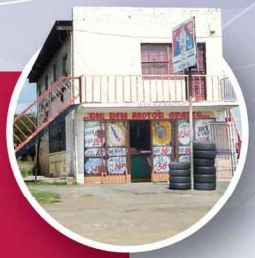
CDS RESEARCH REPORT

LED & SMME DEVELOPMENT



An evaluation of LED projects in the Free State: 1999-2002

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CDS
Centre for Development Support
Sentrum vir Ontwikkelingsteun

An evaluation of LED projects in the Free State:
1999-2002

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AN EVALUATION OF LED PROJECTS IN THE FREE STATE, 1999-2002

1. INTRODUCTION AND BACKGROUND

The Centre for Development Support at the University of the Free State was awarded the tender to conduct an evaluation of the Local Economic Development (LED) fund of the Department of Local Government and Housing (DLGH) of the Free State province. The evaluation took place using the seven objectives of the LED fund as context for assessment and thirteen performance indicators that were supplied by the National Department of Local Government and Housing (DLGH).

2. OBJECTIVES OF THE LED FUND

The seven objectives of the LED fund are to:

- Support municipalities in facilitating job creation and retention within local municipalities
- Support the creation of sustainable local economies through pro-actively addressing economic decline and dependency on single sectors, taking advantage of economic opportunities
- Ensure local economic growth that benefits the poor and disadvantaged
- Support rural development, particularly in areas that are affected by backward migration from urban areas
- Ensure that women participate at all levels of project planning as well as implementation and benefit directly and indirectly from projects
- Build institutions and delivery mechanisms that promote and enhance co-operative governance

3. OBJECTIVES OF THE EVALUATION

The evaluation team collected and analysed the following information as reflected in the Terms of Reference (ToR):

- The methods used in the LED Fund at a provincial level for approval, implementation and monitoring
- The technical capacity (personnel and material resources) that is used to implement the fund at provincial and municipal level
- Thirteen key performance indicators (KPIs)
    - End-beneficiary assessment
    - Project selection
    - Project analysis
    - SMME development
    - Locational analysis
    - Marketing analysis
    - Employment creation and training
    - Assets

- Gender
- Institutional analysis
- Service providers
- Financial management
- Progress analysis

4. APPROACH IN EVALUATION

It is important to declare the perspective that the evaluation team applied in this assessment. One could either pursue the evaluation from a social welfare/development point of view or from an economic development perspective. The evaluation team performed this evaluation predominantly from an economic development point of view since the economic objectives (i.e. job creation, local economic viability, etc.) dominated as objectives of the LED Fund. A main limitation of this evaluation exercise is that it only represents a snap shot view of the LED at a given phase in time. Such an evaluation will acquire or accrue more added value if it could be performed in a longitudinal way i.e. repeated over time.

5. METHOD OF EVALUATION

A visitation to each project site was done during March/April 2002. During these visits meetings were conducted with members of the Project Steering Committees and LED designated officials of the respective local municipalities. In many instances substantial numbers of end beneficiaries were also present. Before the visitation project documentation (monthly reports, business plans and correspondence on different aspects of the project were scrutinised). A meeting was also conducted with the Directorate Spatial Development of the Free State DPLG (who is responsible for the management of the LED fund at a provincial level) to facilitate their input into the LED evaluation (07/02/2002). The evaluation team also attended one provincial co-ordination meeting as observers where all LED projects gave feedback regarding their progress (11/03/2002). This largely informed the evaluation team regarding the development dynamics and challenges of LED projects in the Free State. In some instances consultants were also contacted to perform some reality checks and to complete gaps pertaining to information. A power point feedback of the preliminary evaluation report was presented to the Directorate Spatial Development of the provincial DLGH and PIM centre managers (19/04/02). This meeting provided the provincial officials with an opportunity to give input into the preliminary report and it also served as reality check of the findings.

6. PROJECT SELECTION

In most cases the rationale and criteria for project selection was vague. The couple of business plans that were available did not effectively link the project selection to problems in the community and investment opportunities. Where linkages were made it was usually done in terms of criteria relating

to poverty alleviation and only to a limited extent related to economic investment opportunities. Although the linkage with poverty alleviation is understandable against the background of the poverty levels in the province, a greater effort can be made to link the criteria for project selection within municipalities to economic criteria. The link between project selection criteria and the IDPs were also not always clear. The reason for this is probably related to the degree of flux that accompanied LDOs and IDPs in the Free State. It is hoped that these linkages will be clearer in future as IDPs will be in place shortly. It is also recommended that specific evidence of the link between a project and the IDP of a municipality should be motivated in far greater detail than the case has been so far.

7. LOCATIONAL ANALYSIS

The location of LED projects can be assessed from two perspectives, namely a provincial and a local perspective. This section will start with a provincial assessment (see Figure 1). The following comments need to be made in this regard:

- The Northern Free State district municipality has received no LED projects between 1999 – 2001. The other four district municipalities all had three or more projects.
- In the Xhariep district municipality three of the four projects were allocated to the Kopanong local municipality (Gariepdam, Phillipolis and Jagersfontein).
- In the Lejweleputswa district municipality three of the five projects were allocated to Matjhabeng local municipality.
- The Qwaqwa integrated rural development area has received one project.

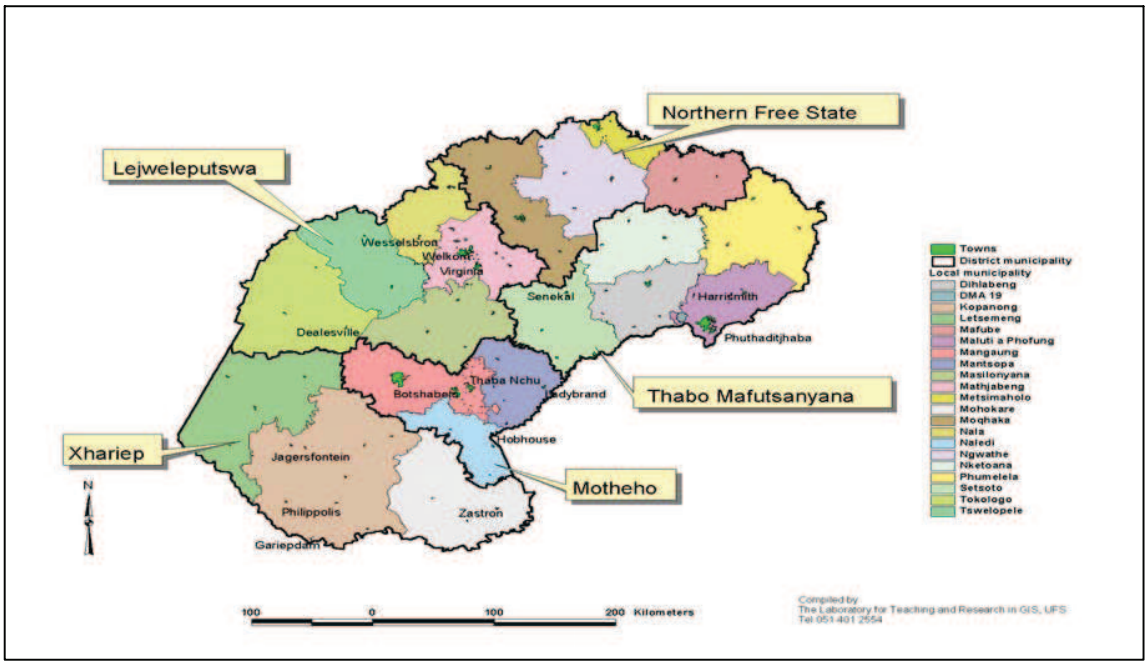

Figure 1: A map illustrating the location of LED projects in the Free State, 1999-2001

It should be known that many of these projects were allocated before the new local and district municipal boundaries were formalised. This made it extremely difficult to apply the principle of equity between municipalities. Furthermore, the approval of projects was also dependent on the quality of business plans. What was lacking, it seems, was some form of regional allocation criteria that could be utilised in making final decisions about geographical allocations. Ideally, these should also be integrated with the principles of the Free State Development Plan as well as other rural development and urban renewal strategies.

In order to analyse the locality of projects pertaining to local government level the following criteria were used: in former township, in old buffer between town and former township, in CBD or close to CBD or on private agricultural land or commonage (see Table 1).

Table 1: The location of LED projects in the Free State, 1999-2001

Criteria	Number	Percentage
In former township	3	18.8
In old buffer	2	12.5
In CBD / or close to CBD	4	25.0
On private agricultural land or commonage	7	43.8
TOTAL	16	100.0

* The project in Nala municipality (Wesselsbron) is calculated as two projects for the purpose of the assessment in the table above

As the majority of the projects had an agricultural connection it is not strange to find that 43.8% of projects are located on the commonages or private agricultural land. This is followed by projects in the CBD (25%) as a result of the 3 projects that focused on the formalisation of infrastructure for informal traders. The remainder of the projects is divided between those in the former townships (18.8%) and in the old buffer areas (12.5%).

Two specific dilemmas need to be mentioned about the issue of LED project location. Firstly, the distance between the place of residence and the location of the commonages are sometimes substantial. Although little can be done to change this problem, it is an issue that should be planned for and be considered in the approval of business plans. Secondly, the location and implementation process around projects of informal training formalisation seems to be problematic. In both Harrismith and Ladybrand this was a problem. The informal traders do not want to leave their informal areas for the formal structures, as they will give up prime location. In Ladybrand some of these structures were erected in areas where the pedestrian numbers are extremely low.

8. PROJECT PROGRESS

Project progress, as one of the key performance areas in the ToR, was placed last in the ToR. The CDS is of the opinion that project progress needs to be reported much earlier because an analysis of the other key performance areas are dependant on understanding the stage the projects are in. The ToR provided an overview of the criteria to be used for such an assessment. However, the different criteria were not explained. Furthermore, the CDS added another criterion to the list. It is therefore important to briefly define the CDS definitions of each criterion.

Not started: Project has been approved but has not started yet.
Halted: Programme started but was stopped due to certain circumstances.
Planning and design: Project has been approved and is in planning and design phase.
Tender and contractual finalisation: Tenders have been called for.
Construction: Projects are in a construction phase.
Completed: Construction is completed and infrastructure has been provided.
Advanced operational: Production is taking place.
Market competitive: Project pays its end-beneficiaries from contractual obligations with clients.

Project progress is dependent on a number of aspects. One such aspect is the time of starting and another is the reception of funding. Therefore, the project progress as reflected in Table 2 indicates the year of funding. In the last column it provides a short assessment of the current phase of the development of the programme. This assessment is conducted against the background of the criteria and definition provided in the paragraph above. It should also be noted that the “Pride of the community”-project was divided into two sectors, namely agriculture and manufacturing. The Virginia project noted in the table should be seen as two projects as indicated on the table. Furthermore, some caution should be taken regarding the amounts mentioned in the total investment column. These amounts reflect the investment as intended in the business plan of the LED fund within the Department of Local Government and Housing. However, it was extremely difficult to determine the amounts that have been paid over to municipalities. For example, for the two projects in Virginia (Meloding) it seems from the available documentation that only R400 000 was paid over to the municipality.

Table 2: An overview of the progress per project and sector for LED projects in the Free State, 1999 - 2001

Local Municipality	Place	Project	Allocation 99/00 Rand	Allocation 00/01 Rand	Allocation 01/02 Rand	Total Rand	Progress assessment
Agriculture							
Mangaung	Botshabelo	Hlanganani Vegetable and eco-village	1200000	455651	300000	1955651	**Operational**
Mantsopa	Hobhouse (Dipalaneng)	Dipelaneng Piggery	0	654388	385745	1040133	Operational
Kopanong	Jagersfontein	Commonage farm	0	700000	430000	1130000	Operational
Nala	Wesselsbron	Pride of the community	0	0	1265289	1265289	Operational
Maluti a Phofung	Phuthaditjhaba	Maluti Diary	0	0	1245000	1245000	Operational
Matjhabeng	Virginia	Thusanang Poultry and feedlot program (2 projects)	225935	73953	1026940	1326828	Both projects Halted
		SUB-TOTAL	**1425935**	**1883992**	**4652974**	**7962901**	
Mining							
Tohologo	Dealesville	Salt lakes	0	870000	0	870000	Operational
		SUB-TOTAL	**0**	**870000**	**0**	**870000**	

… table continued

Infrastructure							
Maluti a Phofung Mantsopa	Harrismith Ladybrand	SMME park Business hive and craft centre	9788950	01030000	0294140	9788951324140	Completed (to a limited extend operational) Completed
Matjhabeng	Welkom	Informal business centre	735000	0	0	735000	Completed
		SUB-TOTAL	**1713895**	**1030000**	**294140**	**3038035**	
Manufacturing							
Kopanong	Phillipolis	Arts and Craft centre	0	1496398	169541	1665939	Operational
Setsoto	Senekal	Sewing centre	0	456000	360000	816000	Operational
Kopanong	Gariepdam	Hydro weavers	0	0	136882	136882	Completed
Nala	Wesselsbron	Pride of the community	0	0	112000	112000	Operational
Mohokare	Zastron	Charcoal Manufacturing	0	541500	200000	741500	Operational
		SUB-TOTAL	**0**	**2493898**	**978423**	**3472321**	Completed
		TOTAL	**3139830**	**6277890**	**5925537**	**15343257**	

In order to assess project progress in more detail, a summary of the above table is provided in Table 3 below.

Table 3: An overview of the progress of the LED projects in the Free State, 1999 – 2001.

Criteria	Projects	Percentage
Not started	0	0
Halted	2	12.5
Planning and design	0	0
Tender and contractual finalisation	0	0
Construction	0	0
Completed	5	31.25
Advanced (operational)	9	56.25
Market competitive	0	0
Total	16	100

* The 16 projects are due to the fact that the Pride of the Community project in Nala municipality has been divided between agriculture and manufacturing

In terms of project progress a number of critical comments can be made:

- Two projects have been halted. The two specific projects are in Virginia (Meloding) (Matjhabeng Municipality). The main reason for stopping these two projects is that, with the amalgamation of Virginia into the Matjhabeng municipality, the funds disappeared into the general accounts of the new municipality. Although no certainty exists, it seems as if the funds have been paid out for salaries to officials at the municipality. The result is that the money is not available within the municipal financial systems for the LED projects (see also assessment of the financial structures).
- In terms of the remaining projects 31% are at a completed phase and 56% are in an operational stage. It should immediately be mentioned that the line of definition between completed and operational is extremely vague.
- The fact that none of the projects can be viewed as market competitive is extremely worrying. Although a number of reasons contribute to this situation, two specific aspects should be mentioned at this stage. In the first place, marketing plans were virtually absent from most business plans (see section 11). Secondly, none of the consultants used in the project had a sector specific or business background (see section 16). It seems to be fairly easy to implement a project, provide training and renovate buildings, but far more difficult to operationalise the project within a market environment as a viable SMME.

9. PROJECT ANALYSIS

An overview of the investment per project has already been provided in Table 2 (see section 8). The terms of reference requested the CDS to provide an overview of projects in terms of the following criteria:

- Economic sector of the projects
- Name of the project
- Total investment
- LED fund investment
- Number of short term jobs created
- Number of long terms jobs created
- The average cost of long terms jobs
- The average cost of short terms jobs

The project overview in terms of name, location, municipality and investments has already been provided in Table 2 (see section 8). What remains to be analysed in detail is the relationship between the sector, projects, investment and jobs created. In Table 4 an attempt is made to analyse the number of projects per sector in relation to the amount of money invested in each sector.

Table 4: An overview of the projects and investments in the Free State LED projects, 1999 – 2001

Sector	Number of projects	%	Investment in '000	%
Agriculture	7	43.75	7 861	51.62
Mining	1	6.25	870	5.71
Infrastructure	3	18.75	3 037	19.94
Tourism	0	0.00	0	0.00
Environment	0	0.00	0	0.00
Manufacturing	5	31.25	3 460	22.72
Total	16	100.00	15 228	100.00

* The 16 projects are due to the fact that the Pride of the Community project in Nala municipality has been divided between agriculture and manufacturing

It seems from the above table that:

- Agricultural projects account for 43,75% of the projects but for 51,62% of the total investment. If these percentages are taken into account, investment in agricultural projects have therefore been higher than expected
- The relationship between projects and investment for the mining and infrastructure projects are more or less the same.
- Manufacturing projects have received 22,72% of the investment but constitute 31,25% of the projects.

It is difficult to speculate about reasons for the above trends. The main reasons are probably related to the way in which business plans were written. At the same stage the large number of agricultural projects is noteworthy – especially if the fact that the department of agriculture is also directly involved in this process is taken into account. It does not seem that the high-risk low-profit nature of agricultural practice is understood. For example, the poultry project in Virginia had to feed its chickens for one week longer than anticipated. This meant that they did not make any profit, as feeding the chickens for an extra week was extremely expensive. Furthermore, one could ask the question whether agricultural projects do contribute to a diversification of the Free State economy (which is highly dependent on agriculture). Moreover, the agricultural projects need to compete against commercial farmers who usually produce at scale. It is much easier to limit your risk when farming at scale than when farming on a small scale. At the same time, counter arguments to the above two critical comments do exist. A large percentage of the people in the former townships do have an agricultural background and therefore some skill. Add the available skills to the desperate poverty of a large percentage of former farm workers and the agricultural projects could be a logic option. Finally, it is also extremely strange that there has not been a tourism project. The Eastern Free State with its tourism potential surely has opportunities in this regard.

Before shifting the focus from the projects and investment per sector to the jobs created per sector, a number of methodological explanations need to be made. The first dilemma that the CDS had in determining the number of jobs created was to distinguish between long-term and short-term jobs. It was decided in principle that short-term jobs referred to jobs created during the construction as well as jobs where the payment is still dependent on the LED grant. Long-term jobs were seen as jobs where the income of the project was already generated by means of contracts. Once again, despite the definition it was sometimes difficult to decide in which category the different projects should be placed. Figure 2 and Figure 3 provide an overview of the short-term and long-term jobs created.

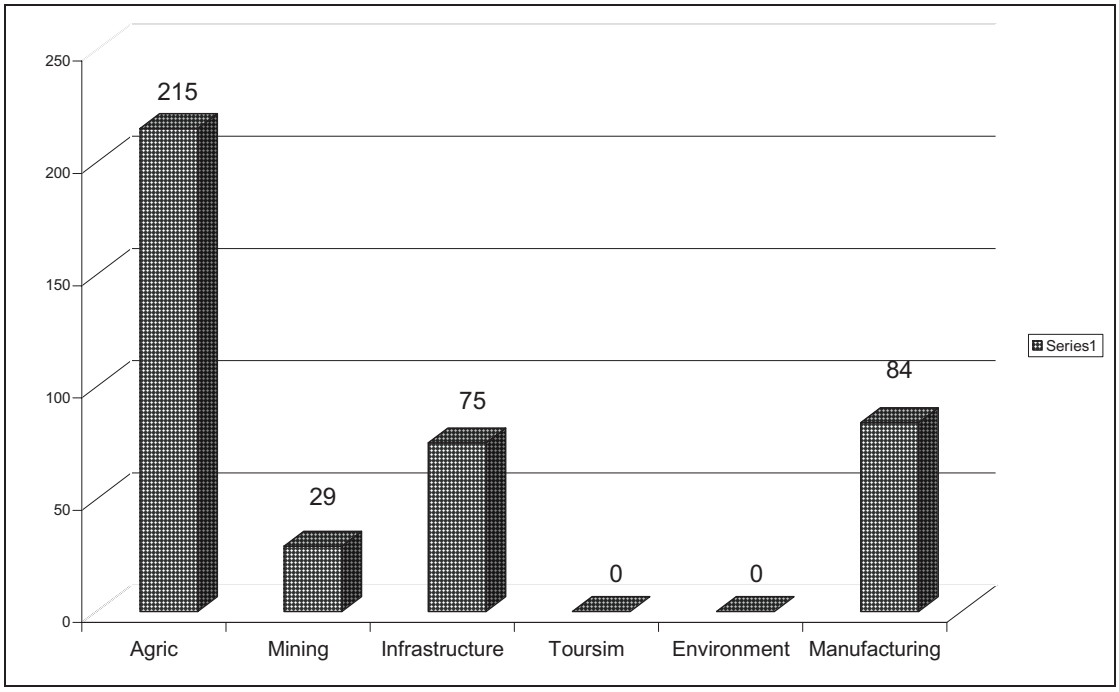

Figure 2: Short-term jobs created by means of the LED fund in the Free State, 1999 – 2001

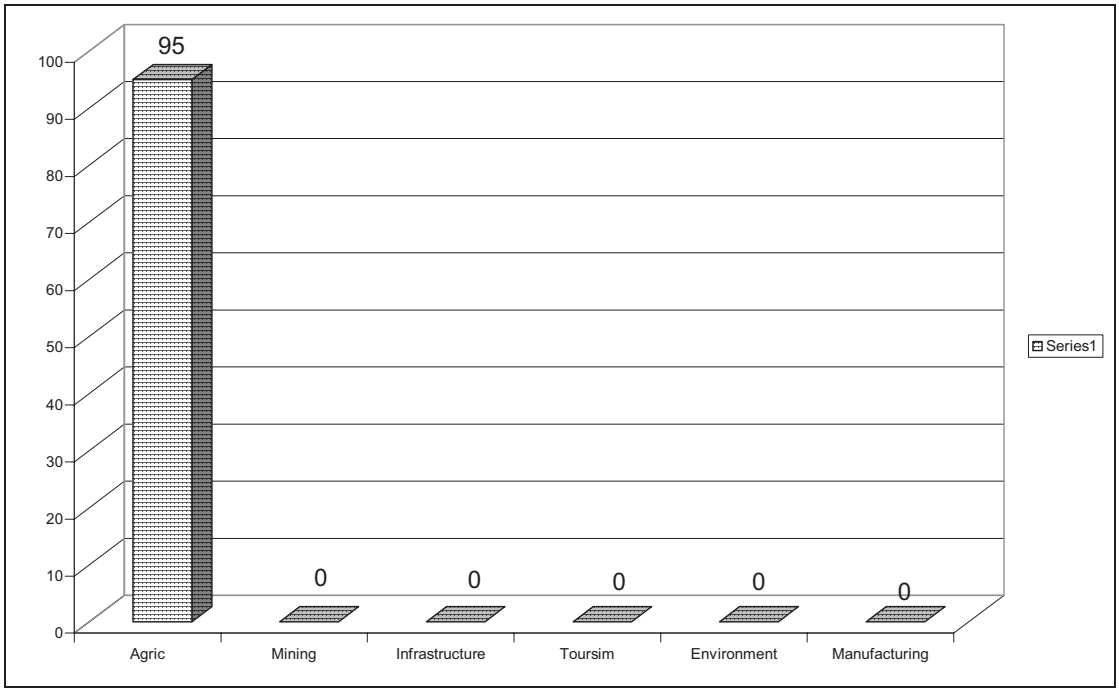

Figure 3: Long-term jobs created by means of the LED fund in the Free State, 1999-2001

A number of comments need to be made with regard to the two figures above:

- The agricultural industry which constituted 43% of the projects and 51% of the LED fund investment created 53% (215) short term-jobs. If the 95 long-term jobs are also considered it should be mentioned that this industry has outperformed the others in

terms of jobs created. However, it should also be noted that it has been the industry with the highest failures and risks.

- Mining, infrastructure and manufacturing respectively created 7,2%, 18,6 and 20,8% of the short term-jobs. However, in terms of the definition used to distinguish between short-term and long-term jobs these industries did not at all contributed to long term jobs. At the same time one should acknowledge that a number of the manufacturing and mining projects could still become market competitive.

If the costs per short-term and long term jobs that were created are considered a number of interesting aspects can be noted in Figure 4.

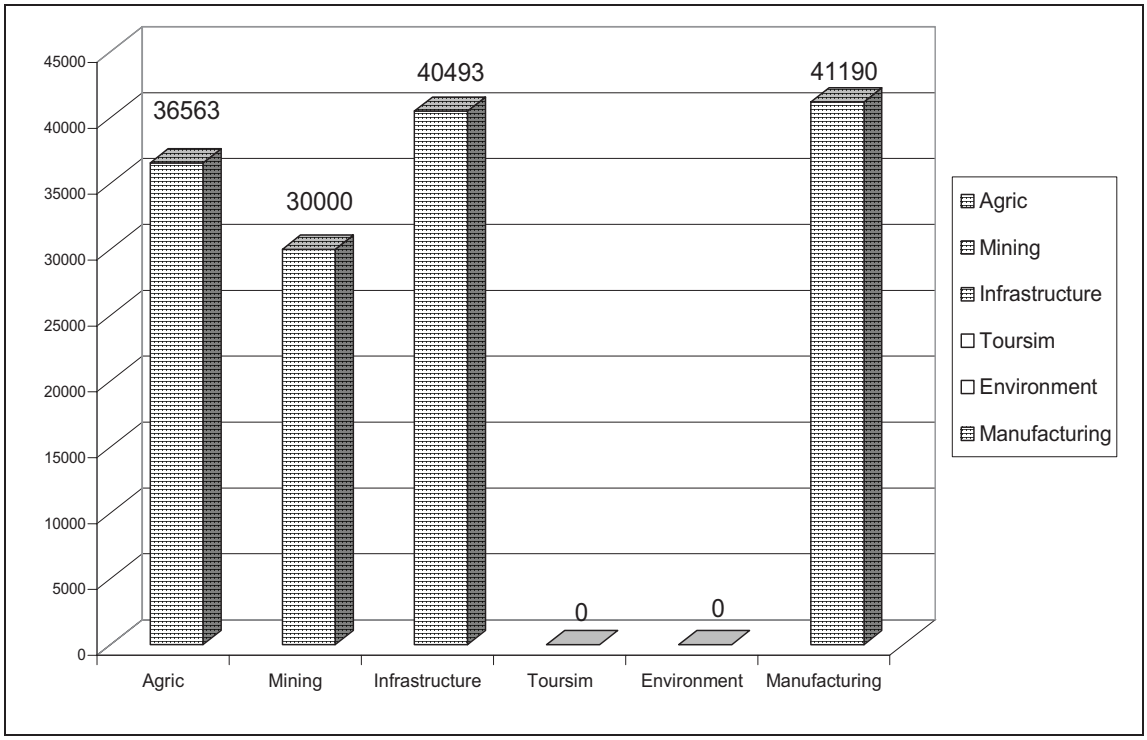

Figure 4: The cost of short-term jobs created by means of the LED fund in the Free State, 1999 - 2001

Considering that the agricultural industry was the only industry where long term jobs were created at a cost of approximately R82 000 per job and taking the above table into consideration as well as comparing what it costs to create jobs in other sectors. The following important comments could be made:

- The cost of short-term jobs created varied between R30 000 and R41000 per job. The R11 000 difference should not be seen as high.
- Jobs created in the mining industry were the lowest while that in the manufacturing industry were the highest.
- The relatively large percentage of funds utilised on buildings (although also contributed to jobs created) has contributed to the relatively high cost of creating short-term jobs.

Finally from a job creation point of view it seems that the largest impact has been in terms of short-term jobs created. Long-term jobs were only created within the agricultural industry. The challenge is to ensure that a larger degree of long-term jobs can be created.

10. SMME DEVELOPMENT

In terms of an analysis of SMME development the following observations can be made:

- Since no projects are in a market competitive stage, very few (if any) new SMMEs were established as a result of economic forward or backward linkages of the LED initiative. Due to a lack of operational progress of the LED projects it is impossible to comment on SMME development.
- Some of the LED projects are community-orientated with no specific focus of the development of SMMEs

11. MARKETING ANALYSIS

The following observations pertaining to the marketing of the LED projects could be made:

- Perhaps the marketing aspect of the LED projects in the Free State was the most neglected. This is proofed by the fact that not a single project could be considered as operating in a market competitive way. This could largely be ascribed to the fact that not enough was done to model the LED projects according to sound market research and detailed marketing plans.
- Most of the marketing was done in an informal and ad-hoc way and was not properly integrated with the core business of the LED projects.
- In most cases the PSCs take the responsibility for marketing their products, however, in some cases (Senekal, Virginia and Phillippolis) external partners are responsible for the marketing. The effectiveness of these marketing drives could not be assessed at this stage since the projects are not yet in production.
- All the food-related projects (Wesselsbron, Botshabelo, Virginia, Jagersfontein, Phutaditjaba, Hobhouse) and charcoal project predominantly target the local market to sell their produce.
- With two projects their products are marketed through the local co-operation.
- In some cases poducts (pigs and chickens) were sold at very low prices to ensure cash flow, which in turn threatened the economic viability of the projects.
- Three of the LED projects focussed on the provision of facilities for informal traders. With these projects no new markets are opened-up since these projects are mere attempts to formalising the access of the informal traders.
- Most of the produce was confined to local markets.

Some important **recommendations** derive from this marketing analysis:

- Make marketing plans and market research conditional before the approval of any LED projects
- Acquire the services of sector-related marketing experts
- If any savings accrued on the LED projects the funds should be utilised for designing and implementing marketing plans

12. EMPLOYMENT CREATION AND TRAINING

The following conclusions are derived from the evaluation:

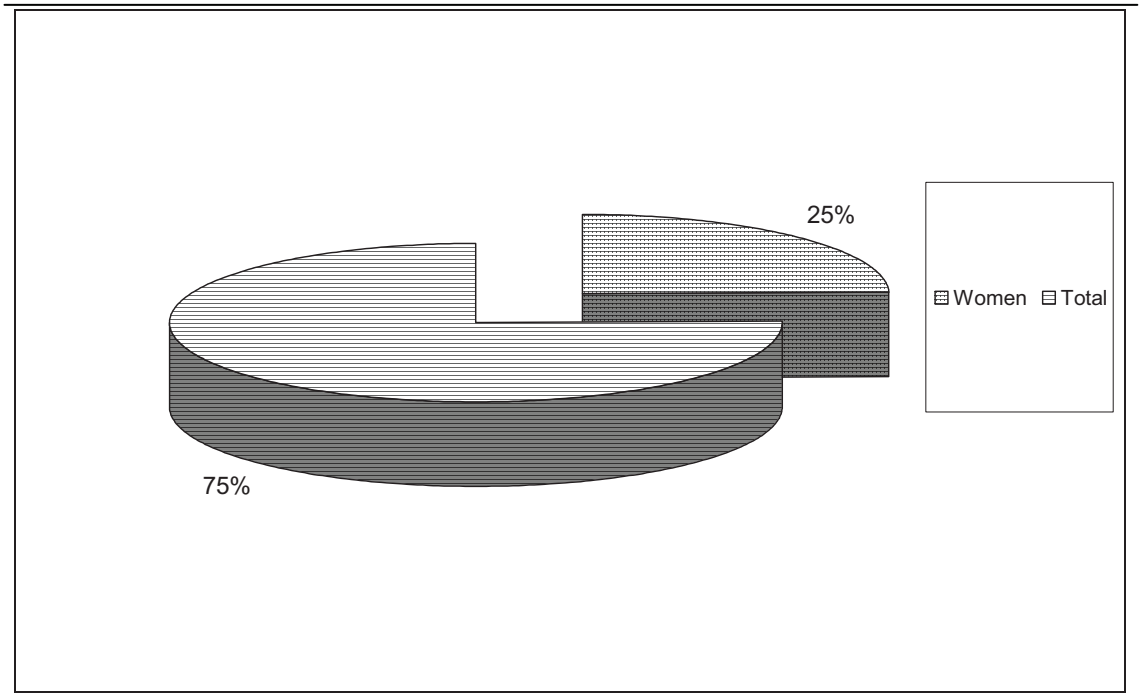

Figure 5: Percentage of women as end-beneficiaries

- Some of the projects did not directly contribute to long-term job creation due to the scope of the project i.e. the provisioning of an informal traders market
- To a large extend the LED projects focussed on the provisioning of infrastructure and physical arrangements to support LED activities. Most of the projects did predominantly contribute to short-term job creation instead of more permanent jobs. Most of the short term jobs created were only during the construction phase of the projects.
- As far as what we could gather not a single disabled person was involved in the LED projects. However, large proportions of women were end-beneficiaries on the projects. In fact of the total number of temporary jobs created, women occupied 25% and 12% were performed by younger than 25-year people.
- During the construction phases of the LED projects males occupied more than 90% of the temporary jobs.

- The most important training needs that end-beneficiaries identified pertains to financial management issues such as book keeping, pricing of products, stock control, etc.
- In terms of end-beneficiary selection the projects did well in targeting the poorest of the poor. The LED projects in the Free State could therefore be regarded as good examples of pro-poor projects.

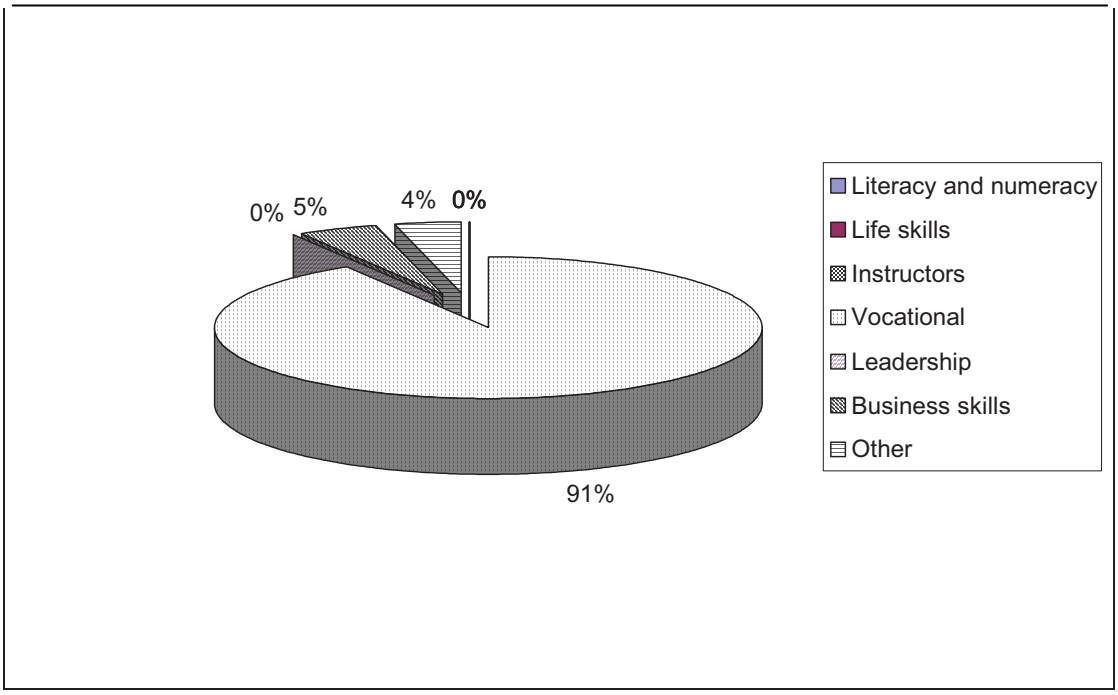

Figure 6: Type of training that project beneficiaries received

- More people were trained than working currently on projects.
- Less than a third of the training that were provided to end-beneficiaries were accredited. It is important from a life-long learning perspective that a larger proportion accredited training should be built into the training of LED Fund beneficiaries.
- Only 5% of beneficiaries were trained in business skills while the vast majority (91%) received vocational training. Perhaps this is the reason why not a single project is currently operating of a market competitive level. Vocational training predominantly aims at training people in a certain skill which is a pre-requisite for the production phase of a project, however, having to run an SMME in a financially viable way demands various business skills. Vocational training already done will not provide these core business competencies.

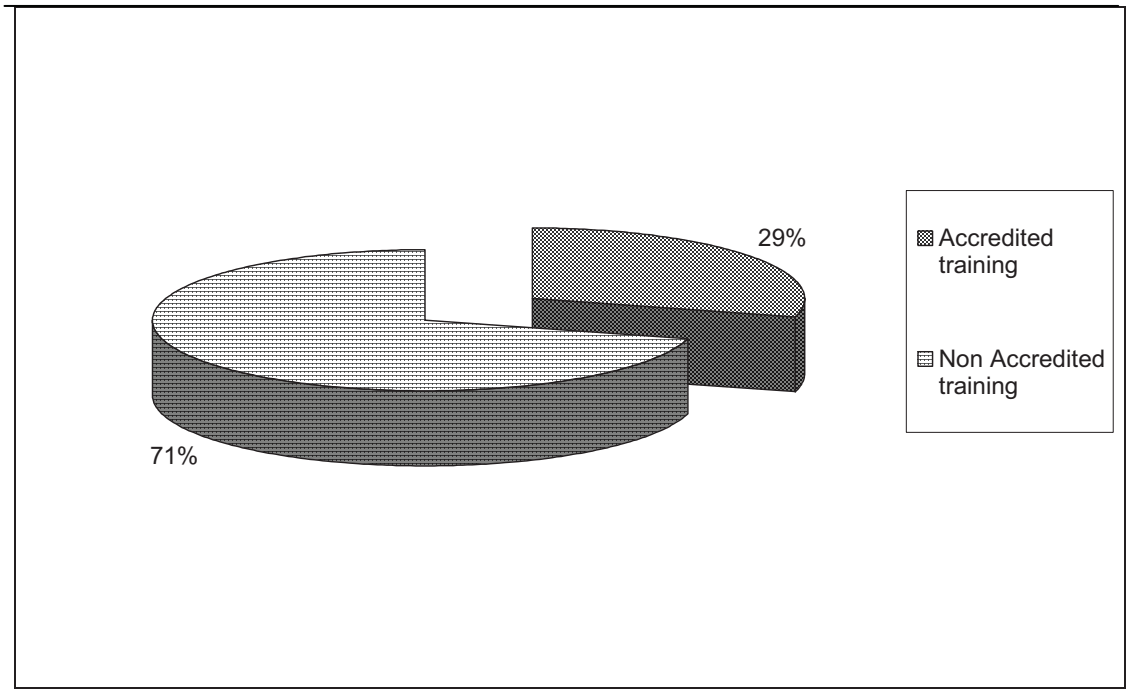

Figure 7: Percentage of accredited versus non-accredited training

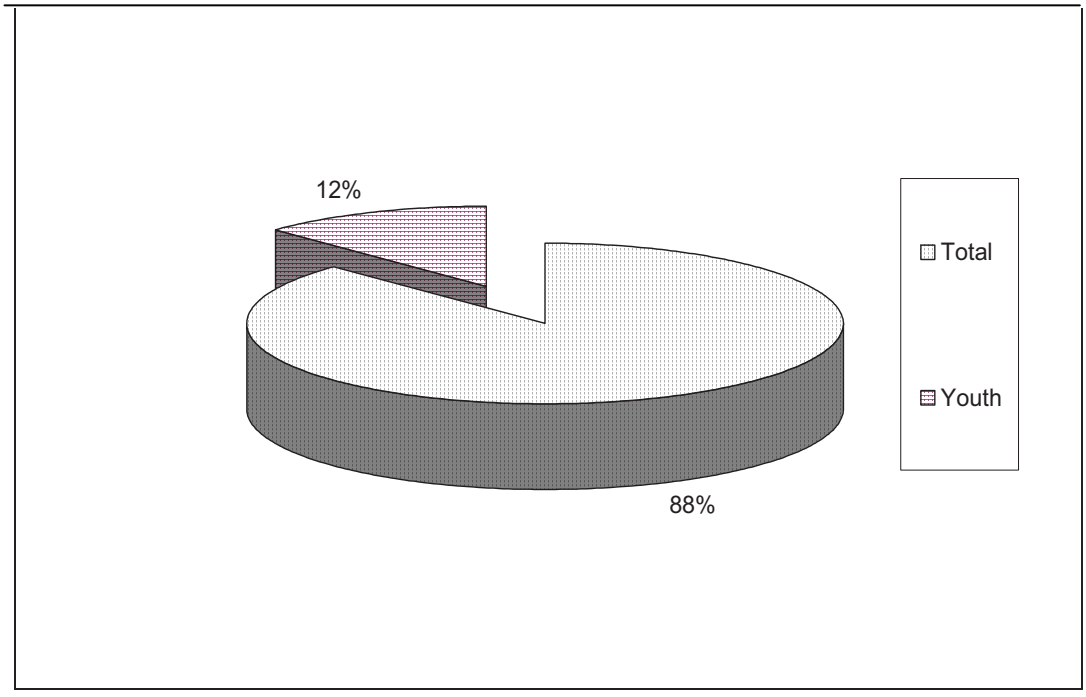

Figure 8: Percentage of youth as end-beneficiaries

13. ASSETS

The implementation of the LED projects resulted in a large number of assets created for the owners of the projects (in most cases the local municipalities). Although it is accepted that most of these assets are necessary for the success of projects, a number of critical comments can be made in this regard. Table 5 and Figure 9 provide an overview of the findings in this regard.

Table 5: Expenditure on assets in LED projects in the Free State, 1999 - 2001

Type of asset	Total expenditure in '000	Percentage
Equipment and tools	1356	17.9
Vehicles	263	3.5
Roads	10	0.1
Bridges	0	0.0
Stream crossings	0	0.0
Water taps	74	1.0
Water (boreholes)	34	0.4
Water (pipes)	0	0.0
Water (pumps)	0	0.0
Water (dams)	15	0.2
Water (irrigation)	0	0.0
Water (drinking troughs)	4	0.1
Fences	143	1.9
Tourism	0	0.0
Sanitation	0	0.0
Buildings	4912	64.9
Land	101	1.3
Other	662	8.7
Total	7574	100.0

A number of comments can be made regarding the above:

- It is extremely difficult to account for the accuracy of the data in the table above. It is likely that more assets than is reported, exists. In most cases the responsible individuals were unable to give precise details in this regard.
- Table 5 seems to indicate that assets of approximately R7, 5 million were created.
- Buildings and building renovations contributed to the largest portion of the overall assets (64,9% or nearly R5 million). Investments in other aspects (8,7%) (see detailed reports), equipment (17,9%) and vehicles 3,5% follow the investment in buildings.

- It further means that at least a third of the total investment in LED projects were made in buildings.

If the investment in assets is compared to the total investment, as well as the total investment per sector, a number of interesting trends can be indicated (see Figure 9).

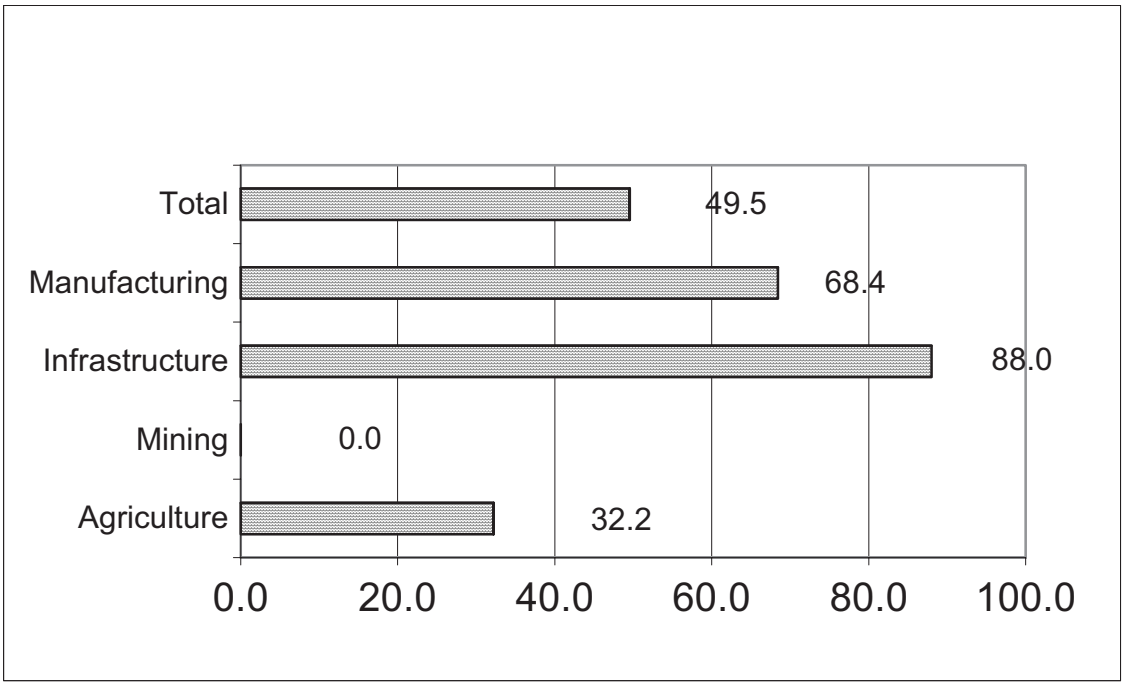

Figure 9: Assets established in comparison to the total investment per sector of LED projects in the Free State, 1999 - 2001

Considering the information in Table 5 and Figure 9 above, the following comments are made:

- Nearly 50% of the investment was in terms of creating assets. As already mentioned, approximately one third was invested in buildings. If it is considered that the total investment figure of approximately R15 million is used (which in reality is probably smaller – see section 9) and that there is probably an under reporting in the asset investment these percentage can be higher.
- The largest percentage of assets was created in infrastructure projects (88%), followed by manufacturing (68%) and agriculture (32%). This is understandable as projects related to infrastructure all focused on providing formal physical structures for the informal section of the economy.

It is difficult to comment on these percentages as no benchmarks (e.g. what the national percentage is) exist. Nevertheless, the following comments need to be made:

- The effective way in which the buildings were renovated and equipment purchased is in stark contrast to the problems of making the projects operational and market competitive.
- The CDS is of the opinion that the 50% of the total investment spent on infrastructure is too high (especially the percentage spend on buildings). This opinion is based on the fact that a number of projects have cash flow problems, as well as the low percentage of money spent on marketing. Consideration should rather be given to the rental option – especially in the smaller urban areas where real estate investments do not always make economic sense.
- Although the CDS does not want to propose a rigid maximum percentage to be allocated to buildings, it is essential that the budget allocation to buildings should be motivated in detail when future project proposals are considered. If in any way possible, building renovations should only take place once profits are being generated.

Furthermore, the fact that municipalities are in actual fact the owners of the assets also has a number of implications. In the first place, it means that municipalities need to incorporate the assets into asset registers. Only limited evidence could be found of this being the case. Secondly, it also raises questions concerning ownership. As long as these assets belong to the municipality it is unlikely that end-beneficiaries will maintain and ensure that the assets are looked after. Thirdly, no evidence could be found of specific agreements between municipalities and end-beneficiaries with regard to the assets.

14. GENDER

The following are some observations regarding the role that women play in these LED projects:

- Since women constituted a large proportion of end-beneficiaries (25%) one could argue that the LED contributed towards a temporary improvement of their livelihoods.
- In all projects the income levels for men and women were the same.
- In only two of the sixteen LED projects there were no women end-beneficiaries.
- Women constituted 48% of the Project Steering Committees/Management Committees of LED projects. This is quite indicative of women's empowerment that took place on an institutional level, given the legacy of gender inequality.

15. INSTITUTIONAL ANALYSIS

The average size of the PSC/Management Committee/Board of Directors was 7,5 members, ranging from 5 to 14 members. The general composition of these PSC members was end-beneficiaries, councilors, officials and consultants/smart partners.

The type of institutional arrangement is reflected in the Table 6 below:

Table 6: Type of institutional arrangement for LED projects in the Free State, 1999-2001

Article 21 Company	1
Trust	2
Project Steering committee with linkage with municipality	13

Some projects are still in the process of establishing trusts. It is clear from the breakdown in Table 6 that the seventh objective of the LED Fund *to build institutions and delivery mechanisms* were not adequately achieved. In fact even very little training pertaining to organisational development occurred (see section 12).

16. SERVICE PROVIDERS

There was general satisfaction with the performance of consultants (See table 7). Three projects did not make use of private consultants. Many PSC members acknowledged that consultants played a key role in the implementation of the projects. However, some PSC members expressed a concern that their LED project was too much consultant-driven due to either lack of/or limited capacity among end-beneficiaries and/or limited capacity of local municipality officials.

PSC-members often lack the ability of managing their consultants properly. LED officials need to be capacitated to manage consultants. In fact some Project Steering Committee members indicated that their consultant took unilateral decisions without consulting them (the end-beneficiaries). This is illustrated by the fact that many of the LED business plans/project proposals were desk-top designs by consultants with limited end-beneficiary input. The ideal should be for end-beneficiaries as primary stakeholders to participate as much as possible in designing, implementing, monitoring and evaluating LED initiatives.

Even in cases where the end-beneficiaries were largely satisfied with the performance of their service providers there were still feelings that more sector-related consultants would have performed better. All consultants were town and regional planners or from engineering firms. PSC-members expressed their need for sector-related business support consultants, e.g. arts and craft, manufacturing, agriculture, informal business, etc.

LED projects were designed predominantly according to project management principles and not in terms of business management principles. A logical consequence of the engagement of

more sector-related consultants used, inevitably resulted in more market competitive businesses.

Table 7: Satisfaction with service providers

LED Project	Percentage fee for consultancy	Satisfaction level with consultant by PSC/Municipality or end-beneficiaries		
		High	Average	Low
Botshabelo	12,5	X		
Dealesville	13,8		X	
Gariep	14,7	X		
Harrismith	8,6		X	
Hobhouse	10,0			X
Jagersfontein	8,0		X	
Ladybrand	10,0	X		
Phillippolis	9,6		X	
Qwa Qwa	9,0	X		
Senekal	No Private consultant	X		
Virginia (foodplot &dairy)	No Private Consultant	N/A	N/A	N/A
Virginia (Poultry)	No Private Consultant	N/A	N/A	N/A
Welkom	8,8		X	
Wesselsbron	10,0		X	
Zastron	10,5	X		
	Average: 10,5			

17. FINANCIAL MANAGEMENT

As the majority of projects were managed by steering committees, project finances became the responsibility of municipalities. These funds were usually reflected in municipal budgets. Two of the projects were community trusts and one an article 21 company. Therefore, their financing was managed outside the framework of the public financial systems. The large degree of dependency on municipal financial systems meant that finances were managed in the public domain. However, a number of critical comments need to be made in this regard:

- Municipal financial procedures are not geared to manage the more entrepreneurial LED projects. For example, when cattle in a feedlot become sick you need to react immediately. If you need wait for 5-10 days to buy the necessary medicine the cattle might not survive.

- In three of the projects serious financial problems occurred and the LED funds can not be accounted for. In the case of Virginia it is alleged that the money was used to pay the salaries of officials after the amalgamation of the Matjhabeng municipality
- The amalgamation of municipalities also resulted in the same problems at Phillipolis and Jagersfontein.
- In cases where projects were financially well managed, it seems, separate entities within the municipal financial systems were used. However, not even this was adequate enough in some of the situations described above.
- Often salaries were paid to end-beneficiaries before the project was financial viable. In some case salaries were also paid without ensuring that certain performance indicators were in place.

Finally, it should also be commented that the transfer of funds between national government and the local municipalities was also problematic. The transfers usually take a long time to be processed, which place serious constraints on the cash flow and planning of projects.

18. CAPACITY ASSESSMENT

The capacity assessment was conducted by means of analysing the following aspects of the officials involved in facilitating the LED processes:

- Formal qualifications
- Gender
- Experience and current functions
- Identifying capacity gaps

None of the officials at local government level that were interviewed had any development or any business related qualifications. Although development related qualifications could be found in different degrees and qualifications it is the lack of understanding business that is worrisome. The lack of capacity in this regard, as well as the fact that consultants, to a large extent, managed projects as projects and not as businesses, did not help to make the project market competitive.

Although women were well represented on steering committees as well as project end-beneficiaries, the responsible officials were all males. A specific effort could be made to ensure a larger degree of female involvement in this regard, especially taking into account that some of these projects were initiated around women only.

For approximately 50% of the officials that were interviewed involvement with the LED programme was a first association with such a programme. Although the other 50% have previously had some experience in this regard, it was nowhere related to specific LED projects. What is noteworthy is that all of the officials that were interviewed also had other

responsibilities e.g. being the municipal secretary, the health officer or a normal administration officer. Taking into account the size of most municipalities it is probably unrealistic to expect officials to become LED experts. It also makes training initiatives problematic because training interventions should take into account all the different skills that officials need. Furthermore, if an official need to attend one week's training per annum on each of his/her functions such an official will be on training for a too large a part of the year. These arguments probably reinforces the earlier argument to have more business related consultants that can more effectively assist the officials in a mentoring capacity

A number of capacity gaps do exist in terms of LED projects:

- Techniques to operationalise consultant driven project plans into community driven business plans are lacking.
- Business planning, as well as understanding business, are major needs (both for officials and steering committee members).
- Project planning is lacking (although formal project management planning could assist, the CDS is of the opinion that a more developmental orientated project planning process will have more value (something like the GTZ developed ZOPP approach might be appropriate).
- In general the management skills of LED officials and steering committees were lacking. Consultants were mostly left on their own with positive and negative consequences. In some cases contracts were not even in place. The point that the CDS wants to make is that consultants should be extensively to ensure that capacity is created within municipalities. For example, contracts should stipulate that consultants should act as mentors. At the same time officials who take part in such a process should also "commit" themselves to future performance indicators.
- Institutionalisation of the LED function at a municipal level.

19. EVALUATING LED AT PROVINCIAL LEVEL

Although the officials in the Spatial Planning Directorate have limited LED and business expertise they generally provided good institutional support for the management of the provincial LED fund. However, perhaps there is a need for a designated LED person at provincial level with a development and business background. Another alternative is that of a "public-public" partnership where the province could outsource certain functions pertaining to SMME en small business development to agencies like Business Partners or other parastatals to acquire their business-related skills. One of the concerns expressed during the workshop with the Spatial Planning Directorate was that LED proposals were either excepted or rejected without sufficient exchange of possible improvements and shortcomings between municipalities, province and national. Seemingly the Department of Agriculture has a system that ensures interaction on business plans between the different spheres of government.

20. CONCLUSIONS AND RECOMMENDATIONS

In assessing the LED fund the CDS has asked itself a number of critical questions:

- Could the LED Fund in the province be criticised for imposing inappropriate projects with inadequate project plans on poor communities?
- How can LED projects be improved in terms of economic sustainability?
- Was the R23 million spend on the 16 LED projects good value for money?
- Are their proper linkages with other LED initiatives in the province?

Although it is not the possible to assess the questions above in more detail many of the answers to these are reflected in the assessment of the LED projects against the objectives of the LED fund below:

Table 8: The assessment of the LED projects against the objectives of the LED fund

Objectives	Comment
• Support municipalities in facilitating job creation and retention within local municipalities	Low (From a permanent job creation point of view) Medium (From a short terms job creation point of view)
• Support the creation of sustainable local economies through pro-actively addressing economic decline and dependency on single sectors, taking advantage of economic opportunities	As no long term jobs were created and project selection was mainly based on poverty reduction limited advantage was taken of possible economic opportunities. The fact that nearly 50% of the projects were agricultural related and the absence of a tourism related project did not help to diversify the Free State economy.
• Ensure local economic growth that benefits the poor and disadvantaged	Highly unlikely that local economic growth were ensure but well targeted at the poor and disadvantaged
• Support rural development, particularly in areas that are affected by backward migration from urban areas	The relative large number of agricultural projects has assisted in rural development. – especially the project in the former Qwaqwa.
• Ensure that women participate at all levels of project planning as well as implementation and benefit directly and indirectly from projects	Relatively large percentage of women participation in projects benefited women. No discrepancies were found between male and female salaries

• Build institutions and delivery mechanisms that promote and enhance co-operative governance	Limited institutional building. Some proof of co-operative governance – especially from the Department of Agriculture

Finally, a number of **core recommendations** can be made:

- Some of the LED projects are not market competitive yet and are at a very critical stage of their business venture. Therefore, the CDS suggests that the LED Fund rather supports the 4-6 projects that are in an operational stage than maintaining the projects that have already failed or will not be able to become market competitive. The CDS is of the opinion that the following projects could be considered as projects that have the best potential to become market competitive:
  - The salt mining project in Dealesville;
  - Charcoal production in Zastron
  - Sewing project in Senekal
  - Weaving in Gariepdam
  - Dairy farm in former Qwaqwa
  - The agricultural project in Jagersfontein
- Except for a better linkage with the IDP more effort should be put in to ensure a larger linkage with economic opportunities within municipalities during the project selection.
- It is of pivotal importance to link future LED initiatives with the Free State Development Plan and the economic growth and job creation cluster of the Free State province.
- The LED drive in the province should not only be project orientated and dependent on funds from the national government. Attention should also be given to assist local municipalities to develop institutional arrangements that would assist in local economic development. Furthermore, the LED function should be integrated to a larger degree within local municipalities.
- More attention should be devoted to the creation of SMMEs.
- A market assessment and marketing plan should be a pre-requisite to the approval of any LED project in future.
- Far less attention should be paid to the building and renovation of buildings – especially before the project shows any profits.
- Attention should be given to recruiting more sector-related service providers to act as consultants to the projects.
- A lager degree of end-beneficiary participation is needed during the project design and operational planning stages.