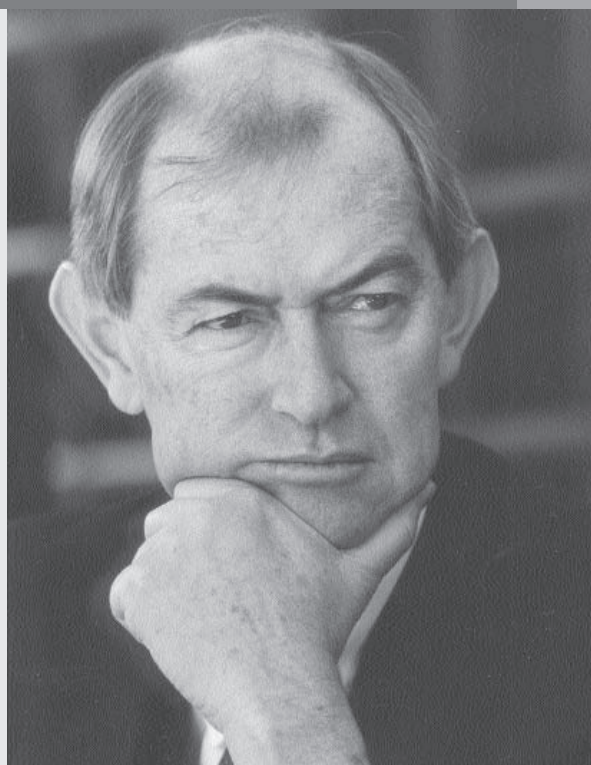


# The dti – anything more than a call centre?

Former dti minister Alec Erwin has moved on to handling the effective operation of government's state assets. But what legacy did he leave behind in the dti? The **Labour Bulletin** draws on a paper compiled by Naledi, which sought to understand the dti's industrial policy processes in order to inform the labour movement input into such processes, which are critical for the country's economic development.



Labour has critiqued current industrial strategy, asserting that there has been a failure to establish a 'developmental' industrial strategy. In an attempt to understand the way policies have been developed in the dti, this study was embarked upon last year. The following views on the dti emerged from interviews, desk research and an analysis of dti material.

## THE DTI'S LOCATION WITHIN THE NATIONAL POLICY CONTEXT

Interviews revealed the following in terms of the departments' location:

- Respondents do not see the dti as having much interaction in terms of policy, with other stakeholders in government. Similarly a process of learning from the

successes of other departments is not in place - for example the success of the Department of Environmental Affairs and Tourism's tourism sector policy would make interesting comparisons.

- The department does not appear to effectively co-ordinate trade policy across departments, in spite of being a member of the Economic and Investment cluster and the International Relations, Peace and Security cluster. The sub-committee dealing with trade and economic policy in this second cluster is called the Economic Development committee. However, the committee is not currently discussing trade policy or current trade issues, because the dti is unable to drive the discussions since it

lost skilled trade policy people over the last two years.

These personnel have not been replaced, and respondents point out that it takes years to train trade policy diplomats and officials, especially with the moves by the WTO into new trade arenas affecting a wide range of economic sectors, for example, services and procurement. The presidency and treasury are apparently very dissatisfied with dti's maintenance of its trade policy capacity.

- The dti has had less interaction over the last two to three years with external policy stakeholders than in previous years. External stakeholders are unable to discern what the department's current research agenda is. The department

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increasingly only talks to a select group of advisors. Various research relationships have been concluded on paper by dti over the last 18 months with research institutions, but this has not translated into actual projects. In contrast, a few respondents pointed out that the scope for policy intervention in the economy has however been reduced by government over the last five years, although this may have changed since 2003.

#### **DTI'S MANDATE**

In most cases, the respondents identified the dti's primary activities as economic development and 'growing the economy'. This broad definition could include trade and industrial development and consumer and corporate regulation while other aspects included: SMME support, economic restructuring, increasing value and competitiveness, sectoral performance, positioning the economy globally, issues of access and equity, the trading environment, addressing regional economic imbalances and increasing opportunities for income and employment.

The respondents presented a slightly different perspective when asked what the core focus of the dti's mandate should be. A key area noted was that the dti should focus on providing an environment for private initiative to grow, and encourage strong investment. It was felt that the dti is not aligned closely enough with business, in terms of directly and actively supporting the growth of industry and investment. A balance is needed between this and all the other responsibilities that the dti has taken on board. The dti is perceived as being unsure of its mandate, so it makes poor tradeoffs and sends bad signals to the private sector. The private sector as a result has become suspicious of the dti and its

efforts and does not see it as its champion or as a champion of growth in the country, but rather regards it as unhelpful.

Overall however, it was felt that the dti was seen as carrying too many agendas with no clear mandate and major challenges are therefore not being effectively tackled.

#### **WHAT IS THE DTI'S POLICY CYCLE?**

Where do policies originate? Although the department may produce policy initiatives internally, these usually relate to existing policies and are merely refinements on agreed policy. The majority of long-term policy thinking is undertaken at Cabinet level and then communicated to the department in the form of a Cabinet directive. Evidence of dti input into long term strategic thinking is not common. The department is not believed by respondents to have the capacity to engage in consistent long-term thinking. The moves over the last few years to centralise policy processes within the department are seen as dangerous.

The Cabinet directives set the political tone and political parameters within which the policy framework can be constructed. These directives do not generally contain much detail. Senior officials therefore focus on the political acceptability of relevant measures to Cabinet rather than on 'what should we be doing?' This means that many policies are not well researched and need to be changed later in the light of realities on the ground.

Priorities are often set by following the president's lead which at times means that some of the department's core priorities are ignored and left on the backburner. For example, the ongoing Company Law Review was on the backburner for years. Similarly investment issues, although publicised by the President's Investment Council, have not received the attention within the dti itself

that BEE has. As a result, the efforts of Trade and Investment South Africa (TISA) are seen as hampered by the absence of a more focused political thrust. Investment has been coming in and has been secured by TISA, but not at the levels hoped for.

Likewise the department's efforts around SMME development, although resulting in the creation of two institutions - Khula and Ntsika - have not been successful. As a result the institutions have been unable to deliver and a signal is sent to society and business that SMME development is not a key priority. This is further evidenced by the proposed solution to the problems of SMME delivery - namely the creation of another small business development institution, the Small Enterprise Development Agency (SEDA), launched December 2004 (a merger between the Ntsika Enterprise Promotion Agency and the National Manufacturing Advisory Centre).

A few respondents believed that the department does take the lead on policy issues, in the sense that some Cabinet decisions are based on the department's inputs, and that the Investment Council's input is useful, and taken into account by the department. It was noted though that the economic think tank unit in the presidency might be providing more initial support for Cabinet than the dti in terms of Cabinet decision-making around industrial policy. Collaboration between this unit and the dti is believed to be minimal.

The department is seen as constantly re-inventing government policy in its programmes, in that the capacity of the dti to forget is perceived to be greater/faster than its capacity to learn. Its policies are sometimes rehashed or merely reworked and then presented again to other departments. The department trains people then loses them due to alleged poor working conditions and a lack of stimulation and purpose.

A few policy platforms, such as BEE, are prioritised above all others. The inability to formulate policy is seen as evident in the failure to modernise SA's industrial policy. The capacity to refine key sectors and respond effectively is very poor. The inability of senior staff to identify key challenges in sectors and prioritise sectors strategically is seen as very problematic and of great concern.

Respondents do not feel that the department has produced good policy for a while, especially in core areas of focus. Policy is proposed, but often not followed through. The department continues to take on additional areas of responsibility, but is not able to absorb or effectively act on these.

### ROLE OF SENIOR OFFICIALS IN POLICY PROCESS

What is the role of various actors in the policy process, from the minister to consultants (with specific focus on the role of senior departmental officials such as DGs and DDGs). Do senior officials and the minister have any leeway in adjusting the parameters and implementation of Cabinet policy?

The term 'policy maker' is seen as misleading. The parameters are given to the DG and DDGs and they implement, rather than formulate policy within a specific framework. A respondent commented that senior staff do not appear to have sufficient industry experience (by senior staff referring mainly to deputy directors, directors, chief directors and sometimes DDGs). They have to rely on analysts and consultants to understand their sectors, and this leads to a misunderstanding or biased understanding of the sectors' needs and challenges. Not many of the current senior staff is believed to possess the ability to be innovative and proactive. Restructuring was meant to increase the power of the divisions to engage with issues but this has not happened. Chief directors used to have more input into the policy cycle in the past (prior to the restructuring of 2001).

Senior staff from deputy director upwards often appear to be demotivated,

and without a sense of purpose or vision. An awareness of their key role is lacking. A wider range of concrete initiatives and strategies are needed, rather than a reliance on rhetoric in engagement with stakeholders. Ex-consultants note that senior staff often do not understand key concepts and issues in reports, and appear generally unaccountable for their decisions or behaviour. However, some respondents felt that senior staff still do, to a limited degree, play the active role in initiating processes that historically they played under the previous DG (Zav Rustomjee). However, with the increase in focal areas that occurred under the previous minister (Alec Erwin was minister of Trade and Industry until the post-2004 election Cabinet reshuffle), it became harder for senior staff to focus effectively on all the areas under their control. This has led to large gaps in the prioritisation of issues while intellectual and financial resources are unevenly and narrowly concentrated in a few core sectors.

The minister is seen as having some discretion and leeway in setting the parameters of policy and significant leeway over implementation of policy, unless the Cabinet decisions are narrowly defined. The overarching government priorities, as identified by the ANC's National Executive Council, are seen as the guidelines. The senior officials were very sensitive to previous Minister Erwin's choices and desires, and did not often provide effective input.

Some respondents see the role of consultants in the dti as one of mainly fleshing out the central directives of senior managers. This is due to a lack of capacity in the divisions, but steps are being taken to improve the situation. Consultants are hired to play a role in policy formulation, but not at all levels of the organisation. Some respondents felt that consultants do play quite a big role in policy formulation, with officials overly reliant on them. Other respondents stated that consultants play a role throughout the policy cycle, and that consultants at many points therefore shape the department's views. A few respondents felt that this is not necessarily a bad thing.

The terms of reference are often vague, poorly written and not aligned with the dti's public strategies. This is not seen as a financial but a human resources problem.

In addition, the new wave of black staffers often do not have business or industry experience and yet the department has not implemented a rigorous training or induction programme to address this gap.

In an interesting account, the Integrated Manufacturing Strategy (IMS) was apparently largely amended with the assistance of consultants. The original IMS document was drawn up by the then chief economist, Professor Dave Kaplan, but was amended by the DG and the Economic Research and Policy Coordination Chief Directorate (ERPC), for example to focus more on the knowledge economy than the second economy. The chief economist was excluded from the revision process. In addition, since the departure of the chief economist no replacement has been hired. Respondents note that this marginalisation of the chief economist's office was due to conflict with the ERPC and the DG, and that the office has not been restaffed due to fears that it will 'show up' the ERPC and that a chief economist may 'disagree' with some of the current industrial policies. An interesting point is that Cabinet has apparently not formally approved the IMS and it has only been discussed by the parliamentary sub-committee on trade and industry. Interviewees therefore questioned the legitimacy of the dti's current industrial policy and strategy mandate. What is also interesting is that more than one respondent noted that various consultants are sometimes hired until one writes a report that suits the political imperatives rather than the facts on the ground, with regard to trade and sectoral issues.

### INSTITUTIONAL ISSUES

How has the institutional policy structure of the department changed with restructuring? Institutional factors play a big role in policy formulation processes and capacity retention and creation. Changing structures lead to changing formulation and implementation processes. The ongoing waves of

restructuring which the dti has undergone in the last four years and the attempted centralisation of policy and research capacity and functions have caused major disruption to efforts at policy coherence and institutional memory. This has been described as an almost Trotskyite permanent revolution, where constant reactive upheaval prevents clarity. The restructuring has generated processes and institutions, but not real delivery, yet the restructuring was meant to give effect to the policy positions of the department. In a sense the department has specialised in creating institutional structures and even institutions such as Khula, Ntsika, TISA and the Competition Commission, without making headway in tackling the major challenges facing the country. Yet the department has pointed to the creation of these institutions as some of its major delivery items.

In terms of policy and research processes one of the most significant restructuring decisions was the creation of the Executive Management Unit (EMU) in 2000. This unit was meant to serve as a central co-ordinating mechanism for the department, overseeing the research and policy outputs of the divisions and co-ordinating the department's external responsibilities. It comprised the DG's office, the parliamentary office, the departmental legal advisor, the economic cluster co-ordinator, the chief economist's office and a new unit, the External Relations and Policy Coordination Chief Directorate (ERPC), later to be renamed the Economic Research and Policy Coordination Unit (ERPC). This EMU was meant to fulfill a co-ordinating role, but quickly assumed the role of a 'department within a department' in that the relevant officials attempted to centralise all significant policy decision-making in this layer. The ERPC quickly expanded (as its name change noted above indicates), seeking to actively replace all policymaking and research management groups in the divisions. The method used to do this was to force policy unit personnel in the divisions to relocate to the ERPC with the DG's support. In addition, the sectoral directorates were removed from the industry

division (EIDD) and relocated within TISA, thus removing any policy scope for intervention in the real economy from the EIDD DDG. All remaining policy personnel in the divisions were then ordered to report to the head of the ERPC.

While on paper the efforts to centralise policy capacity and processes under one unit seemed innovative, in practice it was a disruptive and disorganised effort at restructuring. Some personnel complied with the DG's order, some refused and stalled, claiming that the arrangement would not work as the ERPC was not equipped to perform such leadership. Others felt that the restructuring was merely designed to increase the DG's control over the DDGs and their divisions, and served additionally the ambitions of a few other senior staff in the EMU to expand their influence. Autonomous research and policy efforts were effectively stalled or disrupted, and many research processes were cancelled.

However, not all divisions lost their research formulation and management capacity. Some personnel refused to move and threatened legal action, claiming unilateral changes to their conditions of employment. Divisional personnel did not start reporting to the ERPC, or only partially complied with the DG's instructions after the department's chief operating officer advised them that they had a choice in the matter. Most of the resistance came from the most senior and highly skilled personnel. They claimed that the ERPC was just spending money on ad hoc research without its efforts being integrated into anything else in the department. The net effect of this institutional change was to severely disrupt the capacity of the dti to produce a coherent research and policy platform, agenda or series of outputs.

Respondents feel that the overall picture is one of an institution without clear vision or direction, often functioning 'as a shell', with momentum alone providing progress, and where poor capacity and conceptual analysis are seen as normal. The institution needs inspirational, dynamic, visionary leadership. Too much has been attempted too fast, without developing internal think

tanks and policy formulation capacity, and yet the department is a key instrument of the state.

## MONITORING AND EVALUATION

What processes exist for monitoring and evaluating policy implementation and their impact on issues such as poverty and unemployment? Respondents stated that at present no formalised system for monitoring and evaluation exists although consultants were hired to draw up such a system. This may have been influenced by the fact that parliament asked the dti in 2003 how it monitors and measures the impact of its policies, and that business in Nedlac asked the same question in 2004.

## GENERAL OBSERVATIONS

A few respondents felt it was premature that Alec Erwin was moved as minister, when the free trade agenda is still being completed, i.e. agreements with the US, Mercusor, India, and possibly China are still underway. In addition, the dti is seen as relatively successful by big business and the media is largely uncritical of its efforts. Why has Erwin not been retained as minister to conclude further trade deals and push forward the SA government's WTO political agenda? The answer proposed by some respondents is that the presidency and ANC are asking why real delivery in terms of economic growth, employment and poverty reduction is not more obvious, given that this is the start of the third administration and second decade of delivery, and given that Erwin has been in place as minister for almost two terms now, from 1996-2004. The focus in government shifted from policy formulation to implementation, which has revealed shortcomings in the dti's outputs.

Secondly, the negative impact of rapid liberalisation (in excess of WTO prescriptions) in certain sectors and the lack of alternative plans to protect employment have undermined the image of the trade deals. Domestically, the dti has seemingly not met the challenges and demands of the real economy. SMME development has not been successful, co-operatives are only now being seriously addressed, the tax



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recapitalisation initiative was not successful, sectoral planning is erratic and unemployment and poverty have risen consistently since 1994. In short, the dti has seemingly not been concentrating on the pressing issues affecting the bulk of the population, its policies having impacted largely on the first economy.

In addition, the respondents note that the internal upheavals and stories of weak and autocratic leadership by senior staff have convinced senior government figures that the senior management of the department must be replaced. For as long as Erwin was the minister, he would have protected these officials from sanction, as he has repeatedly done over the last four years. Thus, by refusing to discipline or control his

senior officials, or intervene more directly in the management of the department, the minister may have become more vulnerable politically, contributing to his relocation.

#### **CONCLUSION**

Respondents felt overall that the dti is failing in its national responsibilities and that only sustained dynamic leadership can turn it into a productive, effective institution. The damage done to the institution by successive years of apparently uncoordinated restructuring will take years to undo and repair, and the process of rebuilding must commence rapidly. The institutions created during the restructuring have potential, but they have not been well managed or guided, and have not been incorporated into an

overarching, co-ordinated, innovative industrial policy framework. The inability of the dti to take the industrial policy debate forward has led to weak and largely ineffectual efforts to address the political and developmental challenges raised by the country's political and economic transition and its location within the highly competitive trade context of the 1990s and 2000s.

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*This is an edited version of the study, which constitutes a pilot project, compiled by Naledi. The study is based on desk research, analysis of dti literature and interviews with various individuals. The study did not seek to analyse industrial policy per se but rather the processes involved in the origination, formulation and implementation of policy.*