SEGA subcontractor, produced research on the economic impact of AGOA using an input-output model. This report was widely cited in the press and by the U.S. Ambassador to South Africa, and discussed by President Mbeki in Parliament.

Another influential report by South African economist Peter Minor, U.S. clothing market expert Julia Hughes, and Myriam Velia of the University of Natal (whose involvement was funded by TIPS), examined AGOA-based export opportunities for home-grown and international manufacturers of clothing and textiles. The report led to recommendations on access to the U.S. market for regional fibers, yarns, and fabrics, and ways to raise industry efficiency and remove distortions. The research team recommended greater cooperation among textile firms and the garment industry. DTI, including Minister Alec Erwin, representatives of the clothing industry in Cape Town, Johannesburg and Durban, and USAID and discussed the report. Dr. Kaplan, DTI's Chief Economist, praised the report, saying that he was sure that it would "be a valuable input into our further deliberations." Although the industry responded to some recommendations, clothing exports from South Africa to the United States did not grow as rapidly as those from other AGOA

countries, such as Lesotho and Mauritius, because South Africa's textile industry was not willing to invest in and expand their side of the industry.

The Uruguay Round's international agreement on Trade Related Aspects of Intellectual Property (TRIPS) requires countries to meet standards for protecting intellectual property. In 2001, the Washington-based International Intellectual Property Institute (IIPI) received SEGA support to confer with policymakers and staff from DTI and other departments, as well as South African researchers and business leaders, in establishing the Southern African Research and Innovation Management Association (SARIMA). SARIMA was launched in 2002 to build research and innovation capacity in the region. Nathan Associates then worked with SARIMA and IIPI to design further support for IP and innovation issues.

Other SEGA support relating to trade policy included training on trade in services, and high-level advising on WTO service negotiations, featuring well known former officials of the U.S. Trade Representative office (including Richard Self, from Nathan Associates).

### ***Public-Private Partnerships***

Although most USAID activity promoting public-private partnerships was delivered through another contract vehicle, SEGA was involved early on in introducing this modern approach to project development in South Africa. In addition, SEGA was involved in developing and implementing a path-breaking partnership drawing on South African Black Economic Empowerment (BEE) for financing, construction, and management of a new headquarters building for DTI itself. Nathan consultant Peter Aborn was project champion for this innovative partnership. He introduced industry-standard levels of performance to all tasks, resulting in a model for future partnerships. Indeed, his direct involvement stands as a metaphor for the broader achievements of Nathan Associates in managing SEGA/MESP. Construction of DTI's new headquarters would have proceeded without Nathan support, but would have taken longer, been much more costly, been less successful in promoting BEE, taken less care to maximize opportunities for local community development, and possibly resulted in lower quality work. Equally important, SEGA helped to transfer skills that will help DTI negotiate better contracts and manage better construction projects.

### ***Micro Finance Regulatory Council***

By 1999, more than 1,200 microfinancing institutions were serving nearly 4 million people in South Africa, and complaints about abusive practices were rampant. That same year, DTI established the Micro Finance Regulatory Council (MFRC) to cope with rapid, unregulated growth in microfinancing; control abuses; strengthen and enforce the regulatory framework; and improve consumer information—all while supporting industry growth. The creation of the MFRC provoked great controversy and legal challenges. (In September 2005, the Supreme Court of Appeals affirmed the authority of the MFRC to issue rules and regulations for the industry.)

Despite such obstacles, the MFRC—with a great deal of support from SEGA—has been highly successful. SEGA consultants identified constraints on responsible growth in the low-end credit market, reviewed consumer credit laws, and helped to formulate legislative changes. SEGA produced a report for DTI's Director General on weaknesses in the consumer credit market,

recommending new legislation and changes in the enforcement framework. In mid-2003, amendments to the Usury Act were passed, giving MFRC the mandate to investigate unregistered lenders. Investigations into use or misuse of the National Loans Register increased enforcement and improved registered lenders' compliance in what had been an "anything goes" market.

The success of SEGA's involvement with the MFRC is largely attributable to the excellent work by local economist Penny Hawkins, Managing Director of FEASibility, in close collaboration with the Council's CEO, Gabriel Davel.

## **Department of Labor**

SEGA's collaboration with the South African Department of Labor (DOL) focused on labor regulations, employment equity, and analysis of sector employment. SEGA also helped the DOL move from policy based on impressions to policy based on facts. For example, SEGA/MESP supported research on how various labor laws, including the minimum wage, affected job creation. This research contributed to the government's decision to exempt small and medium enterprises from certain aspects of recent labor legislation. SEGA-supported work on labor issues went all the way to Cabinet and the Office of the President in the form of a strategy for job creation. This work contributed to a shift toward microeconomic policies that support job creation while adhering to prudent macroeconomic reforms that have been the hallmark of policy management since the regime change of 1994.

SEGA supported the completion of an employment equity registry of all companies, and initial analysis of results to inform field audits and implementation reviews. This activity established the database and mechanisms for the government to monitor company compliance with equity legislation. Through its grants program, the project sponsored the collaboration of the DOL and the Disabled People of South Africa organization in finalizing guidelines for employment of the disabled. The Minister of Labor released the resulting publication, *Technical Assistance Guidelines on the Employment of Persons with Disabilities*, which helps employers comply with the Employment Equity Act.

SEGA also provided support for 25 labor market studies for the National Labor and Economic Development Institute (NALEDI). This work was conducted as part of a Sector Jobs Summit (SJS), initiated after a 1998 Presidential Jobs Summit during which government, business, and labor agreed to hold sector summits to combat unemployment. The purpose of the labor market studies was to help labor unions develop proposals for enhancing employment and productivity, while building their analytical capacity to intervene constructively in policy formulation related to sector development.

## **Department of Land Affairs**

SEGA organized and funded research on land tenure systems for the Department of Land Affairs (DLA). This work produced concrete recommendations for reforming traditional tenure systems, addressing such issues as the lack of tenure security of farm workers and farm tenants and the need for a formal land administration plan that recognizes the pivotal role of traditional authorities.

As part of the effort, SEGA helped the DLA coordinate and host a landmark National Land Tenure Conference in November 2001 in Durban. This was the department's first major conference. It was attended by approximately 1,000 delegates representing community organizations; stakeholders; policymakers; local, regional, and international experts (e.g., from the Land Tenure Center at the University of Wisconsin); donors; the Department's Minister and Deputy Minister; and the USAID Mission Director. The resulting dialogue was highly constructive, as participants sought to identify common ground on sensitive reform issues. The conference led to new legislation to improve tenure security and established tradable use rights and the right to rent traditional land. USAID Director Dirk W. Dijkerman commented on the value of the conference:

The Minister was right to ensure that in this conference we focus on what is best for the people involved and on how any changes in land tenure on traditional lands can benefit the people in a way that is sustainable. The emphasis of the Ministry is rightly on what can be done to alleviate rural poverty, now and into the future. This poverty must be reduced, jobs and income sources in rural areas must be found if South Africa is to meet its laudable objectives of improving the quality of life of all South Africans.

SEGA also worked closely with the DLA and the Land Tenure Center to produce the conference report. Although much delayed—it was not published until 2004—the report was timely; DLA was implementing the recently passed Communal Land Rights Bill, which seeks to develop an equitable and efficient land tenure system in the former homelands and communally held areas managed by traditional authorities. SEGA also funded an evictions study that was the first survey of how important were the evictions of farm workers and farm dwellers from white commercial farms. This report also highlighted legislative changes needed to deal with the problem that at the time of this report are before Parliament.

Another closely related SEGA activity was work done with the LIMA Rural Foundation on using land rental to increase economic opportunities in KwaZulu-Natal (including for widows, the old and children), where many of the rural poor want to farm for subsistence but have no access to land, while the holdings of absentee landowners stand idle. Market institutions that match agricultural land supply to demand do not exist. Solving the situation is no easy matter because there is no tradition of renting land in rural South Africa, and land rights do not support binding contracts. LIMA's concern with the problem has influenced government policy.

The NGO has also attempted to facilitate a rental market for arable land in communal areas. Progress has been slow, but significant.

## **Department of Environmental Affairs and Tourism**

SEGA introduced analysis of environmental economics to policymaking related to strategies for natural resource rehabilitation in rural areas and to the initiative to sustain the environment in Limpopo Province.

Resource/environmental economics became significant in the project portfolio. Three activities were financed under the USAID-funded ATRIP program. The first investigated potential demand for, and supply of, environmentally sound electricity sources as alternatives to coal-based Eskom

power. The project was welcomed by the National Electricity Regulator (NER), and achieved success in having Eskom promise to participate in future phases that it may enter. The second and third activities examined trade opportunities for South Africa that might result from international concern with climate change and South Africa's products of biodiversity.

SEGA also provided technical support for the "Working for Water" campaign of the National Department of Water Affairs and Forestry. This campaign employs 18,000 people, many of them in very poor rural areas, and could have a very significant economic impact. SEGA consultants developed a model for assessing the economic impacts of individual proposed activities.

One major activity financed by SEGA took on a life of its own after project support ended: the African Rural Initiatives to Sustain the Environment (ARISE) program. ARISE was launched in Limpopo Province in 2005 through a partnership between the provincial government, Kruger National Park and Working for Water, with funding from a variety of sources. ARISE addressed an environmental problem facing South Africa. South Africa has an estimated two million hectares of degraded land. Research funded through SEGA indicated that rehabilitation would produce various carbon and non-carbon services worth up to R10,000 per hectare. In this potential 'market' of R20 billion is ample scope for protecting the environment while benefiting very poor people in rural areas through labor-intensive rehabilitation of natural resources.

Finally, SEGA provided financial support to the Forum on Economics and Environment, which raised awareness of climate change issues and enhanced national capacity to respond to them. One symposium organized by the Forum launched a research program, some of it grants-based, on economics and climate change. Another symposium led to consultants in the climate change project being requested to brief DEAT's Deputy Director-General—an indication of the Forum's ability to influence environmental policy.

## **Other Support to Strengthen Economic Policies**

In SEGA's early stages, the Office of the President directed ministries to oversee the project and help set priorities for USAID intervention through a Policy and Operations Committee (POC). Many SEGA research studies later reached the Office of the President through these ministries. SEGA also directly supported the Office of the President by providing evidence-based analysis on the state of the economy as background for the government's pre-election economic manifesto, *Towards a Ten-Year Review*, published in 2003. The research included statistical analysis of National Enterprise Survey results on issues such as foreign direct investment, investment in the knowledge economy, and labor-intensive manufacturing.

For the Department of Social Development, the project produced the KwaZulu-Natal Income Dynamics Study (KIDS), a longitudinal survey of economic and social data on households and communities in the province. After much negotiation with the Department of Social Development and the National Treasury, initial research, including research on the impact of HIV/AIDS, was presented at a KIDS Data Release and Results Workshop. The success of the KIDS work has led the government to want a national survey—NIDS—to allow it to understand in much greater depth what is happening in the country.

SEGA also provided support to the Department of Public Enterprises through two important studies. The first, *Employment Impacts of Restructuring State Owned Enterprises*, was led by Haroon Borat of the Development Policy Research Unit (DPRU) at the University of Cape Town. It developed a policy framework for accelerated restructuring of state-owned enterprises, taking into account the advantages and disadvantages of privatization, and presented guidelines and a protocol for corporate government principles. The second study, *Pre-Feasibility for the Restructuring of Ports*, was led by Paul Kent of Nathan Associates. It addressed the strategy for private sector participation in infrastructure projects and generated a scope of work for a large-scale technical assistance program for port reform and privatization.

Other government entities benefiting from SEGA research and training included the Department of Health, the Department of Provincial and Local Governments, the Department of Science and Technology, and Statistics South Africa. Departments that received training are listed in the appendix.

### **ECONOMIC THINK TANKS (IR 4.3)**

One objective of USAID's economic policy activity in South Africa, and of SEGA/MESP in particular, was to professionalize policy research, institutionalizing the role of economic think tanks in policy formulation and thereby enhancing the quality of evidence-based analysis available to those responsible for managing economic policy.

Dozens of research organizations were early beneficiaries of grants administered by the Joint Center for Political and Economic Affairs, a SEGA subcontractor. Some beneficiaries, such as the Bureau for Economic Research (BER) at Stellenbosch University, were already preeminent research centers. SEGA continued to work closely with BER on research for the National Treasury, including macroeconomic modeling and modeling of the macroeconomic effects of HIV/AIDS. Other beneficiaries improved the rigor and quality of their research, and heightened their role in providing policy analysis to the government. For example, the Development Policy Research Unit (DPRU) at the University of Cape Town (UCT) first received SEGA grants through the Joint Center; then, through follow-on work directly with Nathan Associates, it emerged as a national leader in research on labor markets and poverty. Other think tanks that received substantial assistance from SEGA/MESP included the Africa Institute for Policy Analysis and Economic Integration (AIPA), the Economic Policy Research Institute, and the TIPS research unit of DTI. The appendix lists organizations that benefited directly from SEGA support.

The shift to from research grants to research contracts was driven by the findings of a USAID Bridging Design Team in 2002. The purpose was to strengthen "customer service" in research organizations so that analytical work would meet the needs of policymakers in a timely manner.

In supporting these activities, Nathan Associates usually brokered and often participated directly in establishing professional relationships, mobilizing teams that matched research tasks to individuals with appropriate skills and competitive advantages. This division of labor streamlined the analytical work and delivered results infused with local relevance and validity, while

achieving international standards for analytical quality. Not all research teams passed the quality test, but this is to be expected in a program building capacity for policy analysis. To achieve USAID's objective, Nathan Associates started by cultivating and testing a wide variety of research organizations. Those who demonstrated or developed an ability to produce good results were then engaged in further collaborations.

### ***Stimulating National Debate on HIV/AIDS Policy through Economic Research***

The most important example of SEGA's success in building research capacity to inform national policy—and possibly the most important legacy of the project—was our seminal contribution to funding and managing research on the economic impact of HIV/AIDS.<sup>4</sup> Evidence produced through this research program revealed the impact of HIV/AIDS on specific sectors, on households, on communities, and on the economy as a whole. The research established an analytical foundation for informing the government's policy decisions. In addition, a series of workshops, partially funded by SEGA, proved to be powerful vehicles for disseminating research and sparking vigorous debate on an issue that the national government often sought to neglect or marginalize.

Recent studies focused on the prevalence of HIV/AIDS among healthcare workers, the effects of the disease on income in rural and urban households, and an evaluation of the cost-effectiveness of types of home and community-based care. SEGA research also provided the National Treasury and the Cabinet with sophisticated forecasts of the macroeconomic impact of HIV/AIDS. That research helped convince the government to triple the budget for dealing with HIV/AIDS and to approve the national anti-retroviral (ARV) treatment program. SEGA/MESP funded the development of critical data resources, as well as economic modeling analysis by Professor Ben Smit from the University of Stellenbosch. That analysis showed that the long-term financial benefit of the ARV treatment program would exceed the costs of expanded rollout.

SEGA-funded HIV/AIDS studies used local universities and research organizations to establish capacity for studying the economics of HIV/AIDS. Previously, local economists had little or no experience in framing the economic issues, generating pertinent survey data, or defining analytical approaches for studying the impact of the disease. And the government was very much in denial about the scale and scope of the pandemic—in part because of the absence of solid data analysis. Certainly, public and private decision makers would have come around eventually, but delay in dealing with the crisis was costing lives and squandering opportunities to counter trends in the pandemic.

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<sup>4</sup> The studies were initially funded by USAID (through SEGA) and AUSAID and administered by the Joint Center, as subcontractor to Nathan. DFID and UNDP joined with USAID to fund later rounds of research. After the Joint Center shut down in South Africa, administration of the multidonor research program was transferred to the Joint Economics Aids and Poverty Programme (JEAPP), with SEGA providing funds for some studies. Many of the studies have been published in special issues of the *South African Journal of Economics* in December 2002 and December 2005.

The HIV/AIDS research initiated through SEGA/MESP provides a lesson in supply-side driven activity that works. The first round of research was an exercise in capacity-building rather than hard research, but research quality improved quickly. Some primary data collected by household surveys was the best in the country for exploring how households cope with the pandemic. Researchers involved in the project also became involved in international debates on HIV/AIDS studies. Particularly influential were household studies led by Frikkie Boysen of the Center for Health Systems Research and Development at the University of Free State.

The project was also a model of donor cooperation, with funding provided jointly by USAID, AusAID, DFID, and the UNDP. For the third round of studies, completed in 2005, key government departments helped set terms of reference and participated in research activities. As the activity built capacity for economic research, emphasis shifted to coming to terms with research results. SEGA/MESP-sponsored research on the cost of anti-retrovirals and the macroeconomic impact of a treatment plan had major implications for the government's planning (despite a government-imposed embargo on releasing related studies). One of the most innovative studies, by the Wits Health Consortium (WHC) and the Center for International Health and Development at Boston University, introduced the use of blood tests and CD4 counts in place of saliva swipes to measure HIV/AIDS prevalence among healthcare workers in two large Johannesburg hospitals. SEGA's work on HIV/AIDS was also published in the *SA Journal of Economics*, and changed attitudes in the economics profession nationally and internationally.

## **CENTERS OF ECONOMICS TRAINING (IR 4.4)**

At the start of SEGA/MESP, discussions with the government (through the Policy and Operations Committee) led USAID and Nathan Associates to focus IR 4.4 activities on helping the economics department at one historically disadvantaged university (HDU) become a center of excellence in teaching and research. The Committee of Vice-Chancellors of Historically Disadvantaged Universities selected the University of the Western Cape (UWC), a good choice because of UWC's reputation for having a strong economics faculty compared to other HDUs. When the SEGA team began to develop this program, however, it became evident that much of that reputed strength had dissipated when many teachers left for other jobs after 1994. By 1998, the department had become understaffed, underfunded, and not well motivated to do much more than teach basic economics to large undergraduate classes.

In this context, Nathan Associates began working with the department head to build capacity by establishing, equipping, and supporting a new research center, the Finance and Development Training and Research Unit (FADTRU). FADTRU quickly established a management committee and a work plan, approved the recruitment of an international professorship, and developed the first in a series of very successful workshops for local government agencies. By its fourth year of operation, FADTRU had improved the quality of its teaching facilities, increased enrollment in economics, broadened community outreach workshops in basic economics (including lectures for Parliamentarians), and introduced a summer school program.

The most dramatic evidence of FADTRU's contribution to the economics program is that enrollment in economics increased from about 404 in 1998 to the capacity ceiling of about 1,250 by 2004. In addition, the unit's economic literacy workshops moved from simple programs

serving local organizations to the basis for training Parliamentarians. This training led to a new undergraduate program in applied economics, and later to the enrollment of highly motivated MPs in UWC's honor's degree program. In addition, FADTRU sought and obtained financing from the Carnegie Foundation to create a new graduate program in international trade and investment. The first intake in July 2003 included students from nine African countries, out of 15 scholars receiving bursaries from Carnegie. By 2003, FADTRU reached the point of financial sustainability, and financial administration was transferred from Nathan Associates to the UWC.

Neither FADTRU nor the economics department at UWC rate as true "centers of excellence" when compared to major universities in South Africa and abroad. Nonetheless, improvements in the teaching and research programs have been impressive. UWC can now better train historically disadvantaged students who prefer to receive a solid course in economics at an HDU.

## 3. Ten Lessons Learned

This section summarizes ten lessons learned over the eight years of SEGA/MESP, including lessons about emerging challenges to project implementation as well as the lessons of project success.

**1. Flexibility in Training Response Pays Off.** Right from the start of the project the question of whether the research and training agenda should focus on a few policy issues and ministries or respond to a broad variety of technical assistance requirements was contentious. Indeed, USAID's *Bridging Design Report* in 2002 recommended further focusing activities under SO4 in response to looming funding constraints and to improve the Mission's ability to "tell its story." Nathan Associates firmly believes, however, that flexibility in responding to expressed needs of client government departments was a project strength, at least in the first years of operation when both sides were testing possibilities for collaboration. This approach served the project and the Mission very well in building effective networks in leading government agencies, establishing a "can-do" image for USAID technical assistance in economic policy, and experimenting with approaches for linking the research community with policy authorities. In effect, the SEGA agenda invested in a portfolio of technical support activities, and a surprisingly large number of these investments (as discussed in Section 2) paid off by tangibly influencing important policy decisions and strengthening capacity for economic policy analysis in leading ministries. In later years, the portfolio narrowed as weaker interventions were winnowed out appropriately.

**2. Demand-driven Policy Research Builds Ownership.** The emphasis on demand-driven, client-focused activities proved extremely successful, particularly when government representatives strongly advocated the use of solid economic research. These activities included our work with (1) the National Treasury on macroeconomic and international policy issues, financial regulation, and volatility and competitiveness; (2) the MFRC on establishing regulations to allow the micro-finance industry to thrive without abusive practices; (3) the Department of Labor on employment equity and labor regulation; and (4) the Department of Trade and Industry on international trade agreements and public-private partnerships. The success of these activities stemmed from the government partner working in harmony with Nathan Associates' staff, short-term consultants, and USAID program managers, to achieve the government's own objectives. As always, the exception proves the rule. The case in point is the highly successful research program on the economic impact of HIV/AIDS. As discussed, pioneering work supported by USAID through SEGA—and partially funded by other donor agencies—introduced economic analysis into the national dialogue on HIV/AIDS, transformed government policies, and created important research capabilities. Waiting for recalcitrant

policymakers to take the lead would not have been the best approach for an issue as urgent as HIV/AIDS in South Africa.

**3. Screen and Support Students to Ensure Their Success Overseas.** To build a critical mass of well trained economists from historically disadvantaged groups, MESP I offered scholars a “free pass” to graduate programs in the United States. This approach could have resulted in a high failure rate given the weak academic preparation of many prospective participants, or a high rate of exodus given prevailing wage differentials and the potential difficulty of penalizing scholars who might not return to South Africa to work in the public sector. We carefully screened scholars, however, selecting those who had a drive to succeed and a commitment to public service. We also devised an effective system for managing and supporting scholars when they were living in the United States, creating opportunities for them to build relationships with colleagues, and helping them find jobs when they returned to South Africa. The result: nearly all scholars completed their programs and returned home to public sector jobs.

**4. Stimulate Interest in Economics and Cope with Underprepared Students for Local Success.** MESP II shifted to providing local bursaries for master’s degree programs at local universities, rather than full scholarships to study in the United States. With this shift, the program encountered unexpected problems due to a lack of demand. This highlighted the need to stimulate interest among historically disadvantaged undergraduates in economics. In addition, local universities were not as able as U.S. institutions to deal with the special needs of underprepared matriculants. This problem necessitated adjustments to provide better academic support to new students. Apart from MESP interventions, local universities need to pay more attention to marketing to and recruiting black students, and to offering remedial work or tutoring to students with weaker academic backgrounds.

**5. Goal of Excellence Proves Elusive in Certain Circumstances.** Initially established with SEGA support, the Finance and Development Training and Research Unit (FADTRU) at the University of Western Cape (UWC) has substantially improved the economics programs at UWC. Teaching facilities have improved, enrollment has increased, community outreach expanded, and a master’s degree program has been created. In addition, UWC has become a center of support in training Parliamentarians in applied economic policy analysis. Overall, progress has been considerable. Nonetheless, establishing a true center of excellence proved elusive, in absolute terms. One proximate reason is that the department management did not have strong ownership of the stated goal of excellence. Even if management had been more aggressive in pursuing that goal, fundamental obstacles—the presence (since 1994) of attractive jobs for highly qualified faculty, similar academic alternatives for top students, and serious budget constraints—existed. Establishing a center of excellence at UWC is either a goal for the long term or a misplaced priority, given the alternative of diversifying the faculty and students at traditional leading universities.

**6. Knowledge Management Requires Appropriate Monitoring and Evaluation Measures.** This report makes numerous claims about high-impact research and training based on statements by program clients or direct observation of how particular studies or activities influenced policy formulation and debate. The mechanism for evaluating impact, however, was very weak. This

weakness can be traced to the absence of SO indicators and narrowly defined IR indicators. Thus, the monitoring system focused not on *outcome* but *output*, such as the number of historically disadvantaged students completing advanced degrees and taking jobs as economists; government directorates strengthened; studies, conferences, and seminars; and full-time equivalent students in economics programs at HDUs. In addition, no provision existed for funds to be allocated for evaluation (other than the Mission's Bridging Design Report). To better determine the impact and cost-effectiveness of activities, more funding and expertise need to be devoted to applying scientific approaches to evaluation—otherwise the foundation for institutional knowledge management will be shaky. Clearly, this observation applies to USAID activities in many spheres.

### **7. Coordination with Other Projects and Other Donor Activities Needs Improvement.**

SEGA/MESP often supported economic growth activities that overlapped other projects in the USAID/Pretoria or USAID/RCSA portfolios. In addition, SEGA/MESP supplemented work by other U.S. government agencies. For example, SEGA/MESP funded work on public– private partnerships that dovetailed with a project run by another contractor, and provided training in tax policy that complemented assistance provided by experts from the U.S. Treasury. Finally, SEGA/MESP activities often complemented assistance provided by other donors. Coordination was sometimes excellent, as with HIV/AIDS research co-financing with DFID, AusAID, and UNDP. Too often, however, collaborations were *ad hoc*. There was clearly room for USAID to take a bigger role in coordinating such activities. For example, after May 2002, the Chiefs of Party running various USAID economic growth projects met only once formally—and only because the Bridging Design Team was in town to discuss the future of SO4 activities.

### **8. Peripheral Activities Have Good Results, But Dilute Long-term Project Impact.**

SEGA/MESP was designed and implemented with a great deal of flexibility to serve the changing needs of the Government of South Africa. Even so, the project was at times guided toward activities outside its core. In many cases, this guidance was motivated by the availability of particular sources of earmarked funding from Washington. While some of these programs had substantial benefits, they also distracted project managers from core goals. Examples include our work with the Department of Land Affairs, using earmarked funds provided by USAID for agriculture, and our work with the International Intellectual Property Institute and SARIMA.

Some of these activities probably diluted SEGA/MESP's general long-term impact. And again, when project management chose to pursue activities in areas not central to economic growth they achieved worthy results, but perhaps at the expense of overall project impact. For example, Nathan helped to sustain the Working for Water program, though the activity predated the project. The support helped to put environmental economics on the agenda in South Africa, but the elimination of USAID funds for the environment cancelled the successful SEGA program just when it was possible for SEGA to have a significant impact.

**9. Lack of Central Oversight Can Blur Project Focus.** The Policy Operations Committee (POC), including representatives of key government departments, was established early in the project to oversee activities and guide priorities. Over time, the role of the POC declined precipitously; May 2002, the committee was no longer meeting. Instead, individual government partners, with help from USAID, guided activities. The lack of a single entity to champion

SEGA, to prioritize on behalf of government, and to receive and disseminate research, may have contributed to a lack of focus. Yet sustaining a committee structure that encumbers the time of high-level government officials is inherently difficult, especially when department-specific supervision is a reasonable alternative.

**10. Embargoing Policy Research Reports May Undermine Their Value and Impact.** The National Treasury did not release a number of SEGA-funded studies to the public because the studies were considered politically sensitive. In some respects this was good news, because it meant that the project was providing support for critical policy issues. At the same time, the lack of transparency may have lessened the impact of the work. For example, the Bureau for Economic Research produced path-breaking modeling on the economic impact of HIV/AIDS for the Treasury in 2000. The resultant report was not released. Had it been released, it might have expedited action to mitigate the impact of the pandemic. This sort of difficulty arises in providing sensitive analysis to inform internal discussions at the formative stage of policy deliberation. Later in the project, a middle-ground solution was developed, in which the government department would embargo sensitive documents for a period of time, then allow their release. Nathan Associates would advise USAID to discuss this problem candidly with host government agencies, and seek to establish a mutually acceptable arrangement for publication and open debate of donor-sponsored research.

# Appendix. Program Beneficiaries

## MESP SCHOLARS

Last Name	First Name	Degree	U.S. University
ABRAHAMS	Carmen-Joy	MA	Brandies University, Waltham, MA
BAYAT	Ameina	MA	Williams College, Williamstown, MA
BAYAT	Fiona	MA	George Mason University, Fairfax, VA
BIYELA	Brian N.	MA	American University, Washington DC
BOPAPE	Lesiba E.	MA/PhD	Cornell University, Ithaca, NY & Michigan State University, East Lansing, MI
BROWN	Kenneth	MS	University of Illinois, Urbana, IL
DIKWENI	Nolundi	MA	Brandies University, Waltham, MA
DISENYANA	Gabriel	MA	Georgia State University, Atlanta, GA
DLAMINI	Daniel V.	MA/PhD	Purdue University, West Lafayette, IN West Virginia University, Morgantown, WV
FALATSA	Tsepho M.	MA	Colorado School of Mines, Golden, CO
FISHER	Lesley	MA	Georgia State University, Atlanta, GA
GOPANE	Thabo	MA	Georgia State University., Atlanta, GA
HLONGWANE	Roderick B.	MA	University of Oregon, Eugene, OR
KESHUPILWE	Matse	MA	Tufts University, Medford, MA
KESWELL	Malcolm	PhD	University of Massachusetts, Amherst, MA
KGOPONG	Solly	MA	Ohio State University, Columbus, OH
KHUMALO	Albert	MA	Colorado St. University, Fort Collins, CO
LANGA	Mduduzi	MA	Williams College, Williamstown, MA/ Tufts University, Medford, MA
LEMBETHE	Nokuthemba	MA	Howard University, Washington DC
MABAGOANE	Thabo	PhD	Syracuse University, Syracuse, NY
MAHLOBOGOANE	Plaatjie	MA	Howard University, Washington DC
MAJAJA	Irene	MA	Williams College, Williamstown, MA
MAKOFO	Veronica	MA	Georgia State University., Atlanta, GA
MASOTJA	Evelyn S.	MA	Howard University, Washington DC
MATHIBE	Mohau	MA	Vanderbilt University., Nashville, TN
MBELEKI	Thabo	MA	University of Massachusetts, Amherst, MA
MBIYO	Phumlele	MA	University of Maryland, College Park, MD

Last Name	First Name	Degree	U.S. University
MEYER	Lilian	MA	Colorado St. University, Fort Collins, CO
MOGOANE	Malele	MA	Georgia State University, Atlanta, GA
MOHAMED	Seeraj	PhD	University of Massachusetts, Amherst, MA
MOLEKE	Percy S.	MA	Georgia State University, Atlanta, GA
MOLOI	Sehlolo F.	LLM	Harvard University, Cambridge, MA
MOSOLA	Moeketsi	MA	University of Houston, Houston, TX
MOTSISI	Edwin T.	MA	University of Oregon, Eugene, OR
MUNYAMA	Victor	PhD	University of Oklahoma, Stillwater, OK Colorado St. University, Fort Collins, CO
NAIDOO	Julian	MA/PhD	University of Maryland/Baltimore, Maryland
NDABA	Phumla	MA	University of Massachusetts, Amherst, MA
NELUFULE	Alpheus	MA/PhD	Colorado St. University, Fort Collins, CO
NESENGENI	Nkhetheni	MA/PhD	University of Colorado, Boulder, CO & Colorado State University, Fort Collins, CO
PARKER	Kudayja	PhD	University of Florida, Gainesville, FL & University of Nebraska, Lincoln, NE
RANCHHOD	Vimal	MA	University of Michigan, Ann Arbor, MI
RANGATA	Moses	MA	Williams College, Williamstown, MA
SANGQU	Baso	MA	Vanderbilt University, Nashville, TN
SEBITSO	Nathaniel M.	MA	University of Colorado, Boulder, CO
SECHEL*	Shaheeda	none	Georgia State University., Atlanta, GA
SERITSANE	Matsi	MA	University of Connecticut, Storrs, CT
SIKWENI	Ndiadvha P.	MA	Colorado State University, Fort Collins, CO
SIKITHA	Khathutshelo	PhD	University of Rhode Island, Kingston, RI
VOKWANA	Lungisa L.	MA	Williams College, Williamstown, MA
VUMEDLINI	Vuyelwa	MA	Georgia State University, Atlanta, GA

## **GOVERNMENT DEPARTMENTS**

Department of Environmental Affairs and Tourism (DEAT)

Department of Health

Department of Land Affairs

Department of Public Enterprises

Department of Provincial and Local Governments,

Department of Science and Technology

Department of Statistics South Africa

Department of Social Development

Department of Trade and Industry (DTI)

Department of Water Affairs and Forestry

Micro Finance Regulatory Council (MFRC)

National Treasury

Office of the Presidency

National Parliament

## **THINK TANK PARTNERS**

African Institute for Policy Analysis (AIPA)

Bureau for Economic Research (BER) at Stellenbosch University

Center for Development Studies (University of the Free State)

Center for Health Systems Research and Development–University of Free State/Joint Center

CSIR- Environmentek Pretoria

Development Works

Ebony Consulting International

Economic Policy Research Institute

Energy and Development Research Center (EDRC)

Economic Policy Research Institute (EPRI)

Kayamandi Development Services

University of Venda

Development Policy Research Unit (DPRU) – University of Cape Town

Disabled People South Africa (DPSA)

International Institute for Energy Conservation (IIEC)

LIMA Rural Foundation (LIMA)

Mineral and Energy Policy Center (MEPC)

National Institute for Economic Policy (NIEP)

Trade and Industrial Policy Strategies (TIPS)

University of Pretoria

Wits Health Consortium (WHC), University of the Witwatersrand, Johannesburg,