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Co-funding as a risk-sharing mechanism in grant financed LED programmes: A case study of the Gijima KwaZulu-Natal Local Competitiveness Fund Implementation (LCFI) programme.

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DECLARATION

Submitted in fulfilment / partial fulfilment of the requirements for the degree of Masters in Development Studies, in the Graduate Programme in the School of Built Environment and Development Studies, University of KwaZulu-Natal,
Durban, South Africa.

I declare that this dissertation is my own unaided work. All citations, references and borrowed ideas have been duly acknowledged. I confirm that an external editor was/was not used and that my Supervisor was informed of the identity and details of my editor. It is being submitted for the degree of Masters in Development Studies in the Faculty of Humanities, Development and Social Science, University of KwaZulu-Natal, Durban, South Africa. None of the present work has been submitted previously for any degree or examination in any other University.

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ABSTRACT

The promotion of Local Economic Development (LED) increasingly involves the allocation of grant finance for project implementation. This finance is often provided on condition that the grant recipient commits a certain level of co-funding to the project. These co-funding requirements are essentially a risk-sharing mechanism used to avert the agency problems, namely adverse selection and moral hazard, which occur in the relationship between the funding programme and the grant beneficiaries. The purpose of this study is to examine whether these requirements are effective at achieving this aim and to determine their impact on the LED outcomes of various types of projects. This is undertaken through the comparative analysis of projects funded through the Gijima KwaZulu-Natal Local Competitiveness Fund Implementation Programme (LCFI), which provided grant funding for projects implemented by the private sector, Non-Governmental Organisations (NGOs) and local government. The findings indicate that co-funding has a positive impact on internally co-funded private sector projects and in this scenario is necessary to achieve optimal outcomes. Inversely, co-funding has a detrimental impact on projects implemented by non-profit groups in that it requires the attraction of funding from additional organisations whose finance conditions may not align to those of the principal donor. Finally, co-funding is ineffective when provided by government for the implementation of community projects due to the lack of risk it assumes. These findings have implications for the design of LED grant programmes and support the assertion that grant programme should be designed to efficiently reflect the objectives and risk preferences of the institutions they support.

PREFACE

The work described in this dissertation was carried out in the School of Built Environment and Development Studies, University of KwaZulu-Natal, Howard College Campus, Durban, from September 2010 to November 2012, under the supervision of Professor Imraan Valodia.

These studies represent original work by the author and have not otherwise been submitted in any form for any degree or diploma to any tertiary institution. Where use has been made of the work of others it is duly acknowledged in the text.

Signature

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ABBREVIATIONS

ASGI-SA	- Accelerated Shared Growth Initiative – South Africa
BBSDP	- Black Business Supplier Development Programme
BEE	- Black Economic Empowerment
B-BBEE	- Broad-Based Black Economic Empowerment
BEF	- Business Enabling Fund
CAP	- Competitiveness Action Plan
CBD	- Central Business District
CIS	- Co-operative Incentive Scheme
DBSA	- Development Bank of South Africa
DEDT	- Department of Economic Development and Tourism
DOA	- Department of Agriculture
DPLG	- Department of Provincial and Local Government
DTI	- Department of Trade and Industry
EU	- European Union
GEAR	- Growth, Employment and Redistribution
IDC	- Industrial Development Corporation
IDZ	- Industrial Development Zone
ILO	- International Labour Organisation
KZN	- KwaZulu-Natal
LCFI	- Local Competitiveness Fund Implementation
LED	- Local Economic Development
LEDF	- Local Economic Development Fund
MIP	- Manufacturing Investment Programme
NGO	- Non-Governmental Organisation
OECD	- Organisation for Economic Co-operation and Development
RDA	- Regional Development Agency
RDP	- Reconstruction and Development Programme
RIDS	- Regional Industrial Development Strategy
RSA	- Republic of South Africa
SALGA	- South African Local Government Association
SANCO	- South African National Civic Organisation
SODS	- School of Development Studies
SDI	- Spatial Development Initiative
SEZ	- Special Economic Zone
SMME	- Small, Medium and Micro Enterprise
TSP	- Tourism Support Programme
UK	- United Kingdom
UKZN	- University of KwaZulu-Natal
US	- United States
ZAMSIF	- Zambian Social Investment Fund

CHAPTER 1: INTRODUCTION

The democratic transition that occurred in South Africa during the early and mid-1990s was accompanied by government decentralisation, re-entry into global markets, and the need to integrate historically disadvantaged areas into the formal economy (Rogerson, 2000; McQuaid and Nel, 2002; Marais, 2010). This created what Nel and Rogerson (2005a) call a “laboratory for experimentation, innovation and learning” in local economic development (LED). The result was a proliferation of LED programmes funded by various sources including international donors, development institutions, national departments, and local government (Patterson, 2008).

The current study focuses specifically on an LED programme implemented by the European Union (EU) and the KwaZulu-Natal (KZN) Department of Economic Development and Tourism (DEDT). This programme, known as the Gijima KZN Local Competitiveness Fund Implementation (LCFI), allocated grant funding to successful applicants for the implementation of LED projects (DEDT, 2007). These grants ranged between R380,000 and R3.8 million and were provided on condition that the grant recipient would secure a minimum 30% of the total project cost, a requirement known as co-funding (DEDT, 2007). There was however no regulation regarding the source of co-funding, with applicants relying on internal finances, external grants, and government funds (UKZN, 2011).

In 2010 an impact evaluation of the LCFI programme was conducted by the University of KwaZulu-Natal (UKZN) School of Development Studies (SODS)¹. The objective of the evaluation was to determine the programmes design efficiency and LED outcomes² (UKZN, 2011). In terms of programme design the evaluation revealed uncertainty over the impact of co-funding requirements, although certain trends emerged between the source of co-funding and the

¹ As a student of the SODS the researcher worked as an assistant on the LCFI Impact Assessment.

² For further information on the overall impact of the LCFI Programme see „A socio-economic impact assessment of the Local Competitiveness Fund’s implementation projects under Gijima KZN LED support program“ conducted by the UKZN School of Development Studies (2011).

success and sustainability of the project (UKZN, 2011). The purpose of the current study is to examine these trends and determine whether co-funding is an effective mechanism for improving LED outcomes in a grant financed programme. The findings from this evaluation will be used to provide recommendations for the design of future LED funds.

1.1. Local Development Challenges

The development challenges in South Africa are incredibly complex and owe largely to the socio-economic and spatial legacy of apartheid. These challenges include persistently high unemployment, poverty, and inequality (Hoogeveen & Ozler, 2005; Van der Berg & Louw, 2004). The current study focuses specifically on efforts to address these challenges in KwaZulu-Natal (KZN), where these challenges are amplified due to high rates of HIV infection and household dependency (Welz et al, 2007; DBSA, 2011). The province also benefits however from a skilled professional workforce, functioning private sector, and the capacity of non-state actors (J. Mitchell, personal communication, 24 November, 2010). This combination of attributes and constraints places KZN in a unique position to implement new approaches to LED.

1.2. The Gijima KZN LCFI Programme

The Gijima KZN programme was implemented as part of a three province initiative funded by the EU and aimed at reducing rural poverty in KwaZulu-Natal, Limpopo and the Eastern Cape (Marais, 2010). The KZN initiative pursued a phased approach to LED focusing on the creation of an enabling environment, development of business plans, and the implementation of specific projects (Marais, 2010). The implementation phase was executed through the LCFI programme which funded 27 projects from 2005 to 2011, of which 25 were completed (UKZN, 2011). In 2012 the KZN DEDT launched a revised version of the programme known as the LCFI II pursuing similar objectives, albeit with a greater focus on partnership and cluster development (DEDT, 2011).

1.3. Problem Statement and Research Questions

The LCFI programme, in keeping with international trends, required that grant beneficiaries co-fund the cost of implementing their project. These co-funding requirements are assumed to be an effective screening mechanism, weeding-out non-viable projects, while also allowing applicants to signal their commitment to project success. The purpose of this study is to examine these assumptions and whether they are accurate in scenarios involving grant finance. This issue is addressed through evaluation of co-funding's role and impact in the Gijima KZN LCFI programme with the intention of answering the following research questions:

1. What is the relationship between co-funding arrangements and the outcome and sustainability of LCFI projects?
2. Is co-funding an effective mechanism for sharing risk between an LED programme and its grant beneficiaries?
3. What are the optimal arrangements for LED funding given the different objectives, capacities and risk preferences of grant applicants?

1.4. Structure of the Dissertation

The dissertation is arranged according to the following structure. Chapter one provided an introduction to the study including an overview of development issues in South Africa and KZN as well as a description of the Gijima KZN LCFI programme. This is followed in Chapter two by a review of the relevant literature on LED. This review seeks to define LED and the various approaches to it; examine the LED experience in both the developed and developing worlds; and analyse the evolution and practice of LED in South Africa.

Chapter 3 provides a theoretical framework for examining grant co-funding arrangements based on the principals of agency theory. This includes a presentation of the theory and the problems it seeks to resolve, as well as its applications and critiques. Chapter 4 presents the

research methodology which describes the identification, collection and analysis of relevant information according to the grounded theory methods.

Chapter 5 presents the research findings from the comparative analysis of project outcomes. Chapter 6 discusses these findings in order to ascertain the relationship between project outcomes and co-funding arrangements. Chapter 7 then provides conclusions drawn from this analysis as well as recommendations for the design of future LED grant funds. This chapter also identifies additional areas of research around LED funding.

CHAPTER 2: LITERATURE REVIEW

The literature review seeks to synthesise the relevant research and analysis on LED and its funding mechanisms. This begins with a delineation of LED according to the most widely accepted definitions and approaches followed by a summary and comparison of LED in the developed and developing worlds. The literature review then turns to the experience of LED in South Africa. The practice is traced from the decentralised promotion of towns and cities in the early 20th century, to the apartheid governments stratified industrial efforts, and finally the reliance on LED as a remedy for the socio-economic ills of apartheid.

The analysis of LED in modern South Africa provides an overview of the LED policy framework, which oscillates between the economic priorities of two government departments, as well as the implementation of this policy by the public, private and civil society sectors. This implementation is also examined in terms of LED's key objectives, defined as either growth or poverty oriented, and their execution in the countries cities, towns, corridors, and rural areas. Finally, the review of South Africa's LED experience looks specifically at the use of grant funding to incentivise project implementation and the various achievements and lessons associated with this practice.

2.1. What is LED?

There is no universally accepted definition of LED or just how 'local' it is (Simon, 2003), although the concept is described by nearly all development organisations as well as top scholars and local actors. The following is a presentation of the most widely accepted of these definitions as well as the LED iterations of South Africa's most involved government departments. The concept of LED is also understood according to its most common approaches which, according to the influential scholar Bert Helmsing (2003) includes community, enterprise and locality development.

2.1.1. Definitions of LED

The concept of LED is defined by international organisations, development scholars, and government departments. The World Bank (2011) refers to it as a “process by which public, business, and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation”. This definition is expanded on by the International Labour Organisation (ILO) which emphasises the role of partnerships and the importance of “exploiting local resources and capacities” (2010). Finally, United Nations-Habitat (2009) provides a detailed explanation of LED that encompasses both the World Bank and ILO’s definitions as well as specifically mentioning the “creation of decent jobs” and inclusion of the “poor and marginalised” (2011).

The term LED is also transcribed by several influential scholars. Stohr (1990, p.8) defines the concept vaguely as a process of “unifying relevant stakeholders to undertake activities that improve the areas economic and social condition”. More specifically, Blakely (1994, p.XVI) argues that the goal of LED is to “stimulate local employment opportunities, using existing human, natural, and institutional resources”. Finally, Zaaijer and Sara (1993, p.129) stress the role of partnerships defining LED as “a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area”. This is perhaps the most often cited definition of LED and the one that most accurately aligns to the priorities of Gijima KZN.

In South Africa the role of LED is defined by the Department of Provincial and Local Government (DPLG) and the Department of Trade and Industry (DTI) which are responsible for LED policy formation. These agencies collaborated on a broad definition for LED as “an approach towards economic development which allows and encourages local people to work together to achieve sustainable economic growth and development thereby bringing economic benefits and improved quality of life for all residents in a local municipal area” (DPLG, 2005). However, despite their collaboration their approaches are “based on conflicting paradigms and

have been pulling in different directions; one towards a focus on poverty alleviation within poor communities, and the other towards engagement with global economic forces through means to enhance competitive advantage” (Patterson, 2008, p.4)

The Department of Economic Development and Tourism (DEDT) in KZN, which is responsible for the Gijima KZN LCFI programme, defines LED according to national policy while also attempting to balance the priorities of the DPLG and DTI (DEDT, 2007). To this effect the DEDT advocates for the implementation of economically sustainable actions, projects and businesses to be achieved through competitive practices, financial independence and social and environmental responsibility (DEDT, 2007). The KZN DEDT also specifies that the outcome of these LED initiatives should improve the quality of life of poor and marginalised people (R. Persad, 2011, pers. comm.).

2.1.2. Approaches to LED

The lack of a precise definition for LED is consistent with the various approaches to its implementation. These approaches are categorised by Helmsing (2003) as community economic development, enterprise development, and locality development. Community economic development involves activities which reduce household poverty and vulnerability by encouraging economic diversification (Helmsing, 2003). Also referred to as self-reliant, endogenous or ‘bottom-up’ development (Taylor & Mackenzie, 1992; Binns, 1995), community economic development is typically initiated by organisations such as church’s, women’s groups, civil society, and NGOs. This approach is consistent with the priorities of the DPLG although the Department advocates that local government facilitate the process (DPLG, 2000).

The second category of LED, enterprise development, includes all initiatives involving SMMEs and big business as well as enterprise clusters (Helmsing, 2003). This type of LED focuses on promoting private sector development, local competitiveness, job creation and small business growth (Bond, 2002) and is therefore in line with the DTI approach. The third and final

category, locality development, involves central and sub-national government in the planning and management of an area's economic and physical expansion (Helmsing, 2003). Locality development is important because it creates the necessary foundation for enterprise and community LED (Nel & McQuaid, 2002). This distinction is relevant in South Africa where the failure of projects in rural and marginalised areas is often attributed to insufficient investment in infrastructure and social capital (Patterson, 2008).

2.2. International LED Experience

South Africa is often described as having a two-tiered economy, exhibiting characteristics from both the developed and developing worlds (Bhorat & Cassim, 2004; Du Toit, 2005). Thus, the experience of LED in advanced and emerging economies can provide lessons for the design of South African programmes. The following is a review of this experience as recorded in the literature.

2.2.1. LED in the Developed World

The concept of LED emerged in policy debates among developed countries during the late 1960s and early 1970s (Robbins, 2011). This emphasis on LED was fuelled in part by the weakening of central authority as national resources diminished, public confidence declined, and power was decentralised (Blakely, 1989; Valler & Wood, 2010; Robbins, 2011). The LED process was also bolstered by increased urbanisation and local diversification, which contributed to the rise of cities as international players (Clark & Gaile, 1998). However, despite common roots the implementation of LED in the developed world differed greatly between countries. This review focuses specifically on two countries with a rich LED experience, namely the United States (US) and the United Kingdom (UK).

The LED experience of the US is divided by Clarke and Gaile (1998) as occurring into four phases, namely locational incentives, transitional entrepreneurial incentives, post federal

entrepreneurial incentives, and global-local links and human capital. In the first phase sub-national governments used 'locational incentives' such as tax breaks, land discounts, and production subsidies to attract investment (Clarke & Gaile, 1998). This approach was criticised however for its lack of transparency, prioritisation of large firms, and negative consequences for the environment and labour (Squires, 1989; Clark & Gaile 1998). This criticism led to a shift in the late 1980s towards the second phase of LED labelled 'transitional entrepreneurial incentives' (Clarke & Gaile, 1998). These incentives focused on creating an enabling business environment and removing barriers of entry for small firms (Clark & Gaile, 1998; Eisinger, 1988; Blakely & Leigh, 2002).

The second phase of LED in the US was largely successful and resulted in the diversification of many local economies (Clark and Gaile, 1998). Thus, this approach became the core of the American LED process and was thereafter tailored to account for emerging priorities (Robbins, 2011). This tailoring led to the third phase of LED, which Clark and Gaile (1998) call post federal entrepreneurial incentives. These incentives brought greater focus to competitiveness and the development of local partnerships (Clark & Gaile, 1998). This was followed in the fourth and final phase by an emphasis on global connectivity, human capital development, trade partnerships and technology transfer (Clark & Gaile, 1998; O'Doherty & Durrschmidt, 1999; Reed, 1999).

The approach to LED in the UK, in contrast to the US, was controlled largely by the central government and as such was more consistent (Robbins, 2011). In the UK, although investment attraction was considered important, priority was given to skills development and employment creation (Townroe, 1979). These initiatives were carried out through long-term partnerships between government and local stakeholders. In the 1990s these partnerships were further strengthened by the creation of Regional Development Agencies (RDAs) which were tasked with guiding LED and, where necessary, providing specialist support to local groups (Robbins, 2011). These agencies also participated in the drafting and implementation of LED strategy,

therefore giving a local voice to the process (Bennett, 1991; Hutchinson, 1994; Bennett et al, 2004).

The impact of LED efforts in the UK, US and elsewhere in the developed world is strongly debated. There are academics who contend that LED has successfully promoted market development and resulted in increasingly dynamic and resilient local economies (Hall, 1995; Stock, 1995). This argument is challenged however by those who believe that LED has declined or become redundant as a result of consistently poor results (Green et al, 1996; Nel, 2001; Cunningham & Meyer-Stamer (2005). However, regardless of these assessments LED is increasingly relied upon to boost urban and regional economies throughout the developed world by attracting investment in manufacturing, technology and tourism (Rogerson, 2011).

The relevance of LED in the developed world has more recently been fuelled by efforts to revive economies in the wake of the global recession. This is most clearly demonstrated in the Barcelona Principles, which were drafted in 2009 by the leaders of OECD countries (Clark, 2009). These principles provide a framework for local authorities and stakeholders in the implementation of LED (Clark, 2009). They reaffirm many existing priorities including investment attraction, partnership creation, intergovernmental collaboration, and improvements to infrastructure and service delivery (Clark, 2009; Bailey & Chapain, 2011). However, they also prescribed newly relevant goals of “retaining productive people, business, incomes, jobs, and investment projects” as well as the identification of “future sources of jobs, enterprise and innovation” (Clark, 2009; Bailey & Chapain, 2011).

2.2.2. LED in the Developing World

In the developing world the practice of formal, government directed LED is a relatively recent phenomenon. Prior to the 1990s most LED activities were limited to promoting ‘self-reliance’ and ‘community survival’ (Taylor & Mackenzie, 1992; Sihlongonyane, 2003; Binns, 1995). These strategies were, and in many places continue to be, poorly planned, rarely documented and

undertaken on an ad-hoc basis (Rogerson, 1997a). These traditional interventions are implemented by community groups using local resources such as indigenous knowledge and collective farming with little or no direction or support from government (Rogerson, 1995, 1997b, 1999b, 2002a;; Binns & Nel, 1999; Nel, 2001; Abrahams, 2003).

The practice of strategically planned or 'modern' LED only took root in the developing world in the 1990s and early 21st century (Herbst, 1990; Robbins, 2011). This new approach is viewed in the literature as a response to structural adjustment programmes (Herbst, 1990; Helmsing, 2003), as well as tragedies such as drought, war and civil strife (Sihlongonyane, 2003). It is also attributed to the rise of cities as increasingly independent and capacitated units due to rapid urbanisation (Beyer et al, 2003; Cities Alliance, 2007), enhanced administrative capacity (Zaijer & Sara, 1993; Beyer et al, 2003; Helmsing, 2005; Rodriguez-Pose & Tijimstra, 2007), and government decentralisation (Taylor & Mackenzie, 1992; Crawford and Hartmann, 2008). This urban naissance benefited from the availability of communications technology, which some authors argue made the entire LED process possible (Helmsing, 2003; Blair & Carrol, 2008).

The expansion of LED in the developing world has also been fuelled by the support of numerous stakeholders. This includes local and international universities and research centres, which are involved in LED knowledge creation and training (Porter, 2000; van Boekel & van Logtestijn, 2002). The LED process also involves small business owners, especially where they are represented by a business association, chamber of commerce or trade union (Rogerson, 2000; Helmsing, 2003). At the local level traditional community groups continue to play an important role in stimulating development, especially in highly marginalised areas (Helmsing, 2003). Finally, international, national and regional development agencies facilitate LED policy making, financing and implementation throughout the developing world (Blakely, 2002; Clark et al, 2010).

The involvement of numerous stakeholders has also sparked debate over the appropriate objectives and design of LED strategies in the developing world. Typically civil society,

community organisations and non-governmental organisations (NGOs) argue for a pro-poor approach that emphasises poverty alleviation and community development (Klasen, 2004; Kimenyi, 2006). On the other hand, the private sector, many economists and central governments argue that LED should focus should on stimulating economic growth (Dollar & Kray, 2002) which will translate into poverty reduction (Ravallion & Chen, 1997; Foster & Szekely, 2000). In a review of these debates Page (2006) argues that both pro-poor and pro-growth concerns can be addressed in a 'shared growth strategy'. From another viewpoint Marriot (2004) cautions that LED practitioners should not become pre-occupied with the balance between these two objectives.

Despite the range of LED objectives a common goal amongst most programmes, whether pro-growth or pro-poor, is the creation of meaningful employment (Stren & Gombay, 1994; Rogerson, 1999b). This is especially true in the developing world where the capacity for labour is one of the greatest resources (Rogerson, 1999a). The various LED strategies that have prioritised this objective include labour intensive public projects and enterprise development funds (Stren & Gombay, 1994; Tendler & Amorim, 1996). Alternatively local government indirectly encourages job creation by promoting an enabling business environment through infrastructure investment, improved service delivery, marketing support and training assistance. These interventions allow local governments to facilitate economic growth without the market distortions that often accompany subsidies and tax breaks (Stren & Gombay, 1994; Bond, 1998; Ecsecc, 1998; Rogerson, 1999a).

The recent proliferation of LED in the developing world has also resulted in various approaches to implementation, albeit with a common focus on local government. For instance, while east Asian countries have encouraged local authorities to invest in the institutional infrastructure needed for LED (Wade, 1983; Blecher, 1991; Kim, 1997) the government of India has tasked local government with LED planning and implementation (Johnson, 2003; Narayana, 2005). In another approach Indonesia's government has prompted local government to partner with civil

society and the private sector in the creation of regional linkages and responsive policies (Parray & Syebubaker, 2008).

The formalisation of LED in Africa has however occurred at a slower pace than the rest of the developing world, with the exception of rapid LED growth in South Africa. However, in their assessment of LED in southern Africa Rodriguez-Pose and Tijmstra (2006) argue that because of LED's adaptability to local circumstances this approach has significant potential in the region. The authors highlight several specific examples of practical implementation including the use of stakeholder consultation to bring about sustainable waste management in Zimbabwe. Their study also discusses the Zambian central governments relatively successful funding of LED programmes through the Social Investment Fund (ZAMSIF). Finally, the authors examine LED in Mozambique where local stakeholders have partnered with universities, research institutes, and funding agencies to implement innovative strategies (van Boekel & van Logtestijn, 2002; Rodriguez-Pose & Tijmstra, 2006). These examples illustrate the potential for LED in African economies and provide context for the increased focus on LED in South Africa.

2.3. South Africa: Evolution of LED

The practice of LED in South Africa is largely assumed to be a post-apartheid phenomenon. There is however a history of LED that stretches back nearly a century and reflects the changing political landscape and socio-economic priorities of that time. The purpose of the current section is to briefly review this history in terms of both early LED initiatives and the emergence of 'modern' LED in the 1990s.

2.3.1. Early Initiatives

In South Africa the practice of LED dates back to fledgling attempts at local 'boosterism' undertaken by municipal governments in the 1920s and 1930s (Robinson, 1996; Nel & Rogerson, 1995, 1996, 2005a; Freund, 2002). These initiatives sought to advance emerging

towns and cities and continued on an ad hoc basis until they were stifled in the early years of apartheid (Marais, 2010). At this time local authority and autonomy was severely limited making it impossible for sub-national governments to implement meaningful development programmes (Nel, 1999; Marais, 2010). The central government also suppressed community based efforts and subjected the few that persisted to a large amount of scrutiny (Nel & McQuaid, 2002).

The apartheid government did however utilise LED strategies in the economic promotion of the former 'bantustans', which were intended to operate as 'independent' states (Wilsenach & Ligthelm, 1993). These strategies included the creation of a centrally administered Border Industry Programme, introduced in 1956 (Rogerson, 1994c). This programme was the predecessor of the Regional Industrial Development Programme (RIDP) which provided generous incentives for manufacturing in areas bordering or within the bantustans (Rogerson, 1994c). Although the RIDP successfully promoted investment in the country's poor peripheral areas it was criticised for funding unsustainable initiatives, failing to link investment with community development, and creating only low-skilled, poor paying jobs (Rogerson, 1994c; Padayachee, 2006).

In 1989 the government enlisted the Development Bank of South Africa (DBSA) and Urban Foundation to investigate RIDP reforms leading to the re-allocation of programme funding to areas with greater economic potential (DBSA, 1989; Urban Foundation, 1991; Bell, 1997). Although the new programme was cancelled after failing to offset factory closures and job losses it did mark an important shift in South Africa from socio-political to economic development planning (Wilsenach & Ligthelm, 1993; Rogerson, 1994c; Hirsch, 2005). Incidentally, cancellation of the RIDP also coincided with the advent of democratic rule and the complete transformation of South Africa's socio-economic strategy.

2.3.2. LED in the Transition Years

The transition to democracy in the mid-1990s prompted a radical transformation in South Africa's development policy and planning (Nel & Humphrys, 1999; Rogerson, 2006a, 2010a; Harrison et al, 2008; Human et al, 2008; Malefane, 2009). This was accompanied by the promotion of LED by key national organisations, namely the Urban Foundation, South African National Civic Organisation (SANCO) and the Reconstruction and Development Programme (RDP) Ministry (Nel & John, 2006). These organisations sought to influence government's take on LED by providing analysis of international best practices, discussion of interventions and implementation, and an introduction to the practical challenges of LED (Nel & John, 2006).

The potential impact of LED in South Africa was also recognised by the private sector and civil society which drafted advisory documents designed to influence government strategy (Rogerson, 2002a). The first document was presented in 1994 by representatives from the private sector and favoured a market-based approach to LED, designed to enhance competitiveness and attract investment (Rogerson, 2002a; Simon, 2003). The second document, produced later that year, was presented by SANCO and advocated a people-centred approach that focused on community development and poverty alleviation (Nel et al, 2009). Interestingly, although the two papers promoted very different objectives and interventions to LED both found an audience in government (Nel et al, 2009).

2.4. South Africa: LED Policy Framework

The implementation of LED in South Africa's first years of democracy was guided by strategies around the Reconstruction and Development Programme (RDP) which was adopted by government in 1994 (Rogerson, 1997a). In theory, this programme aligned closely to SANCOs pro-poor objectives however in practice LED took a back seat to affordable housing and infrastructure provision (Patterson, 2008). By 1996, before LED could take root within the RDP framework, government introduced the Growth, Employment and Redistribution (GEAR)

Strategy. This strategy promoted a market-based, neo-liberal economic policy, aligned much more to the private sectors pro-growth LED objectives (Nel et al, 2009).

The debate over which form LED should take was framed not only by private and civil sector interests but also the various mandates within government. In South Africa the two departments with the greatest authority over LED are the Department of Trade and Industry (DTI) and the Department of Provincial and Local Government (DPLG) (Rogerson, 2008). The DTI, which is responsible for commercial and industrial policy, advocated that LED should focus on the promotion of economic growth, investment and trade (Patterson, 2008). Policy documents to this effect included the Micro Economic Reform Strategy (MERS) (DTI, 2002) which emphasised public-private interventions, and the Draft Regional Industrial Development Strategy (RIDS) which prioritised the exploitation of local competitive advantages (DTI, 2006).

The DPLG, whose mandate it is to support sub-national governments, advocated a pro-poor approach to LED described by Bond (2002) as “progressive” and “developmental”. These priorities were reflected in two DPLG policy documents, namely ‘Refocusing Development on the Poor’ (DPLG, 2001) and ‘Policy Guidelines for Implementing LED in South Africa’ (DPLG, 2005). The first document prioritised the development of localities through improved service delivery, human resource development and the promotion of local enterprise (Bond, 2002; Hindson et al, 2005). The second ‘Policy Guidelines’ emphasised enterprise development, Black Economic Empowerment (BEE), and the integration of the formal and informal economies (Hindson et al, 2005).

There is consensus that the tension between the South African governments market oriented and pro-poor policies has had an impact on the success of LED, however the strength of this impact is debated. According to Tomlinson (2003) the division between DPLG and DTI approaches left local authorities with great uncertainty over how to implement LED while Nel (2009) argues that this resulted in smaller municipalities accomplishing much less than those with greater resources. On the other hand, Rogerson (2000) credits the range of interventions

made possible by the DTI and DPLG with enhancing LED in major cities. Finally, Bond (2002) contends that many municipalities skirted the lack of cohesive policy and instead took direction from whichever draft documents best suited their development needs.

In recent years the South African government has sought to repair this discord and create a unified and holistic LED strategy through cooperation between the DPLG and DTI (Rogerson, 2008). In practice, the DPLG's 2005 Policy Guidelines signalled a shift in the Departments thinking towards a more market-based LED approach, prompted by the mediocre achievements of community based initiatives and funds (Rogerson, 2008; Nel et al, 2009). Simultaneously, the DTI signalled its support for poverty alleviation measures by participating in drafting the Accelerated and Shared Growth Initiative (ASGI-SA), which formed a strategy for halving poverty and unemployment by 2014 (DTI, 2005). This marked a subtle but important movement by the DTI towards an increasingly pro-poor approach.

The shift in focus of DPLG and DTI policies formed the foundation for what Rogerson called a "forward movement in the progress of LED activities and practice" (Rogerson, 2011, p.152). This movement was most clearly demonstrated by the National Framework for LED, drafted in 2006 by representatives from the DPLG, DTI and the South African Local Government Association (SALGA) (RSA, 2006a). This document presented a united LED strategy that addressed both pro-growth and pro-poor objectives however it was criticised by leading LED scholars for failing to provide workable strategies (Rogerson, 2006; Nel, 2009). More specifically, Nel et al (2009) argues that the framework was a diluted approach 'lacking the teeth' of previous drafts, while Rogerson (2006, p.408) claims that it "emphasises a strong pro-poor focus in rhetoric, albeit if not always in practice."

2.5. South Africa: LED Stakeholders

The planning and implementation of LED in South Africa involves various stakeholders from government, the private sector and civil society. The purpose of this sub-section is to review

the role of these stakeholders and their impact on LED outcomes. This understanding is particularly relevant for the current study which looks at LED project implementation by all three groups.

2.5.1. The Role of Government

The planning, financing and implementation of LED is facilitated to varying degrees by all levels of government (Rogerson, 1999b; Nel, 2001). The role of central government includes the formation of an informed policy framework; the devolution of power and resources to sub-national governments; and the design, funding and implementation of national LED programmes (Nel, 2001; Patterson, 2008). Provincial governments are then tasked with facilitating national LED objectives by fulfilling similar responsibilities within their province (Rogerson, 2010a). Finally, at the district and local level government is responsible for creating an enabling environment; establishing well-resourced and capacitated LED units; and implementing strategic directives and projects (Nel & Humphrys, 1999; Patterson, 2008).

In South Africa Rogerson (2010a) argues that the experience of LED has highlighted the need for central and provincial government to assume leadership roles in order to capacitate effective implementation at the local level. However, despite their important role, the central government is often criticised for its lack of policy focus (Tomlinson, 2003; Nel et al, 2009); inadequate devolution of resources (Mukhopadhyay, 2000); and promotion of ineffective and unsustainable LED programmes (Patterson, 2008). At the provincial level, although outcomes vary significantly, complaints of ineffective strategies, insufficient funding and unsustainable programmes are also common (Nel, 2001).

The responsibility for implementing LED, although guided by national and provincial strategies, rests primarily with district and local government (Rogerson, 1999b; Nel et al, 2009). Some scholars argue that local government is the most capable of achieving implementation due to their local accountability and integration, as well as their involvement in the private sector

through taxation, infrastructure and regulatory functions (Cunningham & Meyer-Stamer, 2005). Others however are more critical of local government's lack of bureaucratic competence, especially in the developing world (Pritchett & Woolcock, 2004). This debate is also present within South Africa where critics argue that the 'developmental' role of local government, bestowed on municipalities in the 1998 Local Government White Paper (RSA, 1998), remains largely unfulfilled (Patterson, 2008; Rogerson, 2011).

The argument that local government in South Africa is unable to implement LED is put forth by many regional scholars. Their failure is attributed to an overall lack of capacity, skills and experience, exacerbated by high staff turnover (Nel & Humphrys, 1999; Mitchell, 2007). These conditions have essentially created what Binns and Nel (2002c) call a "capacity crisis" in many smaller municipalities. Another key constraint on local government is the insufficient funding to provide staff training, establish effective LED units and finance projects (Nel & Humphrys 1999; Nel, 2001; Nel et al, 2006), which Mukhopadhyay (2000, p.29) argues amounts to a "devolution of responsibility without resources".

These capacity constraints and shallow resources have created a situation where many question the current role of local government in LED (Binns & Nel, 2002c). The most common prescription for this is that local government should act as LED facilitators rather than active participants in the process (Nel & Rogerson, 2005a; Rogerson, 2010a). This would involve the creation of an enabling environment through service delivery and addressing market failures (Binns & Nel, 2002c; Cunningham & Meyer-Stamer, 2005; Nel & Rogerson, 2005a). Another recommendation is that local government should focus on the creation of meaningful, institutional partnerships with both the private sector and civil society (Patterson, 2008; Lawrence, 2010). To achieve this Nel and Humphrys (1999) argued that South African policy and legislation must actively encourage the participation of other stakeholders in LED.

2.5.2. Private Sector Participation

International and South African experience has illustrated the important role of the private sector in terms of advancing LED (Nel, 2001). The private sector promotes sustainable LED through the identification of opportunities; promotion of business retention and expansion; and the implementation of sustainable joint LED projects (RSA, 2006b; Patterson, 2008). The business community also benefits from the outcomes of LED including improved business infrastructure and service delivery, a higher skilled workforce, and the removal of market barriers (Fosler, 1991; Abrahams, 2003). In South Africa, the National Framework for LED (RSA, 2006a) recognises the mutual benefits of private sector involvement and provides strategies for stimulating investment and promoting partnership formation.

The emphasis on partnership formation in South Africa has however failed to remove the obstacles to meaningful private sector participation (Nel et al, 2009). The first obstacle is the perceived emphasis on community initiatives over those that prioritise economic growth, especially in marginalised and rural areas (MXA, 2003; Cohen, 2010). This is attributed to the historic division between local authorities and predominantly white business owners (Rogerson, 2010c, 2010d); the fear of political repercussions if authorities favour economic interests over their pro-poor agenda (Mitchell, 2009); and the culture of mistrust between the public and private sectors (Patterson, 2008). A second obstacle to private sector involvement is the skills gap between business and its partners in government and civil society (Mitchell, 2007). To overcome these constraints LED partnerships must involve increased dialogue, skills transfer and the clarification of roles, responsibilities and expectations.

2.5.3. Civil Society Involvement

Civil Society plays an important role in stimulating and implementing LED, as well as ensuring that the local community is involved in the process and shares in the outcomes (Nel, 2001). In South Africa, community organisations, local forums and NGOs play an especially important role in facilitating pro-poor, co-operative and SMME development (Taylor & Mackenzie, 1992).

These groups prioritise the use of local resources, skills development and an improvement in the communities' quality of life (Binns & Nel, 1999). They typically receive modest support from domestic and international donors, while the majority of funding comes from partnerships with local government and the private sector (Nel, 2001).

In South Africa civil society has had notable success at implementing LED in marginalised communities, especially when projects are headed by devoted individuals in areas with competent local authorities, minimal red tape and strong community relationships (Binns & Nel, 2002c). There is however the reality that community based initiatives without the support of government or the private sector tend to remain small scale with limited potential for sustainability and replication (Nel, 1999). Thus, it is important for government, the private sector and civil society to collaborate in the design and implementation of LED to ensure sustainable outcomes and shared benefits.

2.6 South Africa: LED Objectives

In South Africa the design and implementation of LED interventions largely reflects the divide between pro-growth and pro-poor objectives (Marriot, 2004). The pro-growth approach advocates for the promotion of LED through enhanced competitiveness, global market integration, and investment attraction (Nel & Rogerson, 2005a; Patterson, 2008). It typically involves partnership with the private sector and is often financed in part by central, provincial or municipal government (Lopez, 2010). In contrast, the pro-poor approach argues that LED should directly target marginalised individuals and communities in pursuit of objectives such as meaningful job creation, sustainable rural development, and urban renewal (Bond, 2003; Patterson, 2008). These initiatives are generally implemented by NGOs, community, church or women's groups, and civil society organisations (Bond, 2003).

There is significant debate in South Africa regarding which LED objectives should be prioritised by the countries policies, programmes and projects (Bond, 2000). In the literature many

theorists have expressed concern about the preference for economic growth over poverty alleviation (Bond, 2000, 2002; Meyer-Stamer, 2002, 2003a; Marais & Botes, 2007), while also maintaining that a strictly pro-poor approach is unlikely to generate sustainable economic development (Meyer-Stamer, 2003b). There are also those who argue profess the fundamental contradiction between pro-growth and pro-poor objectives (Marais, 1998; Cashdan, 2002). This sub-section provides an overview of South Africa's pro-growth and pro-poor LED objectives, with specific interventions discussed later in the review.

2.6.1. Pro-Growth LED

The practice of pro-growth LED emerged in South African cities during the early and mid-1990s as a result of economic decline, increased global competition and the demand for racial and spatial integration (Bond, 2003; Patterson, 2008). One of the key objectives of these projects was the promotion of industrial development and agglomeration economies, especially in the manufacturing sector (Morris & Barnes, 2006). In addition to boosting local economies and job creation these initiatives sought to create knowledge spill-overs, collective learning, specialised labour inputs, and enhanced firm efficiency (McCormick, 1999; Helmsing, 2001; 2003; Machako & Roberts, 2004; Morris & Barnes, 2006; Rogerson, 2008).

In the aftermath of apartheid South Africa's cities also turned to growth-oriented LED to achieve enhanced competitiveness in national and global markets (Nel & Rogerson, 2005a). This included interventions such as the development of public-private partnerships which provide targeted investment, promote regulatory reform, and enhance economic growth (DPLG, 2008; Rogerson, 2010b). It also involved efforts to develop a sophisticated services sector through the attraction and retention of highly skilled workers, creation of knowledge networks, and promotion of research and development (Rogerson, 2006a; OECD, 2008). Finally, stakeholders in Cape Town, Johannesburg and Durban competed to attract tourists, multinational businesses and international conventions (Rogerson, 2000, 2002; Rogerson & Visser, 2007; Moodley, 2009).

The promotion of pro-growth LED is also practiced in South Africa's secondary cities, outlying areas, and under-developed regions. Early interventions included the creation of Industrial Development Zones (IDZs) which sought to increase local efficiency, competitiveness, exports and jobs (Rogerson, 1999a; Nel, 2000). The government also established Spatial Development Initiatives (SDIs) which promote the sustainable development of an area by identifying growth opportunities and removing investment barriers (Jourdan et al, 1996; Jourdan, 1998). Finally, in 2012 the South African Government began issuing plans for the creation of Special Economic Zones (SEZs) which will effectively replace the IDZs and place greater emphasis on innovation in peri-urban areas (DTI, 2012).

In South Africa's rural areas and communities the pro-growth approach has generally lacked an audience among rural LED practitioners, local authorities, and community groups (Abrahams, 2003). Despite this, authors such as Meyer-Stamer (2003) argue the importance of a growth-oriented approach that targets enterprise development by addressing market failures, identifying business opportunities, and increasing private sector involvement (Meyer-Stamer, 2003). Recently this approach has been applied to projects that promote niche agriculture markets, the development of green energy and biofuels, and the formation of tourism partnerships (Kepe et al, 2009; Meyer et al, 2009).

2.6.2. Pro-Poor LED

In contrast to the urban and regional focus of pro-growth LED, pro-poor interventions tend to address rural and small town development (Abrahams, 2003). These efforts focus on poverty alleviation and capacity enhancement (Moser, 1996, 1998) through the promotion of savings collectives and informal lending; improvements to housing, infrastructure and basic services; and support for economic initiatives through grant funding, skills training, micro-finance and the creation of new markets (Bond, 2002; Helmsing, 2003). However, the lack of infrastructure, low tax revenue and capacity shortages in these areas has resulted in few

examples of successful LED implementation (Meyer-Stamer, 2002; Marais & Botes, 2007; Nel, 2007; Human et al, 2008; Rogerson, 2008; Cohen, 2010).

The general lack of successful LED in South Africa's rural areas has led to a "legacy of support for unsustainable, low-skilled community projects which has negatively impacted perceptions of the efficacy of LED" (Nel et al, 2006). This reality has prompted some to argue that stakeholders and policy makers need to be more realistic about the potential for development in their communities (Filion, 1998). Thus, in the last decade many of these areas have shifted their focus to a people-centred approach that prioritises human capital development, SMME growth, public-private partnerships and targeted investment (World Bank, 2001; Abrahams, 2003; Rogerson, 2005, 2011; Nel and Rogerson, 2005a).

The outcome of this LED shift is an increased focus on demand-driven production as well as the attraction of private sector investment and knowledge (Patterson, 2008). In South Africa's rural areas and small towns the most sustainable of these initiatives have operated in the tourism and agriculture sectors (GGLN, 2008). The success of tourism projects is derived from direct revenue as well as the development of local supply chains (Meyer et al, 2004; Mitchell and Ashley, 2010) and has sparked several studies on the potential for agricultural, ecological and volunteer based tourism projects (Binns & Nel, 2002d; Rogerson, 2002b, 2002). However their viability requires identifiable markets, private sector involvement, adequate local skills, and effective land reform processes (Philander & Rogerson, 2001; Nel, 2006).

In South Africa although the pro-poor approach is dominant in rural and small town LED programmes there is also demand for these initiatives in urban centres (Rogerson, 2010, 2011). The opportunities for pro-poor LED in cities include improved service delivery (Bond, 2003); the demarcation of land for urban agriculture (Rogerson, 1999b, 2011); and zoning changes that will promote the development of small and micro businesses (Rogerson, 1999b, 2010, 2011). Partnerships between the city and service providers can also facilitate better opportunities for entrepreneurs and street traders through skills transfer, mentorship, and the development of formal markets (Skinner, 2000; Skinner & Valodia, 2003). Finally, central and local governments

can co-finance public work projects that improve infrastructure and create local jobs (Binns & Nel, 2003; Rogerson, 2011).

2.7. South Africa: LED Interventions

The pursuit of pro-growth and pro-poor LED objectives has resulted in a myriad of programmes in all areas of South Africa including large cities, smaller urban centres and outlying areas, and rural communities. This section provides an overview of some of the better documented interventions. The lessons learned from these interventions are often incorporated into new LED programmes such as Gijima KZN.

2.7.1. Large Urban Centres

The practice of LED by municipal governments became wide-spread in South Africa's large cities in the early and mid-1990s (Rogerson 1997a, 2011; Nel, 2001). In Cape Town the municipality embarked on large-scale tourism projects including the V&A Waterfront and the International Convention Centre (Nel, 2001). Similar initiatives aimed at boosting domestic, international and business tourism were mirrored by the Durban Municipality (Maharaj, 1998). South African cities also sought to entice investment in technology and manufacturing. For instance Cape Town courted emerging sector businesses (Rogerson, 2002d), Pretoria's city officials prioritised high-technology manufacturing, and Port Elizabeth pursued investment by general industry (Rogerson, 1997a).

In Johannesburg, the country's largest urban centre, LED was stimulated by a need to address the cities 'pariah' image following the end of apartheid (Fitzsimons, 1995; Rogerson, 1996b). The city also pursued LED in an attempt at urban renewal following the decline in manufacturing, increased unemployment, and the inner-city flight of many corporate head offices (Rogerson & Rogerson, 1995; Rogerson, 1996a, 1996b). To attract new interest in the CBD authorities embarked on a campaign to brand post-apartheid Johannesburg as a prime

location for the regional headquarters of international business and organisations (Rogerson 1997b, 2000). Initiatives included extensive commercial property development, residential upgrades, and investment in transportation infrastructure (Nel, 2001).

There are also several pro-poor LED initiatives that have been put into practice in South Africa's large urban centres. In Cape Town examples of pro-poor LED include expanded public works (Parnell et al, 2005) and urban cultivation projects (Rogerson, 2010b). In both Durban and Johannesburg pro-poor city planning has involved inner-city renewal strategies and sector targeting (Khosa & Naidoo, 1998; Bremmer, 2000; Rogerson, 2002c, 2003a). The best documented example of this is the enhanced competition and job creation produced by industrial clusters in Johannesburg's fashion district (Rogerson, 2001a, 2004; Cachia et al, 2004). Finally, Parnell (2004) argues that meaningful poverty reduction in Johannesburg required the coordination and scaling up of LED strategies under a single development agenda.

2.7.2. Secondary Cities and Towns

In the mid-1990s several smaller cities and towns also looked to LED to address their own economic crises, particularly those areas facing decline in their key industry (Binns & Nel, 2002a). In the mining towns of Kimberley, Klerksdorp and Welkom municipal authorities sought to attract manufacturing businesses to offset the impact of mine closures (Mosiane, 2000; Binns and Nel, 2002a; Nel & Hill, 2003). In Middleburg and Newcastle authorities launched campaigns to stimulate new investment in response to rapid decline in the local steel sector (Dauskardt, 1994; McDonald, 1996). Finally, in reaction to their diminished fishing industry the coastal towns of Stilbaai and Lamberts Bay implemented LED through community programmes, place marketing, and tourism promotion (Rogerson, 1997a, 2000; Nel, 2001; Binns & Nel, 2002d).

In other peripheral areas LED was prompted not only by social and economic crisis but also by the need to address the rapid increase in violence and crime (Rogerson, 1997a). One of the

first documented examples of this is the small city of Atlantis, a 'coloured' town created by apartheid spatial planners north of Cape Town (Rogerson, 1997a). Nel and Meston (1996) have carefully chronicled and praised the community's LED initiatives, which include creation of a business centre and development forum. This review was one of the first comprehensive assessments of small town and pro-poor South African LED. It is however an inescapable reality that the removal of industrial subsidies in Atlantis has resulted in numerous factory closures and an incredibly high jobless rates (Sunday Times, 2012) despite community efforts.

The most celebrated example of LED in a small South African city or town was that of Stutterheim in the Eastern Cape (Tandy, 1992; Bond, 1998). In Stutterheim the community embarked on a range of LED initiatives spearheaded by the Stutterheim Development Foundation and designed to address racial, spatial and economic inequalities (Tandy, 1992). Initially, these initiatives were praised by Tandy (1992) as 'innovative'; by Nussbaum (1997) for being 'inclusive'; and Nel (1994, p.35) as a "model for racial reconciliation and locality based development". However, as the glow of LED efforts faded others including Bond (1998) criticised the town's initiatives for consisting primarily of discrete, largely unsustainable projects.

2.7.3. Regions and Corridors

In the aftermath of apartheid regional economic growth and development was encouraged in specific areas through the promotion of export manufacturing and job creation (Rogerson, 1999a). Initially, the most notable of these efforts was the establishment of Industrial Development Zones (IDZs) such as the Coega and East London IDZs, both of which are located in the severely underdeveloped Eastern Cape. These IDZs were funded by government and provided incentives for industrial development and employment creation with the intention of enhancing local efficiency and competitiveness (Rogerson, 1999a; Nel, 2000). They were criticised, however, for producing limited, expensive and often temporary jobs with little skills development (Bond, 2002).

The South African government has also promoted corridor development, typically along major transportation routes, through the creation of Spatial Development Initiatives (SDIs) (Farooki, 2009). These SDIs are given significant short-term funding with the intention of increasing private sector investment, stimulating small business activity, and enhancing community empowerment (Jourdan et al, 1996). Several examples of SDIs include the KwaZulu-Natal Lubombo SDI and the Maputo Development Corridor. As with the IDZs there are those who argue that the SDIs contribute significantly to regional and local development (Rogerson, 2001b), while others criticise their top-down character, lack of market integration, environmental consequences, and high job creation costs (Pape, 2001; Bond, 2002).

2.7.4. Rural Areas and Communities

In South Africa the development challenges of high poverty, low skills development, poor infrastructure and limited resources are felt most severely in rural areas and communities, especially in the former Homelands (Du Toit, 2005). These areas also suffer so severely from lack of economic opportunity that in many areas residents subsist on social grants and remittances from migrant workers (Neves et al, 2009). The practice of LED therefore aims to create supplementary income and is typically initiated by women's groups and co-operatives (Taylor & Mackenzie, 1992; Brown, 1995).

In the early and mid-1990s rural LED ventures consisted predominantly of small-scale agricultural initiatives (Nel & McQuaid, 2002; Nel et al, 2006). The Mpofu District Municipality in the Eastern Cape provides several successful examples. These include the Philani Community Development Project which focused on small-scale farming and agro-tourism, the women's Zamukphila Co-operative which produced vegetables for commercial sale, and the Hertzog Agricultural Co-operative which employed existing skills and infrastructure (Binns & Nel, 1999; Nel, 2001). The challenges and successes of these initiatives highlight the need for strong

community leadership, cooperation and vision, as well as the importance of external support, advice and funding (Binns & Nel, 1999).

In the past decade the establishment of rural tourism routes has also become a common approach to LED (Rogerson, 2006c; ECI, 2006; Lourens, 2007a, 2007b). The motivation for these routes stems from their ability to increase the viability of “marginalised areas, stimulating social regeneration and improving the living conditions of rural communities” (Briedenhann & Wickens, 2004, p.71). Additional LED advantages include the benefits of collective marketing, business cluster development, and the creation of entrepreneurial opportunities (Briedenhann & Wickens, 2004; Rogerson, 2007). In South Africa examples of successful tourism routes include the Mothers of Creation route in the Western Cape (Lourens, 2007b); the eco-tourism based Ivory Route in the Limpopo Province (ECI Africa, 2006) and the Amathole Mountain Escape and Wild Coast Meander routes in the Eastern Cape, which provide a market for tourism in otherwise remote villages (Rogerson, 2003b; ECI Africa, 2006).

The literature on LED in South Africa’s cities, towns and rural areas during the time of political transition reveals that although their motivations were often similar they differed considerably in their resources, approach and outcomes. In all areas LED was seen as a response to economic hardship and unemployment using local resources and knowledge (Nel, 2001). However, due to funding and capacity constraints smaller communities and rural areas generally achieved much less through LED than urban centres (Nel, 2001; Hindson, 2003; Nel & Rogerson, 2005a, 2007; Rogerson, 2006a). This uneven performance has increased the countries spatial inequality and fuelled protests against poor service delivery in smaller communities (Legassick, 2010).

2.8. South Africa: Grant Funded Initiatives

The implementation of successful LED requires the commitment of significant economic resources (Samuelson, 1995; Servon, 1998). In South Africa a common approach to funding LED

is the provision of grants to approved projects, either through a formal LED programme or on an ad-hoc basis (Patterson, 2008). This funding is distributed by all three levels of government, big business, NGOs and development agencies (Nel & Humphrys, 1999; Patterson, 2008). The recipients of these grants are tasked with planning and implementing the initiative and include municipalities, community organisations, small enterprise, and entrepreneurs (Blakely & Leigh, 2009). Although there is insufficient space for a full audit of these programmes a review of two relevant initiatives is provided.

2.8.1. The LED Fund

In South Africa grant funded LED is often measured against and cautioned by the outcomes of the LED Fund (LEDF). The LEDF was a DPLG programme which operated from 1999 to 2002 and provided municipalities with grants of up to R1.5 million for job creation and poverty alleviation projects (DPLG, 2001). The programme was very popular, receiving 827 applications in the first two years (Binns & Nel, 2002c). However, the vast majority of these applications and most funded projects came from well-resourced municipalities with experienced staff, private sector partnerships and close community ties, while the country's poorest and least capacitated areas were largely absent from the process (Binns & Nel, 2002c). This revealed a catch-22 in South Africa's LED approach where, by virtue of their poverty, areas with the greatest need had the least access to funds.

The LED Fund was not only disappointing in its dispersal but also in its outcomes producing a host of small, unsustainable projects with little impact on poverty and unemployment (Marais & Botes, 2007; Patterson, 2008; Cohen, 2010; Rogerson, 2010a). These poor results are attributed to a lack of municipal capacity and vague understanding of what LED is (Marais & Botes, 2007; Patterson, 2008). There was also little support in terms of market research, technical assistance, and monitoring and evaluation (MXA, 2003; Patterson, 2008). Finally, few projects were financially sustainable as a result of poor management, insufficient markets and

the failure of local government to engage with beneficiaries and ensure projects would be carried on beyond exhaustion of the grant (Atkinson & Ingle, 2003).

Despite the lack of tangible outcomes the LEDF has had a significant impact on the practice of LED and the provision of grant funding in South Africa. On the one hand it changed local government's attitude towards LED, creating what Binns and Nel (2002c, p.9) call a "widespread crisis of expectation" among local government. On the other hand, failure of the LEDF to meet its pro-poor mandate also prompted the DPLG to issue a more conservative, growth oriented LED policy in 2006 (Nel et al, 2009). Finally, while the LEDF initiated the project-based approach to LED it also prompted caution in terms of the allocation of grant funding (Rogerson, 2011).

2.8.2. The EU Funded LED Programme

The European Union is South Africa's largest development donor focusing on alleviating poverty through a variety of initiatives (EU, 2007). In 2001 the EU partnered with provincial departments in Limpopo, KZN and the Eastern Cape to launch three grant financed LED programmes. These programmes targeted marginalised areas, specifically rural and peri-urban communities, and sought to promote equitable growth, poverty alleviation and enhanced competitiveness (DEDT, 2007; Patterson, 2008; Eastern Cape Provincial Government, 2011). Funding was divided in each province according to three objectives, namely capacity building in local government, business plan formation, and project implementation (DEDT, 2007; Patterson, 2008; Eastern Cape Provincial Government, 2011).

The three provincial programmes, although based on the same principles, were implemented in various ways under diverse economic circumstances and their outcomes differ widely. Although no single review of the EU Programme was conducted individual assessments indicate that the Limpopo programme resulted in the weakest LED impact with slightly better results in the Eastern Cape and much better outcomes in KZN (Patterson, 2008; UKZN, 2011). Overall the Limpopo and Eastern Cape programmes produced many unsuccessful projects, most of which

collapsed following exhaustion of the grants (Lyonette & Pearson, 2010; Marais 2010). The relatively poor outcomes in these two provinces is attributed to a lack of capacity in provincial government as well as the inability of many programme applicants to secure co-funding (G. McDonald, 2011, pers. comm.).

In KZN the EU Programme was implemented in joint effort with the Provincial DEDT and was known as the Gijima KZN Programme. As discussed earlier, the programme consisted of three separate funds, the Business Enabling Fund (BEF), Competitiveness Action Plan (CAP) and the Local Competitiveness Fund Implementation (LCFI) (DEDT, 2007). The first two programmes sought to enable business development by funding public sector projects and business plan creation (DEDT, 2004). A review of the BEF and CAP funds praises their innovative approach to non-metropolitan LED, the employment of stricter funding criteria, and increased private and civil sector involvement (Marais, 2010). The review also criticises these two funds however for their supply-driven approach, which relied heavily on consultants and did little to enhance access for the poor (Marais, 2010). This was linked to a lack of planning and little consideration for international development trends, risk assessment and ensuring sustainability (Marais, 2010).

The LCFI was the third fund in the programme Gijima KZN and is the focus of this study. It provided grant funding for the implementation of LED projects with the aim of simultaneously achieving economic development and poverty alleviation (DEDT, 2004). A socio-economic impact assessment of the LCFI concluded that it had the greatest impact of the three Gijima KZN funds, noting that it was one of South Africa's most successful LED interventions to date (UKZN, 2011). The LCFI is specifically praised for creating a notable number of jobs, especially in light of the recession; promoting partnership formation between emerging businesses and local communities; and allowing for the successful up-scaling of existing enterprise (UKZN, 2011). The impact assessment concluded by declaring the LCFI a "very significant intervention in terms of its scale and its approach" (UKZN, 2011, p.96).

The impact assessment also identified several problems in terms of programme design and implementation. It noted that the LCFI fund was constrained by the administrative burden placed on applicants and grant recipients, as well as the perceived lack of 'on the ground' understanding by Gijima KZN staff (UKZN, 2011). In terms of the socio-economic impact of the LCFI the assessment concluded that this was limited due to unrealistic objectives, the unpreparedness of project managers, inconsistent financial commitment by grant recipients, weak partnerships, and ineffective mechanisms for involving beneficiaries (UKZN, 2011). Finally, the LCFI impact assessment questioned whether grant funding is the most appropriate mechanism for promoting LED given existing market barriers (UKZN, 2011).

2.8.3. The Role of Co-funding

The promotion of successful LED through grant financing faces several significant challenges. These challenges are often related to the mismatch between project and programme objectives as well as a lack of capacity and commitment on behalf of the implementing partner (Marais & Botes, 2007; Marais, 2010; UKZN, 2011). To address this issue it is increasingly common for grant programmes, such as the Gijima KZN LCFI, to require some degree of co-funding from grant recipients (R. Persad, 2011, pers. comm.). These co-funding requirements are the main focus of the current study. Thus, the purpose of this section is to provide background to the issue of co-funding in South African LED and establish the wider applicability of this research.

The South African government, development banks and private sector operate a range of LED grant programmes that employ co-funding requirements. These include the DTIs Co-operative Incentive Scheme (CIS), Manufacturing and Tourism Investment Programmes (MIP and TIP), and the Black Business Supplier Development Programme (BBSDP) which require 10%, 30% and 50% co-funding respectively (DTI, 2011). The DBSA and government have also partnered in the 9 billion rand Jobs Fund, which provides 50% co-financing for job creation initiatives (DBSA, 2011). Finally, the Business Trust Shared Growth Challenge Fund redistributes R35.5 million in

private sector contributions to small business through the provision of 50/50 cost-sharing grants (Business Trust, 2011).

The South African LED grant system therefore relies heavily on co-funding as a risk sharing mechanism. However, despite this there has been limited research into the applicability of co-funding and its impact on programme success. This research gap forms part of what Rogerson (2006a) describes as the need for investigation into South Africa's LED funding arrangements. This lack of investigation is also acknowledged by Diaz & Hansel (2007, p.2) who describe the study of "risk sharing arrangements in weaker, fragmented value chains" as an area requiring further research. The current study seeks to address this gap through the investigation of co-funding arrangements in the Gijima KZN LCFI programme.

2.9. International Norms: Shaping LED in South Africa

The preceding review highlighted the important role of international experience and government policy directives in shaping South African LED (Nel & John, 2006). The greatest practical influence has come from the US and UK which possess a wealth of LED knowledge, as well as Australia where response to small town decline was similar to that of South Africa (Rogerson, 2009). In terms of policy however the LED framework for South Africa oscillated between the internationally endorsed emphasis on growth and the domestic demand for poverty alleviation (Nel, 2001; Rogerson, 2003b). This attempted reconciliation between international best practices and practical local challenges is reflected in the design of the Gijima KZN programme.

The implementation of pro-growth LED occurred primarily in South Africa's cities and marginalised areas and involved approaches similar to those pursued in the US in the 1970s (Clark & Gaile, 1998). On the other hand many small towns and rural areas diverged from international norms by emphasising poverty alleviation which culminated in the creation of the LED Fund (LEDF) (Rogerson, 2010a). The LEDF provided national funding for local initiatives, an

approach common in the US and UK but a relative first in South Africa (Binns and Nel, 2002c). It differed from the US and UK model however in its reliance on competitive assessment rather than rigid funding criteria (Binns and Nel, 2002c; Atkinson & Ingle, 2003). This provided local authorities a level of autonomy more in line with the experience of French, Spanish and Portuguese cities in the 1980s (Moulaert & Demaziere, 1995; Binns & Nel, 2002c). This approach was adopted by Gijima KZN for their competitively allocated LCFI programme which extended grant funding beyond local government to include the private sector and civil society.

In recent years the LED process in South Africa has incorporated many of the modern priorities of the developed world. According to Nel (2007) this includes an emphasis on aligning government strategies, improving quality of life, and targeting specific areas and industries. However, Nel (2007) goes on to argue that there is little progress in terms of partnership formation, knowledge sharing, skills development and technology transfer. At present the literature suggests that the most distinct features of LED in South Africa include the focus on poverty alleviation, economic integration, and the reliance on local government regardless of demonstrated capacity constraints (Binns & Nel, 2002c; Patterson, 2008; Rogerson, 2011).

CHAPTER 3: THEORETICAL FRAMEWORK – AGENCY THEORY

The theoretical framework for this study is based on agency theory, which seeks to reconcile problems that arise in the principal-agent relationship (Eisenhardt, 1989). This chapter provides an overview of the theories origins and applications including those related to the current study. It also includes a detailed description of the theory and associated concepts of asymmetric information, adverse selection and moral hazard. Finally, the application of agency theory to LED programme design is examined under the assumption that the objectives and risk preferences of the Gijima KZN programme are not clearly aligned to those of the grant recipients.

3.1. Origins of Agency Theory

The principal-agent relationship was first conceptualised in Berle and Means 1932 study of decision making patterns among a firm's owners and managers. This study looks specifically at the 'agency problems' that arise when business owners have less information and different objectives than the managers they employ. In the late 1960s and early 1970s Wilson (1968) and Arrow (1971) introduced the concept of risk sharing to these discussions. They defined risk sharing problems as the conflict that arises when two parties have different attitudes towards risk. This coupling of agency problems and risk sharing laid the foundation for agency theory.

The further articulation of agency theory is attributed to several key pieces. The first was Alchian and Demsetz's 1972 study which employed agency theory in an analysis of teamwork productivity and the role of individual incentives and monitoring. This was followed by Ross's 1973 article on agency theory and the principal's selection of optimal compensation for the agent. In 1976 Jensen and Meckling expanded on the idea of optimal compensation using the metaphor of a contract in what is typically considered the seminal piece on agency theory. Finally, in the mid to late-1980s Eisenhardt (1985, 1989) produced several articles discussing agency theory in great detail and clarifying its application to organisational economics.

A review of agency theory is not complete however without discussing information asymmetry, a concept developed by Nobel Prize laureates Akerlof, Spence and Stiglitz. The concept of information asymmetry was introduced by Akerlof (1970) in his seminal piece on adverse selection in markets where the seller has more information about a product than the buyer. Spence (1973, 1974) expanded on these discussions of by demonstrating how agents can use 'signalling' to counteract the effect of adverse selection. Through signalling these agents are able to reassure the other party that their product or service is of a certain value. Finally, through a series of articles Stiglitz and various co-authors (Stiglitz, 1974, 1979; Grossman & Stiglitz, 1976; Rothschild & Stiglitz, 1976) developed the concept of 'screening', which allows the principal to identify the agent's attitude towards risk by offering a variety of contracts.

3.2. The Principal-Agent Relationship

The principal-agent relationship is one of the most pervasive forms of social interaction (Ross, 1973). It occurs in situations where one party, the principal, provides financial incentive to another party, the agent, to act on their behalf (Jensen & Meckling, 1976; Shavell, 1979; Arrow, 1985). The principal-agent relationship occurs in almost all contractual arrangements including those between a seller and buyer, employer and employee, and a bank and client (Harris & Raviv, 1979; Bergen et al, 1992; Holland, 2006). In the current study the principal is represented by Gijima KZN while the agents are those receiving financial incentive in the form of an LCFI grant.

The relationship between a principal and an agent is typically characterised by information asymmetries and different attitudes towards risk (Harris & Raviv, 1979; Eisenhardt, 1989). Information asymmetries occur when the agent has greater knowledge about their actions and abilities than the principal which allows them to act in their own self-interest (Pratt & Zeckhauser, 1985; Waterman & Meier, 1998). These asymmetries are of particular concern in

situations where it is difficult or costly for the principal to monitor the agent's actions or determine their true attributes (Holmstrom, 1979; Miller, 2005).

In the principal-agent relationship it is also assumed that the agent is more risk-averse than the principal (Shavell, 1979). The rationale behind this assumption is that agents are less willing to take on risk because their welfare relies heavily on the specific outcomes of the arrangement while the principal is able to derive welfare from several sources (Hart & Holmstrom, 1987). It is also assumed that the agent is reluctant to assume greater risk because of outcome uncertainty, implying that the outcome of each arrangement is influenced not only by their actions, effort and ability but also by exogenous factors such as government policy, technological advances, economic climate, and competitor behaviour (Leblebici & Schneck, 1981; Dess & Beard, 1984; Eisenhardt, 1989).

The presence of information asymmetry and a risk-averse agent give rise to several problems in the principal-agent relationship, namely adverse selection and moral hazard (Rubin, 1978; Mathewson & Winter, 1985; Brickley & Dark, 1987). The purpose of agency theory is to address these problems by determining the ideal contract between the two parties (Jensen & Meckling, 1976). The following sub-sections provide a description of adverse selection and moral hazard as well as the methods used to determine optimal contract arrangements. This is followed by an application of agency theory to the current study including justification for the use of this theory in designing grant funded programmes.

3.2.1 Adverse Selection

The problem of adverse selection arises in situations of information asymmetry where the agent is able to misrepresent their abilities or the quality of their product to the principal (Akerlof, 1970; Spence, 1973; Eisenhardt, 1989; Mishra et al, 1998). This problem is resolved by the agent's use of signals which Spence (1973) argues must be differentially costly in order to be effective. In previous research these signals have included product warranties for consumer

goods (Cooper & Ross, 1985; Lutz, 1989), collateral in business and project financing (Barro, 1976; Besanko & Thakor, 1987), and the education levels of job applicants (Spence, 1973; Shapiro, 1986).

In the current study the potential for adverse selection arises when the agent, or grant beneficiary, exaggerates their projects potential and/or their ability to execute efficient implementation. In this scenario co-funding commitments represent a signal of the grant beneficiaries confidence and abilities. Although this is the first application of adverse selection in a study of development project finance it has been used previously in research on entrepreneurship (Webb, 1991; Amit et al, 1993;), venture capital (Barry, 1994; Fried & Hisrich, 1994; Cumming, 2006; Van Osnabrugge, 2010), and international development aid (Zetland, 2007).

3.2.2 Moral Hazard

The issue of moral hazard is described by Holstrom (1979) as an ‘incentive problem’ that occurs in situations where the interests of two parties are not perfectly aligned and asymmetric information exists. In the principal-agent relationship this is manifested as a lack of effort on behalf of the agent which results in sub-optimal outcomes (Allen, 1985; Eisenhardt, 1989). Moral hazard is overcome either through the principals careful monitoring of the agent’s actions or the transfer of some risk from the principal to the agent (Harris & Raviv, 1979; Shavel, 1979; Grossman & Hart, 1983).

In the current study moral hazard occurs when the agent, or grant recipient, puts less effort into the implementation of their project than what is expected by the principal, Gijima KZN. In this scenario the potential for moral hazard is heightened when the projects are located in remote areas and thus are costly to monitor, as well as when the outcomes of a project are difficult to quantify and evaluate. As with the concept of adverse selection this study is the first to examine issues of moral hazard in the funding of local development projects. Earlier scholars

have however examined moral hazard in the distribution of venture capital (Bergemann & Hege, 1998; Wang & Zhou, 2004) and microfinance (Navajas et al, 2003; Simtowe et al, 2006), as well as the allocation of international aid to third-world governments (Goldsmith, 2001; Brautigam & Knack, 2004; Amegashie et al, 2007).

3.3. Agency Theory and the Optimal Contract

The purpose of agency theory is to determine the optimal contract between a principal and an agent given the assumptions of risk aversion, goal conflict and information asymmetry (Baker, 1992; Allen & Weck, 1995; Wright et al, 2001). This contract will align compensation to either the agent's behaviour or the outcomes of their actions (Eisenhardt, 1989). In behaviour-based contracts the principal invests in information systems that allow them to monitor the agent's actions and ensure that they align to their own preferences (Eisenhardt, 1985, 1989; Bergen et al, 1992). These information systems vary according to the circumstances of the relationship and include reporting procedures, budgeting systems, and additional management (Amershi & Hughes, 1989; Eisenhardt, 1989).

The second type of contract available to the principal provides remuneration to the agent according to the realised outcomes of their actions (Holstrom, 1979; Grossman & Hart, 1983; Eisenhardt, 1989). These outcome-based contracts are designed to motivate the agent to act according to the preferences of the principal (Eisenhardt, 1989). This motivation is achieved through *incentive compatibility* which occurs when risk is transferred from the principal to the agent in order to align the objectives of the two parties (Hurwicz, 1972; Eisenhardt, 1989; Bergen et al, 1992). The use of outcome-based contracts is common among sale personnel and product manufacturers (Eisenhardt, 1989).

The challenge for the principal is therefore to determine which type of contract is most efficient, behaviour-based or outcome-based (Grossman & Hart, 1983; Eisenhardt, 1989). This

decision depends largely on the trade-off between the cost of monitoring the agent’s actions and the cost of transferring risk (Grossman & Hart, 1983; Prendergast, 1999, 2002). It is also influenced by several other variables which Eisenhardt (1989) describes as extensions of the principal-agent model. These variables and their impact on the relative efficiency of behaviour and outcome-based contracts are presented in Table 1.

Table 1: Variables influencing the relative efficiency of behaviour-based and outcome-based contracts

	Behaviour-based contracts are more efficient when:	Outcome-based contracts are more efficient when:
Monitoring Ability	High	Low
Information Systems	Affordable	Expensive
Task Programmability	High	Low
Length of Relationship	Long	Short
Goal Compatibility	High	Low
Outcome Uncertainty	High	Low
Outcome Measurability	Low	High

Source: Adapted from Lassar and Kerr (1996) and Eisenhardt (1989)

The information in Table 1 illustrates the positive relationship between behaviour-based contracts and the principal’s ability to monitor the agent’s actions. Thus, behaviour-based contracts are more efficient when monitoring systems are affordable (Eisenhardt, 1989); the agent’s tasks can be specified or programmed in advance (Eisenhardt, 1985, 1988, 1989; Vlaar, 2008); and the principal and agent are engaged in a long-term relationship (Lambert, 1983; Eisenhardt, 1989). Behaviour-based contracts are also preferred when the principal and the agent share similar goals (Eisenhardt, 1989). This scenario is common in highly socialised or family firms (Ouchi, 1979; Gomez-Mejia et al, 2011) and developmental or humanitarian interventions (Perrow, 1986).

The relative efficiency of the two contracts is also influenced by outcome uncertainty and measurability (Dess & Beard, 1984; Eisenhardt, 1989). As indicated in Table 1 the efficiency of outcome-based contracts is greater when outcome uncertainty is low and measurability is high

(Eisenhardt, 1989; Lassar & Kerr, 1996). In other words outcome-based contracts are most attractive when there is limited impact from exogenous factors, such as public policy and economic climate, and the outcomes can be readily measured or quantified (Eisenhardt, 1989; Bergen et al, 1992). Contrarily, behaviour-based contracts are efficient when outcomes are difficult to observe and quantify (Eisenhardt, 1989).

The decision whether to engage in behaviour or outcome based contracts therefore depends on the characteristics of the principal and the agent, the type of activity involved in the contract, and the degree of environmental uncertainty (Eisenhardt, 1989; Bergen et al, 1992; Lassar & Kerr, 1996). This system of evaluation provides important insight into the appropriateness of funding arrangements and monitoring processes in the current study. Thus, it will be utilised in later chapters as a tool for assessing the effectiveness of co-funding contracts and providing recommendations for improved grant funding.

3.4 Applications of Agency Theory

Agency theory is widely applicable in situations where one party provides financial incentive to another to carry out some task. It has been used by scholars in a range of disciplines including economics, accounting, marketing, finance, and political-science (Eisenhardt, 1989; Kiser, 1999). The theory is most frequently applied in studies of organisational behaviour including phenomena such as acquisitions and takeovers (Amihud & Levi, 1981; Walking & Long, 2011), compensation (Eisenhardt, 1988; Parks & Conlon, 1995; Stroketal, 1996), ownership arrangements (Jensen & Meckling, 1976; Crutchley & Hansen, 1989; Li, 1994; Ang et al, 2000), vertical integration (Anderson, 1985; Carney & Gedajlovic, 2006), and innovation (Holstrom, 1989; Jones & Butler, 1992; J. Francis & A. Smith, 1995).

The use of agency theory in the current study is related to earlier research on project financing and the relationship between the financier and the implementing partner. Specific applications have included public-private financing (John & John, 1991; Farrel, 2003; Lyonet du Moutier,

2010), European Union member country funding, (Martin, 2006), and the allocation of venture capital (Shepherd & Zacharakis, 2001; Arthurs & Busenitz, 2003). Agency theory was also recently extended to address issues of funding efficiency in the developing world. More specifically these studies look at the privatisation of local government services (Brown et al, 2006; Amagoh, 2009), micro-credit arrangements (Armendariz & Morduch, 2005; Obayumi, 2011), and NGO funding (Peterson, 2010).

Previous applications of agency theory provide an important theoretical foundation for the current study. Firstly, this research establishes agency theory as an appropriate lens through which to examine project finance (John & John, 1991; Shepherd & Zacharakis, 2001; Arthurs & Busenitz, 2003; Farrel, 2003; Gutner, 2005; Martin, 2006; Lyonet du Moutier, 2010). Secondly, it justifies considering development finance distribution in terms of the principal-agent relationship (Armendariz & Morduch, 2005; Peterson, 2010; Obayumi, 2011). Finally, these previous studies put forth the argument that co-funding is an effective but not sufficient mechanism for sharing risk in situations of asymmetric information (Arping et al, 2009; De Rus & Socorro, 2009; Michela & Florio, 2009; Socorro, 2009). The current study seeks to build on this foundation by using agency theory to assess the impact of co-funding requirements on the success of grant funded LED projects.

3.5. Agency Theory Critiques

The development and widespread application of agency theory has drawn significant criticism for its arguably unrealistic assumptions about human behaviour (Banfield, 1975; Mitnick, 1992; Shapiro, 2005; Hartman, 2008a, 2008b). In his pointed critique Perrow (1986) decries the theory as trivial, dehumanising and even dangerous. The rationale for this criticism is that agency theory dismisses morals, ethics and altruism and instead assumes that the agent is concerned exclusively with their own profit maximisation (Perrow, 1986; Brennan, 1994; Heath, 2009). Several critics even go so far as to argue that agency theory is self-fulfilling such that institutional acceptance and the teaching of its principles exacerbate the level of self-interested

behaviour (Perrow, 1986; Mitroff, 2004; Ghoshal, 2005; Heath, 2009). The standard response to this criticism is to argue that problems arise in a principal-agent relationship not because the two parties are entirely self-interested but because their preferences differ (Gauthier, 1986; Dees, 1992; Heath, 2009). It is also not necessary that goal conflict be absolute but instead it can exist in varying degrees creating what Waterman and Meier (1998, p.176) call a “dynamic process of interaction”. This defence of agency theory is particularly relevant to the current study where it is assumed that the goals of the grant beneficiaries are shaped by both self-interest and altruism. Thus, the alignment of these goals to those of Gijima KZN varies depending on the nature of the project and the individual characteristics of actors involved.

CHAPTER 4 – METHODOLOGY

The purpose of this chapter is to present the methodology used in the current study. This methodology is designed according to the grounded theory method of research which guided the identification, collection and analysis of data. The research was conducted in two distinct phases and involved both primary and secondary information.

4.1 Grounded Theory Methods

The current study was conducted using the grounded theory method which is defined by its founders as the “discovery of theory from data” (Glaser & Strauss, 1967, p.1). The grounded theory method differs from other qualitative approaches in that the theory is not proven or disproven by the data but instead is derived from it (Strauss & Corbin, 2007). Thus it requires a significant amount of preliminary research through which the research questions are identified (Charmaz, 2003). The benefit of using the grounded theory method is that it allows for the development of a theory that is both descriptive and explanatory (Glaser & Strauss, 1967; Glaser, 2002).

The grounded theory method is most commonly employed in health care related studies but has also been used sporadically in economic research. The earliest examples are Andrews (1949, 1964) investigation into competitive oligopoly and Cyert and March’s (1992) study of behavioural decision making in large firms. More recently Lee (1998) used grounded theory methods in his research on post-Keynesian pricing and Sutton (1998) in his examination of research and development, market structure and concentration. Finally, both grounded methods and the agency theory framework were applied to Reid’s (1996, 1998) analysis of venture capital funding for small business.

The grounded theory method was deemed appropriate for the current study for several reasons. First, it is a qualitative method that is also compatible with quantitative research

(Baker et al, 1992). This allows for the inclusion of data from in-depth interviews as well as project documents and figures. Second, the problem statement for this study was arrived upon through analysis of preliminary research which is a process central to the grounded theory method (Charmaz, 2003). Finally, the grounded theory method uses theoretical sampling which allows the sample size and sources of data to be continuously expanded until no new revelations appear likely (Strauss & Corbin, 1990). This sampling method was compatible with the current study as information was continuously made available and the sample size expanded to remove bias.

4.2 Preliminary Research

The research for the current study was conducted in two distinct phases. The first phase involved preliminary research which occurred during the scholar's participation in a socio-economic impact assessment of the Gijima KZN LCFI programme. This assessment was undertaken by a team of academics and researchers from the UKZN School of Development Studies (SODS) and began in September 2010. The objective was to quantify the tangible economic impact of the LCFI programme, evaluate the appropriateness and efficiency of the funding approach, and identify lessons that can be learned from the process (KZN DEDT, 2010).

The LCFI impact assessment included a review of LED literature and programme documents. This provided an understanding of LED in South Africa and a confirmation of the programme objectives and how they were pursued. The assessment also focused on comparative case studies of 14 funded and 14 unfunded projects from which 8 completed projects were selected for in-depth analysis. This research involved interviews with project managers, co-funding and implementation partners, and beneficiaries. The researcher was involved in each of these processes as well as data analysis and the compilation of the final report which was submitted

in May 2011.³ In keeping with grounded theory methods this early review provided background to the current study but did not directly influence the findings (Strauss, 1987; Dey, 1999).

Participation in the LCFI impact assessment provided the researcher with an opportunity to thoroughly examine the programme and identify aspects that warranted further investigation. It was through this process that the correlation between co-funding arrangements and project outcomes was observed. Following this, the continued analysis of documentation and interviews revealed that project ownership, risk sharing, sustainability, onerous reporting requirements and partnership development were also key themes. This process of identifying categories and classifying information is central to the grounded theory method (Glaser, 1965, 1992; Strauss & Corbin, 1997). In the current study it allowed for the formation of research questions and provided the framework for continued investigation.

4.3 Primary Research

The primary research phase was conducted over a four month period following completion of the LCFI impact assessment. This research focused on examining the importance of co-funding in the LCFI programme and the relationship between the source of co-funding and project outcomes. It included data collection from programme and project documents; interviews with numerous stakeholders; and the review of transcripts from earlier research. As with the preliminary phase the primary research also employed grounded theory methods including theoretical sampling and the simultaneous collection and analysis of data (Strauss & Corbin, 1990; Charmaz, 2003).

The review of programme and project documents included all 183 funding applications, project evaluations from each of the five calls for proposals, as well as interim and close-out reports

³ Interested parties should refer to the LCFI Impact Assessment Report (2011), available from the KZN DEDT, for further information on the programme.

from all 25 completed projects.⁴ The focus of this investigation was to determine the relationship between co-funding arrangements and the projects outcomes. This information also informed questions asked during personal and phone interviews conducted with the managers of all 25 completed projects⁵, as well as various service providers, co-funders and implementing partners.⁶ The decision whether or not to interview additional stakeholders and to visit the project site was based on the nature of the project, measurability of the outcomes, and identified need for clarification.

The primary research phase also included semi-structured interviews with individuals directly and indirectly involved with the LCFI Programme.⁷ This included the Gijima KZN programme manager, heads of the programme coordinating and financial contracting units, and several area managers, as well as LCFI funding forum members from ABSA, Nedbank and the DBSA. Information was also gathered from the transcripts of 19 ‘expert’ interviews conducted during the LCFI impact assessment.⁸ Finally, an external opinion on LED grant funding was provided by an executive manager of the Business Trust Shared Growth Challenge Fund which provides co-funded grants to pro-poor LED projects throughout South Africa. The information gathered in these interviews was used to determine the intended role of co-funding in the LCFI programme; perceptions regarding its impact on the project outcomes; and expert opinion on co-funding as a risk sharing mechanism.

4.4. Data Analysis

The data analysis occurred over several months and involved the careful comparison and evaluation of information from all sources according to the grounded theory method. This allowed for a holistic examination of co-funding using informed feedback from stakeholders as

⁴ Refer to Appendix A for a brief description of each completed project.

⁵ A project was classified as completed if the grant beneficiary had received and spent the bulk of their allocated LCFI funding and submitted a close-out report to Gijima KZN.

⁶ Refer to Appendix B for a list of project related interviews.

⁷ The researcher conducted a total of 50 interviews with project and programme stakeholders, including 15 during preliminary research.⁷

⁸ Refer to Appendix C for a list of all expert interviews.

well as the comparison of completed projects. The completed projects were divided into 3 categories depending on the source of their co-funding. These categories and the number of projects in each are:

- 1. Internally Co-funded (14 projects):** Co-funding was provided by the LCFI grant recipient through some form of own-contribution. This includes money from savings as well as bank loans.
- 2. Externally Co-funded (5 projects):** Co-funding was provided by additional grants or donations including funding from NGOs, development agencies, and private donations.
- 3. Government Co-funded (6 projects):** Co-funding was provided by the relevant local government or a government department. This co-funding was offered as a grant with no obligations for repayment.

The projects in each category were evaluated in order to determine the relationship between co-funding arrangements and project outcomes. This evaluation was conducted according to the LCFI evaluation criteria provided in the Operational Manual for Grant Schemes (DEDT & EC, 2004)⁹. This manual was a joint product of the KZN DEDT and the European Commission and included the following eight indicators:

1. Employment creation and poverty alleviation.
2. Closing the gap between the first and second economy.¹⁰
3. Development of economic infrastructure.
4. Skills development that meets local economic demands.
5. Achieving the priorities of Black Economic Empowerment (BEE).¹¹
6. Impact on the local economy.
7. Extent of private sector support and financing.
8. Economic and financial sustainability of project benefits.

⁹ The Operations Manual for Grant Schemes based the LCFI evaluation criteria on the guidelines for prioritising interventions provided in the KZN Provincial Growth and Development Strategy (2004-2014).

¹⁰ Aliber, Kirsten, and Maharajh (2006) define the first economy as a “globally integrated world of production, exchange and consumption” and the second economy as a “constrained world of informality, poverty, and marginalisation”.

¹¹ The concept of Black Economic Empowerment (BEE) is defined in the Broad-Based Black Economic Empowerment Act (2003) as the “meaningful participation of black people in the economy” (RSA, 2003).

The 25 completed LCFI projects were given a score of 1 to 5 for each of the above criteria. This scoring system is based on the European Commission’s standard evaluation grid provided in Table 2. This grid is used in all programme funded by the European Commission including the Gijima KZN LCFI (DEDT & EC, 2004; EU, 2012).

Table 2: The European Commission’s Standard Evaluation Grid

Score	Meaning
1	Very Poor
2	Poor
3	Adequate
4	Good
5	Very Good

The project evaluations combined the quantitative results from project documentation and evaluations with the qualitative responses from project and programme stakeholders. The benefits of integrating the two approaches are discussed in Bamberger (2000) and include the incorporation of different perspectives and methods; the opportunity to acquire feedback and assist with the interpretation of findings; and greater consistency in the research conclusions. The remainder of this study uses the outcomes of this analysis to extract and discuss research findings and develop conclusions and recommendations regarding co-funding and grant finance.

4.5 Strength’s and Limitations

The methodology used in the current study has several key strengths and limitations. The greatest strength is that it allowed for continuous data collection over nine months facilitated by the researcher’s role in the LCFI Impact Assessment and the grounded theory method. This

enabled the researcher to gain extensive knowledge of the projects involved. It also allowed for more accurate measures of sustainability as the preliminary research was conducted during the final stages of implementation while the primary research occurred after the exhaustion of grant funding.

A second important strength of the methodology is derived from the breadth of the LCFI programme which financed a range of public, private and civil society initiatives. This allowed for comparative analysis across several variables within a single programme. The range of projects also however provided several challenges in terms of comparing outcomes between projects with very different objectives, levels of funding, and implementation timeframes. This issue is also highlighted in other evaluation studies which recommend that project success be considered on an individual basis (Turok & Wannop, 1990; Foley, 1992).

Additional limitations in the research methodology include the inaccuracy found in many project interim and close-out reports, especially relating to revenue, sustainability and job creation outcomes. These inaccuracies were unearthed during interviews with project managers, employees and beneficiaries, and are a result of the desire to placate Gijima KZN administrators. Although in some cases the discussion of these inaccuracies enhanced the study it is possible that several respondents remained dishonest about their projects resulting in a potential bias towards successful implementation and sustainability.

The different level of knowledge gained about some projects over others also posed a specific constraint in terms of producing unbiased and informed results. This limitation is a consequence of the researcher's participation in the LCFI impact assessment where only some projects were visited and interrogated. Attempts were made to remedy this by conducting site-visits with the additional projects during the principal research phase however due to geographical distance and financial limitations it was not possible to visit every completed project.

CHAPTER 5: RESEARCH FINDINGS

The purpose of this chapter is to present the research findings from the comparative analysis of completed projects. As discussed in the methodology these projects were divided into three co-funding categories and compared according to their achievement of LCFI outcomes. The scores for each individual project as well as the average scores for each category and group of projects co-funding group are presented in Table 3 and discussed in the following chapter.

Table 3: Analysis of project outcomes

	Employment creation and poverty alleviation.	Closing the gap between the first and second economy.	Development of economic infrastructure.	Skills development that meets local economic demands.	Achieving the priorities of Black Economic Empowerment (BEE).	Impact on the local economy.	Extent of private sector support and financing.	sustainability of project benefits.	TOTALS
Internal Co-Funding									
1) Illovo Sugar Umzimkulu	4	5	1	1	3	2	4	3	23
2) Umlalazi Small Cane Growers	4	5	1	3	3	2	4	3	25
3) Darnall Sugar Cane	4	5	1	1	3	2	4	3	23
4) Noodsberg Cane Growers	4	5	1	3	3	2	4	3	25
5) Illovo Sugar Sizele Mill	4	5	1	1	3	2	4	3	23
6) Kwakhoza Cane Project	4	5	1	3	3	2	4	4	26
7) Isinembe Cane Growers	4	5	1	3	3	2	4	4	26
8) Wilderness Safaris Dive Camp	5	4	5	2	4	4	5	5	34
9) BlueBrand Beef Eshowe Abattoir	5	2	5	3	4	4	5	5	33
10) Stables Wine Estate	2	1	1	1	1	1	3	1	11
11) Crosswind Maize Mill	4	4	4	2	4	3	4	4	29
12) Corrida Shoes Thread of Hope	5	2	2	4	3	4	4	5	29
13) Africa Media Online	3	2	1	3	1	2	4	4	20
14) Superior Vegetables Farming	3	4	4	3	5	3	4	4	30
Average	3.9	3.9	2.1	2.4	3.1	2.5	4.1	3.6	25.5
External Co-Funding									
15) Eshowe Craft Support Agency	3	5	1	5	3	3	1	4	25
16) Hlabisa Sugarcane Project	1	3	1	1	3	2	1	2	14
17) Muthi Futhi	3	2	1	2	2	2	1	2	15
18) Project Preparation Trust	3	5	1	5	4	5	1	4	28
19) Gateway Tourism Initiative	3	2	4	3	2	3	1	4	22
20) Zikulise Support & Training Centre	3	5	4	5	4	4	3	4	32
Average	2.2	3.7	2.0	3.5	3.0	3.2	1.3	3.3	22.7
Government Co-Funding									
21) Ugu Fresh Produce Market Packhouse	1	2	3	1	1	2	1	2	13
22) KwaXolo Chicken Abattoir	2	3	4	5	3	3	3	3	26
23) Aloe and Berg Tea	1	1	2	1	2	2	1	2	12
24) Nkandla Essential Oils	2	2	1	2	2	2	1	2	14
25) Sisonke Express	1	2	5	2	2	3	4	4	23
Average	1.4	2.0	3.0	2.2	2.0	2.4	2.0	2.6	17.6

The internal co-funding group achieved the highest average score in terms of LED outcomes and sustainability with an average of 25.5 out of a possible 40. The two top scoring projects in the LCFI programme also belong to this group, namely the Wilderness Safaris Dive Camp and the BlueBrand Beef Eshowe Abattoir which scored 34 and 33 respectively. Finally, the internal co-funding group also included the only project planned and implemented by a Previously Disadvantaged Individual (PDI), namely Superior Vegetables Farming. This project was one of the best performers in the programme according to the above mentioned indicators scoring a total of 30 points.

The external co-funding group achieved the second highest average score with 22.7 out of a possible 40. Notably, the scores within this co-funding group varied considerably with the skills based initiatives achieving significantly better outcomes than the projects pursuing enterprise development. The government co-funding group registered the poorest results in terms of LED outcomes and sustainability scoring an average of only 17.6 out of a possible 40. This group also included three of the LCFI programmes worst performers, namely Aloe and Berg Tea, Nkandla Essential Oils, and the Ugu Fresh Produce Packhouse.

CHAPTER 6: DISCUSSION

The purpose of this chapter is to discuss the evaluation of LCFI project outcomes and the relationship between these outcomes and co-funding arrangements. This discussion draws on primary and secondary data including interviews and project reports. Information is also incorporated from interviews with Gijima KZN staff, external experts, and applicants from cancelled projects. This discussion will inform conclusions and recommendations regarding the effectiveness of co-funding in LED grant programmes.

6.1. Employment Creation and Poverty Alleviation

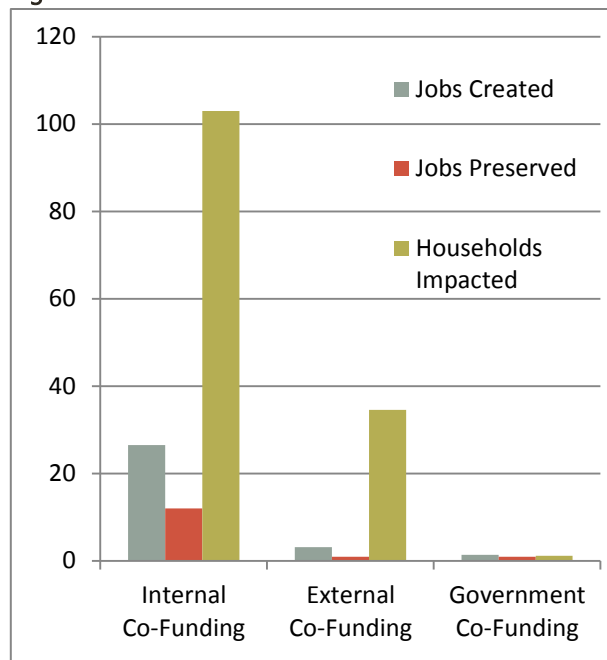
The EU and Gijima KZN set employment and poverty alleviation targets for the LCFI programme. These targets included the “generation/preservation of 3000 permanent jobs”¹² and a “reduction of the number of households earning less than R800”¹³ (EPRD, 2004; DEDT, 2006). However, the current study found that following exhaustion of the grant only 548 permanent jobs remained. This reiterates the Gijima KZN programme manager’s argument that “the employment targets for these types of programmes are unrealistically high” (R. Persad, 2011, pers. comm.). The achievements in terms of poverty alleviation were however greater with approximately 85% of new jobs involving previously unemployed and disadvantaged people. Additionally, the 25 completed LCFI projects created income for between 1,600 and 2,000 poor households. The following discussion categorises these results according to co-funding type and compares the relationship between co-funding arrangements and employment and poverty outcomes.

¹² The LCFI employment target was set in 2004 based on the assumption that there would be “no significant downturn in the national or provincial macroeconomic situation” (EPRD, 2004). This of course was incorrect with many projects negatively impacted by the global economic recession which began in 2008.

¹³ Gijima KZN did not pursue a specific household income target due to a lack of baseline data. However, the programme remained committed to income generation.

The impact of LCFI projects on employment creation and poverty alleviation is illustrated in Figure 1. More specifically, it shows the average number of jobs created and preserved as well as the average number of poor households receiving income in each co-funding category. This information was used to generate a score out of 5 for each completed project. The internal co-funding group achieved the highest average score with 3.9 followed by relatively low scores among the external and government co-funded groups of 2.2 and 1.4 respectively.

Figure 1: Job creation and household income



Source: Interviews with Project Managers (April, 2011)

The internal co-funding group created an average of 27 jobs, preserved an average 12 jobs, and generated income for an average of 103 households per project (as illustrated in Figure 1). The relatively high number of jobs created and preserved by these projects is attributed to the desire of private sector partners for sustained business growth which is arguably strengthened when internal funds are committed to the project. The large number of households receiving income is due not only to this employment creation but also the incorporation of small-scale farmers in the cane and maize milling projects. Thus, privately managed projects in the agriculture and agro-processing industries appear to have a large pro-poor impact.

The externally co-funded projects generated significantly fewer jobs, averaging only 3.2 permanent jobs per project.¹⁴ This is not however a clear indictment of their success as three of these projects focused on capacity building and one on infrastructure development, citing job creation as only an indirect pursuit. These projects also achieved much more in terms of income generation, especially the Eshowe Craft Support Agency, Project Preparation Trust, and

¹⁴ Note that jobs are only considered permanent if they extend beyond the exhaustion of grant funding.

the Zikulise Support and Training Centre. Their focus on capacitating crafters and entrepreneurs resulted in income generation for nearly 200 rural households following implementation with the potential for significantly greater impact in the long-term.

The LCFI programme also included numerous projects which failed to have an impact on employment and incomes despite this being a primary objective. This includes the two business oriented projects in the external co-funding group and 5 of the 6 projects in the government co-funded group. The experts from Gijima KZN contribute this to their “failure to adequately prepare” (M. Sibeko, 2011, pers. comm), the “complete lack of experience among project managers” (J. Mitchell, 2011, pers. comm.), and the “supply-side approach taken by many projects” (R. Persad, 2011, pers. comm.). Research conducted for the current study confirms this prognosis but also reveals that these issues can be traced back to a lack of private sector involvement. The inclusion of a private sector partner increases the likelihood that projects are market oriented, carefully planned, and sustainably profitable.

6.2. Closing the Gap between the First and Second Economy

The Gijima KZN programme was designed in 2004 and thus aligned to President Thabo Mbeki’s emphasis on “linking the first and second economy” (G. McDonald, 2011, pers. comm.). This objective is defined in the Gijima KZN Implementation Framework as the “incorporation of small-scale producers into the modern economy” (DEDT, 2006). The current study revealed that the internal and external co-funding groups achieved relative success in this regard, scoring an average of 3.9 and 3.7 respectively, while outcomes for the government co-funded projects were generally ‘poor’ averaging only 2.0 out of a possible 5.

The projects that achieved the greatest success in terms of closing the gap between these two economies were those involved in farming, craft production and SMME development. For example, the internally funded sugar cane projects incorporated a total of 785 previously

disadvantaged growers into their supply chain;¹⁵ Crosswind Mills increased the number of small-scale maize suppliers from 195 to 207; and Superior Vegetables provided full-time employment to three previously subsistence farmers. In addition, the formalisation of 147 craft producers through co-operative development and training was achieved by the externally co-funded Eshowe Craft Support Agency. Finally, the Zikulise Support and Training Centre and Project Preparation Trust assisted over 100 entrepreneurs with training, business plan development and entrepreneurial support (M. Misselhorn, 2011, pers. comm.).

The government co-funded projects were the least successful in terms of economic integration, despite their focus on small and marginalised producers. This is attributed to the reliance of these projects on outside consultants with little knowledge of the local economy. Put another way, government co-funded projects attempted to link the first and second economy by promoting business opportunities regardless of local skills and market demand. This is in contrast to the internally co-funded projects which incorporated small-scale producers into an established supply-chain. The lack of viability among government co-funded projects is unsurprising given their apparent inability to attract private investors.

6.3. Development of Economic Infrastructure

The Gijima KZN LCFI programme sought to develop a “base of infrastructure and services to provide a platform for increased competitiveness” (Patterson, 2008). Thus, the development of economic infrastructure is included as an indicator of project success. The current evaluation considered not only the quantity of infrastructure but also its economic practicality and the potential for long-term impact on the area. This evaluation revealed that government co-funded projects achieved the greatest success in terms of economic infrastructure scoring an

¹⁵ The cane projects were implemented by Illovo Sugar and Tongaat Hulett (using internal co-funding) as well as the Ingwe Development Co-Operative (using external co-funding). Although all eight projects were successful the Ingwe Development Co-Operative suffered the greatest challenges in terms of implementation (M. Sibeko, 2011, pers. comm.).

average 3.0 out of 5, compared to only 2.1 and 2.0 for the internally and externally co-funded groups respectively.

The development of economic infrastructure is part of the municipal government mandate and therefore was the focus of government co-funded projects (COGTA, 2009). This included the Ingwe Municipalities Sisonke Express, the Ugu Municipalities Fresh Produce Packhouse, and the Hibiscus Coast Municipalities KwaXolo Chicken Abattoir. These projects were however faced with a myriad of challenges relating to infrastructure maintenance, weak demand, and a lack of competitiveness.¹⁶ To overcome these challenges the municipalities sought private sector partners which would manage the project and absorb some financial risk. This approach was acknowledged in interviews with the three Municipal LED Managers as “necessary” (M. Macebe, 2011, pers. comm.), “essential” (S. Hlongwane, 2011, pers. comm.) and “absolutely crucial” for sustainable operations (D. Smith, 2011, pers. comm.).

The development of economic infrastructure was also the focus of several internally co-funded projects, namely the Wilderness Safaris Dive Camp, the Blue Brand Beef Feedlot, and the Crosswind Maize Mill. Interestingly, these projects achieved the highest overall score in terms of LED outcomes illustrating the important role of capital investment. Their success also reiterates the private sectors ability to direct investment towards viable projects and ensure that their implementation occurs in an effective and sustainable manner. This may be related to the risk assumed when private businesses invest their own resources into a project.

6.4. Skills Development that Meets Local Economic Demand

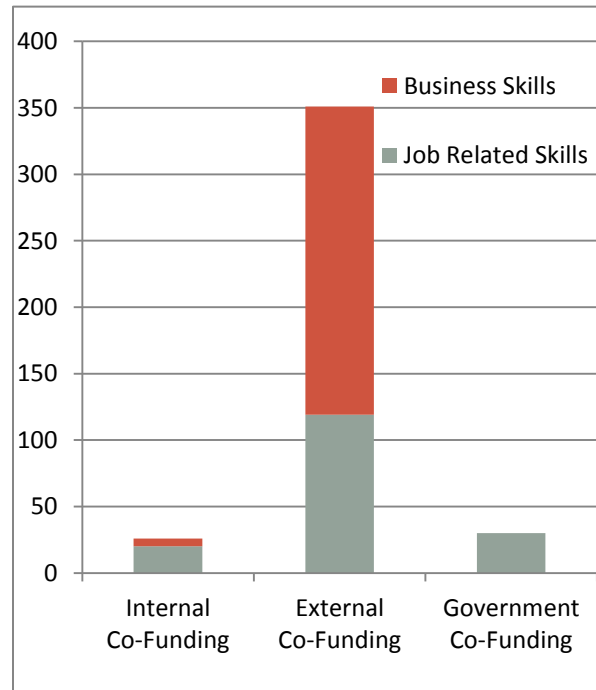
The shortage of skills in South Africa is universally recognised as a constraint to local economic and SMME development. In reference to the LCFI programme the president of the Pietermaritzburg Chamber of Commerce in KZN emphasised this issue claiming that “enterprise

¹⁶ The Sisonke Express was non-operational for several months due to prolonged track repairs; the Ugu Fresh Produce Packhouse did not address the demands of local farmers; and the KwaXolo Chicken Abattoir struggled to compete with larger manufacturers.

development is not an appropriate solution for tackling unemployment so long as people remain unemployable” (A. Layman, 2011, pers. comm.). Thus, skills development was included as a key priority of the LCFI programme and resulted in the training of approximately 2,700 people in both job specific and business management skills.

The average number of people trained by projects in each co-funding group and the type of training provided is illustrated in Figure 2. As shown, the external co-funding group placed the greatest emphasis on skills development training an average of 350 people per project. This was followed by the government co-funded group and the internal co-funded group which trained an average of 30 people and 26 people per project respectively. These projects were also scored individually for their commitment to skills development. The external co-funded group scored a very high average of 3.5 out of 5, with 2.4 for the internal co-funded group and 2.2 for the government co-funded group. The government co-funded projects scored lower on average than those co-funded internally because, although a similar number of individuals were trained by both groups, almost all training in the government co-funded category was conducted by a single project.

Figure 2: Skills development



Source: LCFI Project Close-Out Reports (2007-2010)

The government and internally co-funded projects focus largely on enterprise development with training occurring almost exclusively among new employees. There is however three main exceptions in these two groups. The first exception is the government co-funded KwaXolo Chicken Abattoir which was managed by the consulting company Scientific Roets and provided

training in chicken production to 120 small-scale farmers.¹⁷ This training involved individual female producers and women’s co-operatives and occurred for two weeks a month over the course of one year (R. Van Vuuren, 2011, pers. comm.). Interviews were conducted with two beneficiaries of this training who confirmed that the exercise was “very helpful” (B. Maundla, 2011, pers. comm.) and “gave them more say in their home” (Z. Cele, 2011, pers. comm.) by ensuring that it was not only their husbands earning an income.

There were also several projects in the internally co-funded group that provided more than the average level of training. This includes the 4 sugar cane projects managed by the Lima Rural Development Agency. This agency provided training to co-operatives in financial and business management (P. Greene, 2011, pers. comm.), thus ensuring the long-term sustainability of small-grower farming. The emphasis placed on training by Lima Rural Development and Scientific Roets illustrates the benefits that can accrue from involving qualified consultants in project implementation. The final exception in terms of skills development was the internally co-funded and managed Corrida Shoes Thread of Hope project. This project invested business revenue into a rural training centre that provides sewing classes and will eventually offer small business support to components manufacturer (B. Reynolds, 2011, pers. comm.). This emphasis on skills development is credited by an informed LED expert as the “reason for the project’s success” (V. Ngcobo, 2010, pers. comm.)

The external co-funding group was however the only category of projects to place a large emphasis on skills development. The six projects in this group provided training to approximately 2,100 previously disadvantaged individuals. This training was concentrated however within three skills-based projects, namely the Eshowe Craft Support Agency, the Project Preparation Trust, and the Zikulise Support and Training Centre. These projects emphasised both employability as well as the development of business skills including planning,

¹⁷ Notably the training and stipend provided to small-scale poultry farmers was financed entirely by the Agricultural Sector Education and Training Authority (SETA) prior to construction of the KwaXolo Chicken Abattoir and therefore was not directly related to the LCFI grant.

marketing, accounting, and management. Their relative success illustrates the important contribution of non-profit groups to local economic and SMME development.

The three skills-based projects also raise questions about the wisdom of placing co-funding requirements on non-profit ventures. These requirements accomplish very little in terms of risk transfer, as there are no financial rewards from the project. They also create complications in terms of aligning the objectives and timelines of funding institutions as well as increasing the amount of time and effort required to attract resources. These concerns were raised by the managers of all three skills based projects (D. Hay, 2011, pers. comm.; M. Misselhorn, 2011, pers. comm.; J. Johnson, 2011, pers. comm.). Alternatively however the manager of the Eshowe Craft Support Agency also conceded that co-funding provides smaller donors with greater recognition for less financial commitment, therefore increasing the total amount of funding some projects are able to attract (D. Hay, 2011, pers. comm.).

6.5. Achieving the Principles of Black Economic Empowerment

The principles of Black Economic Empowerment (BEE)¹⁸ are summarised in South African legislation as the “meaningful participation of black people in the economy” and include ownership, management, skills development, and employment equity (RSA, 2003). The current study scored the BEE outcomes of all completed projects according to each of these indicators. This process revealed that the greatest BEE achievements occurred in the internal co-funding group, which scored an average of 3.1 out of five, followed by the 3.0 for the external co-funding group and 2.0 for the government co-funding group. The following is a discussion of these achievements and whether they are impacted by co-funding arrangements.

¹⁸¹⁸ The Gijima KZN programme did not consider BEE criteria in their project selection, due to EU regulations regarding racial preferences (R. Persad, 2011, pers. comm.). They did however consider BEE achievements as an indicator of project success in keeping with government policy and legislation.

The external co-funding group scored relatively well in terms of BEE achievements due to the commitment of three projects to skills and capacity development.¹⁹ However, their overall failure to address business transformation resulted in weak outcomes in terms of ownership, management, and employment equity. The only exception was the Enzanghako Consultancy which partnered with a local co-operative in the growing and processing of medicinal herbs. The BEE impact of this partnership was diminished however by the “terrible relations and complete mistrust between them [the project manager] and the co-operative” (G. Banda, 2011, pers. comm.). Inversely, projects in the government co-funded group placed significant emphasis on black business ownership and management, especially by community groups. They failed however to sustainably implement these projects resulting in the realisation of few BEE outcomes.

The projects implemented using internal co-funding achieved the most notable BEE impact. This is a result of the commitment made by many businesses to involve previously disadvantaged individual’s (PDIs), communities, and workers in project implementation and revenue sharing. For instance the Wilderness Safaris Dive Camp was constructed using locally manufactured inputs and labour, created employment for 46 PDIs, and transferred ownership to a BEE partner (10%) and community trust (17.5%) (C. Poultney, 2011, pers. comm.). a second example is the Bluebrand Beef Feedlot which created 55 jobs at their LCFI funded abattoir and 25 additional jobs at their previously idle deboning plant for PDIs, including management positions (J. Schnettler, 2011, pers. comm.). Finally, Crosswind Mills employed 25 PDIs, incorporated 12 previously subsistence farmers into their supply-chain, and formed a workers trust to share in mill ownership (W. Botes, 2011, pers. comm.).

The internal co-funding group also includes the most successful project in terms of BEE achievements. This project, implemented by Superior Vegetables, was the only initiative in the LCFI programme managed and staffed entirely by black individuals and youth. The project was

¹⁹ These three projects were the Eshowe Craft Support Agency, the Project Preparation Trust, and the Zikulise Support and Training Centre.

founded through a strong partnership between the emerging BEE farmer and an established grower which facilitated significant knowledge transfer and access to a secure market. It also created employment for four PDIs, each of which was given a stake in the business and thus will share in the profits. Finally, the project was commended by the Gijima KZN Financial Manager as “one of the best when it comes to accountability despite doubts that he would have problems with financial management” (M. Sibeko, 2011, pers. comm.).

The Superior Vegetables project also provides important insight into the relationship between co-funding requirements and BEE. The co-funding for this project was secured through a R500,000 loan from Ithala Bank. Although the terms of this loan require significant monthly repayments the project manager concedes that these repayments “push them to work harder” as there is “no rush when everything is free” (K. Ntuli, 2011, pers. comm.). The concern however is that loans of this type are extraordinarily difficult to secure given the high risk environment. This concern is validated by the Ithala loan manager for the Superior Vegetables project who admitted that the loan was only approved because she “was new to development finance and not yet jaded” (T. Maqoma, 2011, pers. comm.). The difficulty in securing rural loans was also noted in the LCFI Impact Assessment as well as by several Gijima KZN area managers who argue that the system “does not work in these areas” (S. Mthimkhulu, 2011, pers. comm.) and that “people are unable to provide even 5% of the needed investment” (T. Mhlanga, 2011, pers. comm.). Thus, internal co-funding requirements diminish the pool of applicants and may limit BEE outcomes.

6.6. Impact on the Local Economy

The impact of a successful LED project extends beyond its direct outcomes and includes indirect benefits such as value-chain development, employment generation, and the creation of an enabling economic environment (Blakely & Leigh, 2002). Thus, the current study evaluated the impact of LCFI projects on the local economy according to these indicators. The results were most impressive for the external co-funding group which scored an average 3.2 out of 5

compared to an average of only 2.5 for the internal co-funding group and 2.4 for those using government funds. The following is an examination of this wider economic impact and whether it is related to specific co-funding arrangements.

The internal and government co-funding groups had a relatively weak impact on the local economy. This is attributed to several factors including the high number of sugar cane projects,²⁰ which accomplished little in terms strengthening local value-chains, creating permanent employment, and developing infrastructure. The limited economic impact is also due to the high failure rate among government co-funded projects and the lack of integration between successful ventures, such as Sisonke Express, and the local economy. Finally, the LCFI programme required partnership formation between an established and an emerging entity but “failed to ensure that these partnerships translated into tangible economic benefits” (R. Clacey, 2011, pers. comm.). The conclusion is, however, that there is no discernible link between co-funding and the projects wider economic impact.

The government co-funded projects achieved much greater local economic impacts through their dedication to SMME development. The most successful of these initiatives was implemented by Project Preparation Trust (PPT) and resulted in the mentoring of approximately 50 entrepreneurs, the establishment of over 1,500 savings and credit groups, and partnership formation between a local farming co-operative and an established production facility²¹ (M. Misselhorn, 2011, pers. comm.). The project manager did however express negative sentiments regarding co-funding arguing that it led to “difficulties synchronising the timeframes of both funding sources” (M. Misselhorn, 2011, pers. comm.). Thus, co-funding requirements may have a negative impact on LED outcomes when applied to non-profit groups.

²⁰ The internal co-funding group included 7 sugar cane projects (out of 14).

²¹ The LCFI grant was used to conduct participatory action planning with the Richmond Pepper Outgrowers however funding to secure inputs, prepare land, and provide business support was donated by Angela Mai and co-funded from the Business Trust Shared Growth Challenge Fund (Bassman, 2010).

6.7. Extent of Private Sector Support and Financing

The Gijima KZN programme was originally designed to “promote private sector investment in sustainable development projects that benefit the commercial participants and have wider spill-over benefits to the local and regional economy” (T. Farole, personal communication, 10 November 2010). Thus, the amount of private sector support and financing leveraged by the LCFI grant was considered an important indicator of project success. This holds specific implications for the current study which examines whether private sector, or internal, co-funding has an impact on project outcomes.

The evaluation of completed LCFI projects revealed, unsurprisingly, that the internal co-funding group was highly successful in securing private sector support and financing. This group scored an average of 4.1 out of 5 and leveraged approximately R27.5 million in co-funding. Within this group there is also a positive correlation between the amount of private sector funding allocated to a project and its overall success. For instance, Wilderness Safaris and BlueBrand Beef each provided significantly more than the 30% required co-funding²² and achieved notable outcomes in terms of employment creation, infrastructure development, and sustainability. Thus, it is assumed that private sector support and financing suggests project viability.

The issue therefore is not whether the Wilderness Safaris, BlueBrand Beef, and other privately backed projects were viable but rather did they warrant grant funding. The managers of these projects admitted that their initiatives would have been implemented regardless of the LCFI grant, albeit over longer timeframes and with fewer pro-poor measures (C. Poultney, personal communication, 24 November 2010; J. Schnettler, personal communication, 18 April 2011). This contradicts the intention of the LCFI and other LED programmes to incentivise investment in “profit based socially conscious initiatives” operating in “high-risk areas or markets” (P. Zille, personal communication, 14 April 2011). Thus, it is important that internally co-funded projects are assessed for their pro-poor contributions as well as their financial viability.

²² Wilderness Safaris committed R5 532 412 and BlueBrand Beef committed R4 800 000 in private funds amounting to 67.4% and 55.8% of their respective project budgets.

The level of private sector support and financing was considerably less among the external and government co-funded groups, which implemented their projects without a private sector partner. In the externally co-funded group only one project received private funding in the form of corporate social investment.²³ This is not overly problematic however, given the group's focus on developing skills rather than business. Of greater concern is the limited private sector investment in the government co-funded group, which scored an average of only 2.0 out of 5 despite placing emphasis on enterprise development. Interestingly, the two projects in this category that achieved the greatest LED impact were also the only two to actively recruit private sector partners following implementation.²⁴ Thus, the success of all enterprise development projects in the LCFI programme is positively correlated to participation and financial commitment by the private sector.

6.8. Economic and Financial Sustainability of Project Benefits

The Gijima KZN LCFI programme was designed in the wake of earlier failures such as the LED Fund which produced only a “number of small, unsustainable projects” (Patterson, 2008). Thus, an emphasis was placed on economic and financial sustainability, in principle if not always in practice. The current study evaluated this sustainability based on the endurance and advancement of project outcomes six months to one year after implementation. The results varied considerably, both between and within the different co-funding groups, with internally co-funded projects scoring an average of 3.6 out of 5, followed by 3.3 for the external co-funding group and only 2.6 for those using government resources.

The sustainability of internally co-funded projects is attributed in part to the involvement of private sector partners. For instance, well-established businesses such as Wilderness Safaris,

²³ The Zikulise Support and Training Centre received R500,000 from the ABSA Foundation and R1,550,000 from Exxaro Sands to finance their “support for sustainable enterprise development” (A. Fouche, 2011, pers. comm.)

²⁴ The Ingwe Municipality recruited Signature Life Hotels to manage and operate the Sisonke Express following implementation of the LCFI project. The Hibiscus Coast Municipality intended to operate the KwaXolo Chicken Abattoir in partnership with the community however have since begun recruiting a private sector partner.

BlueBrand Beef, and Corrida Shoes implemented highly sustainable projects.²⁵ The Superior Vegetables project also achieved sustainability through private partnership which ensured affordable land, extensive advice and a secure market (K. Ntuli, 2011, pers. comm.; W. Hewlitt, 2011, pers. comm.). The single exception is the Stables Wine Estate which was liquidated following implementation of the LCFI grant due to unrelated debt (Padayachee, 2012). The failure of this project and ultimate collapse of the business illustrates the unavoidable risk of project based LED.

The seven internally co-funded sugar cane projects provide further insight into the sustainability of private sector initiatives. These projects were co-funded through different arrangements including funding by the sugar mill, loan financing by the individual growers, and a combination of the two. Interviews with project managers reveal that sustainability was highest when combined co-funding was used as “some financial commitment by the farmer is necessary” (E. Bruggemann, 2011, pers. comm.) while on the other hand “repayment of all planning costs can leave farmers in permanent debt” (B. Pearce, 2011, pers. comm.). The success of these projects was also greater when the individual growers, rather than contractors, were involved in planting, managing, and harvesting the crop (P. Greene, 2011, pers. comm.; D. Armstrong, 2011, pers. comm.). Thus, the Kwakhoza and Isinembe Cane Projects achieved the highest sustainability scores for their involvement of beneficiaries in implementation and co-funding without creating a significant debt burden.

The limited sustainability of projects in the government co-funded group also iterates the importance of private sector involvement in enterprise LED. This group includes three enterprise development projects and two involved in the construction of economic infrastructure.²⁶ The consultants employed to manage the three enterprise initiatives argue that their sustainability was constrained by “delayed municipal funding” (R. Cairns, 2011, pers. comm.); “municipal mismanagement” (R. Van Vuuren, 2011, pers. comm.); and a “mismatch

²⁵ Note however the previously discussed debate about whether these established businesses warrant grant support.

²⁶ The enterprise development projects are Aloe and Berg Tea, Nkandla Essential Oils, and the KwaXolo Chicken Abattoir. The business infrastructure projects are the Ugu Fresh Produce Market Packhouse and Sisonke Express.

between the municipality's capacity and the skills needed to run the project" (N. Meyer, 2011, pers. comm.). The consensus among the three project managers quoted is that private sector involvement is necessary, however one manager raised legitimate concerns that "a private partner would not find it economically feasible to come on board and would only invest for political or social responsibility reasons" (R. Cairns, 2011 pers. comm.).²⁷ Similarly, of the two business infrastructure projects sustainability was achieved only by Sisonke Express through the early attraction of a private sector partner.

The sustainability of LCFI outcomes is not however limited to private sector projects. The current study also found outcome sustainability among externally co-funded, non-profit ventures. These outcomes were retained through the training of entrepreneurs and SMMEs (Zikulise Support & Training Centre and Project Preparation Trust), the development of co-operatives (UKZN Eshowe Craft Support Agency) and the improvement of local infrastructure (Gateway Tourism Initiative). Sustainability of these non-profit projects is also enhanced through the attraction of additional funds from government, international development agencies, big business, and local churches. Interestingly, the only two projects in the external co-funding group not to achieve sustainable outcomes were implemented for the purpose of business development.²⁸

The preceding discussion highlights the important role of private sector partners and internal co-funding in achieving sustainable LED outcomes. This inference is only valid however in reference to business ventures, with experienced non-profit groups capable of implementing sustainable skills, capacity, and infrastructure development projects. There is also limited evidence that these non-profit projects benefit from co-funding requirements, which may in

²⁷ The LCFI Impact Assessment argues that the high level of municipal co-funding illustrates a "degree of risk aversion by funding agents in investing heavily in projects or a high degree of uncertainty associated with the outcome of the LCFI projects" (SODS, 2011).

²⁸ The two business development projects in the external co-funding group are Muthi Futhi and the Hlabisa Sugar Cane Project however it was reported that Muthi Futhi would become sustainable if provided additional funding (G. Banda, 2011, pers. comm.).

fact “place significant constraints on implementation” (M. Misselhorn, 2011, pers. comm.). This and other conclusions are compiled and summarised in the following chapter.

Chapter 7: CONCLUSIONS AND RECOMMENDATIONS

The purpose of this Chapter is to present conclusions drawn from the comparative analysis of co-funding groups. These conclusions are used to form recommendations for future LED programme design. Finally, the chapter looks at changes implemented in the LCFI II programme and identifies additional areas of research.

7.1. Impact of Co-funding on Project Outcomes and Sustainability

The following is a summary of conclusions drawn from the analysis of completed projects in the Gijima KZN LCFI Programme. These conclusions are presented for each co-funding category, namely those using internal, external and government resources. They address the total LED impact of projects in each category as well as the relationship between these impacts and the specific co-funding arrangements.

7.1.1. Internally Co-Funded Projects

The internally co-funded group includes 14 enterprise development projects implemented by established and emerging businesses. These projects were very successful in leveraging private sector financing and support as well as employment creation, poverty alleviation, and closing the gap between the first and second economies. They were also highly sustainable with only one project failing to provide benefits beyond exhaustion of the LCFI grant. These LED achievements are highly commendable, especially in South Africa where “the successes of project-focused LED are limited” (Rogerson, 2011). The internally co-funded projects provided less than ‘adequate’ results however in terms of infrastructure improvements, skills development, and overall impact on the local economy. Thus, LED programmes might consider requiring grant beneficiaries to invest a mandatory amount in capital, training and local procurement.

The findings of this study indicate that the success of enterprise development projects is positively related to internal co-funding commitments. This conclusion is supported by members of the Gijima KZN staff who described co-funding as a “signal that the grant beneficiary will take care of the money given to them” (R. Persad, 2011, pers. comm.). Additionally, other members of the management team claimed that internal co-funding “improved financial management” (M. Sibeko, 2011, pers. comm.) and “kept projects realistically small” (G. McDonald, 2011, pers. comm.). These sentiments are echoed by external LED experts who assert that “own contribution indicates both ownership and project commitment” (V. Nkuna, 2011, pers. comm.) and is “absolutely imperative in this type of programme” (P. Zille, 2011, pers. comm.). Finally, the LCFI Impact Assessment found that the benefits of co-funding for large private sector projects outweigh the additional burden placed on the grant recipient (SODS, 2011). Importantly however, the involvement of an experienced private sector partner is likely as important to project success as their co-funding commitment.

7.1.2. Externally Co-Funded Projects

The external co-funding group included three different types of projects which focused on supporting and training SMMEs, co-operative and entrepreneurs; enhancing tourism infrastructure; and developing private enterprise. The training and infrastructure projects were implemented by non-profit groups while those aimed at enterprise development were managed by private sector interests. Collectively these projects achieved their greatest success in closing the gap between the first and second economy, skills development, and local economic impact. They failed however to leverage private sector support, develop economic infrastructure, and create sustainable employment, however for most projects these objectives were not part of their mandate. Individually, the greatest success was achieved by the SMME, co-operative and entrepreneurial support programmes which were implemented by experienced non-profit groups and achieved significant pro-poor results.

The current study concludes that co-funding commitments are not effective at sharing risk among non-profit groups and in fact place an unnecessary burden on grant beneficiaries. This concern is clearly iterated in the Project Preparation Trusts close-out report which states that “co-funding is becoming an increasingly common requirement, and poses serious constraints... It is difficult for non-profit organizations to raise co-funding from a different source, and difficult to get the timeframes of both sources synchronized in terms of implementation, reporting and admin requirements” (Misselhorn, 2009). Similarly, co-funding for enterprise development projects becomes irrelevant when provided by an external partner. This conclusion is supported by a representative from the DBSA who argues that “there is no impact on project success when co-funding comes from a third source” (V. Nkuna, 2011, pers. comm.). Thus, the overall impact of external co-funding on the LCFI programme is negative.

7.1.3. Government Co-Funded Projects

The government co-funded group focused exclusively on establishing rural facilities and enterprise. These projects were largely unsuccessful, accomplishing only the development of economic infrastructure, much of which is now idle. There were however two individual projects that achieved moderate LED success. These projects invested heavily in infrastructure development with one focusing on training and capacitating co-operatives and the other providing a catalyst for the local tourism industry.²⁹ Their success is attributed to the experience of the implementing partner and emphasis on training in the first project, and dedication of the Municipal LED Manager in the second. It is also a product of their commitment to maintain financial feasibility and attract a private sector partner to manage the initiative once implemented.

The current study reveals that municipal government has an important role to play in LED, especially through their focus on infrastructure development. Their achievements are limited

²⁹ The KwaXolo Chicken Abattoir focused on training co-operatives while Sisonke Express promoted tourism through construction of a steam train.

however by a “lack of capacity and poor financial management” (M. Sibeko, 2011, pers. comm.); “limited LED knowledge” (R. Persad, 2011, pers. comm.); and “weak business sense” (P. Zille, 2011, pers. comm.). These constraints resulted in an over reliance among LCFI projects on private consultants who, through a lack of financial risk, have limited commitment to project sustainability. Thus, in the words of one respondent “project success is minimised when you have people making money out of the process rather than the outcomes” (D. Armstrong, 2011, pers. comm.). The conclusion therefore is that government co-funding is an insufficient risk sharing mechanism in the absence of a strong and financially committed private partner.

7.2. Recommendations for LED Programme Design

The following section provides recommendations for the design of future LED programmes based on the findings of the current study. These recommendations are presented in the context of agency theory which allows for the determination of an ‘optimal contract’ between the LED programme and the grant beneficiaries. More specifically, these recommendations will address whether co-funding is an effective risk sharing mechanism in outcome based contracts.

7.2.1. Agency Theory: Co-Funding as a Risk Sharing Mechanism

The current study conceptualised Gijima KZN and the LCFI grant recipients as part of a principal-agent relationship and thus vulnerable to the problems defined by agency theory. The first agency problem is adverse selection (Akerlof, 1970; Spence, 1973; Eisenhardt, 1989; Mishra et al, 1998) which occurs if the grant applicant misrepresents their abilities and/or the viability of their project. The second agency problem is moral hazard, a term used to describe problems such as the grant beneficiaries mispending of funds or their failure to meet the necessary time and resources to the project (Allen, 1985; Eisenhardt, 1989). To avoid these problems agency theory recommends that risk be transferred from the principal to the agent through some form of contract arrangement (Eisenhardt, 1989).

The purpose of this study is to determine whether co-funding requirements are an appropriate mechanism for transferring risk from Gijima KZN to the LCFI grant beneficiaries. In theory the commitment of co-funding will 'screen out' unsuitable applicants, thus preventing adverse selection (Sitglitz, 1974, 1979; Grossman & Stiglitz, 1976; Rothschild & Stiglitz, 1976). This co-funding will also 'signal' (Spence, 1973, 1974) to Gijima KZN that the applicant will manage their project and finances in an efficient and effective manner, therefore precluding moral hazard. In practice however the effectiveness of co-funding is dependent on its source and the level of individual risk it assumes.

The current study concluded that co-funding is an effective risk sharing mechanism only when it is drawn from internal resources. Thus, it is recommended that co-funding be required exclusively and consistently from all private sector grant recipients in the form of own-commitment. The study also revealed however that municipal LED is largely unsuccessful due to inefficient implementation, poor market knowledge, and weak commitment to sustainability. Thus, it is also recommended that LED project funding be provided to municipalities only if the project involves an established private partner willing to make financial commitment in the form of co-funding.

The current research also examined non-profit LED ventures and concluded that co-funding is ineffective and in some cases damaging to the success of these projects. These non-profit partners are typically not revenue generating and depend on additional grants, thus they are incapable of committing internal funds. They do however provide important LED services in terms of skills development, small enterprise, co-operative and entrepreneurial support, and community empowerment. Thus, it is recommended that these projects remain eligible for LED funding, albeit using a different contract arrangement. The design of this contract, as well as contracts for private sector LED, is discussed in the following section.

7.2.2. Agency Theory: Optimal Contracts for LED Funding

The agency theory framework allows for the determination of an 'optimal contract' to govern the relationship between the principal and agent (Eisenhardt, 1989; Allen & Weck, 1995). These contracts are predicated on either the agent's observable behaviour or the outcome of their actions (Bergen et al, 1992). In the context of LED grant allocation behaviour-based contracts are recommended for financing non-profit projects. As discussed in the theoretical framework these contracts are suitable because they do not require risk sharing and thus eliminate the need for co-funding (Eisenhardt, 1989; Bergen et al, 1992; Lassar & Kerr, 1996). They are also appropriate because the objectives of non-profit groups, namely skills, SMME, and entrepreneur development, align well to South Africa's rural LED priorities (Abrahams, 2003; Rogerson, 2005, 2011; Nel & Rogerson, 2005a). Finally, although behaviour-based contracts require careful monitoring the reporting requirements may be relaxed once trust is established between the LED programme and the non-profit group (Eisenhardt, 1989).

The promotion of LED in South Africa also focuses largely on incentivising private sector investment (Rogerson, 2011). It is recommended that LED programmes govern these projects, as well as those implemented in partnership with local government, using outcome-based contracts. These contracts require that risk is transferred from the LED programme to the grant recipient (Hurwicz, 1972; Eisenhardt, 1989; Bergen et al, 1992), which this study concluded is feasible through internal co-funding. They are also appropriate because the outcomes of private sector projects including enterprise development and job creation are relatively easy to quantify and evaluate (Eisenhardt, 1989). Finally, outcome-based contracts can be implemented without careful monitoring thus reducing the "onerous reporting requirements" (B. Reynolds, 2011, pers. comm.) lamented by many LCFI grant recipients. Thus, the efficient execution of project-based LED requires that grant funding is allocated according to carefully designed contracts that address the objectives and risk preferences of the implementing agent.

7.3. Additional Areas of Research

The current study identified several important research gaps in terms of designing effective LED funds. The first recognised gap is the overall lack of quantifiable impact data on LED programmes in South Africa which made it impossible to compare LCFI outcomes to those of other funds. This research gap was also acknowledged in a study by Goldman and Nel (2006) as a limitation to informed policy making. It is therefore recommended that future studies conduct a more thorough audit of LED experience either independently or in partnership with South African development institutions.

This study also confirmed the findings of earlier research that local government in South Africa generally lacks the skills, capacity and funding to implement LED (Nel, 2001; Pritchett & Woolcock, 2004; Nel et al, 2006; Mitchell, 2007; Marais, 2010). There is also however a recognition in this and other studies that municipalities have an important role to play in LED both in terms of facilitation as well as the formation of public-private partnerships (Rogerson, 2002a; Cunningham & Meyer-Stamer, 2005). To date limited research has been conducted regarding the optimal parameters of municipal involvement as well as appropriate mechanisms for improving their ability to foster LED. Thus, further investigation could significantly improve South Africa's LED policies as well as provide guidance for municipal LED units.

The research on LED also lacks thorough investigation into the role of partnerships which are relied upon to achieve pro-poor outcomes such as capacity building and skills transfer (Patterson, 2008). At present, studies have acknowledged the potential for partnerships in LED but have found that they are often shallow and ineffective (Mitchell, 2007) with little impact on reducing the risk of non-compliance (Marais, 2010). These findings were re-iterated in the current study and the LCFI Impact Assessment which revealed very few sustainable partnerships in the LCFI programme. Thus, it is recommended that research be conducted into best practices in terms of partnership formation and development.

The final area of research involves further investigation into the Gijima KZN programme, specifically the LCFI II. This programme was launched in 2011 and maintains many of the same

principals as the LCFI I including partnership requirements and support for small enterprise while also emphasising cluster development (DEDT, 2010). Finally, the LCFI II addresses a key issue raised in this report, namely the ineffectiveness of external and government co-funding, by stipulating that only 70% of the project may be financed through a grant (DEDT, 2010). Thus, this programme and its achievements provide a valuable research opportunity to assess the impact of these modified co-funding requirements and evaluate some of the recommendations provided in this study.

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APPENDIX A

SUMMARY OF COMPLETED PROJECTS

Table 4: Summary of completed Gijima KZN LCFI projects

Project Name	Implementing Partner	Primary Objective
1) Illovo Sugar Umzimkulu	Illovo Sugar	Increase the supply of sugar cane to the Umzimkulu Mill by assisting independent small-growers with cane rehabilitation.
2) Umlalazi Small Cane Growers	Lima Rural Development	Increase the supply of sugar cane to the Amatikulu Mill by forming small-grower cooperatives and assisting with cane rehabilitation.
3) Darnall Sugar Cane	Tongaat-Hulett Sugar Limited	Increase the supply of sugar cane to the Darnall Mill by assisting local small-growers with cane rehabilitation.
4) Noosdberg Cane Growers	Lima Rural Development	Rehabilitate sugar cane crops among small-growers belonging to the Noosdberg Cane Growers Rust.
5) Illovo Sugar Sizele Mill	Illovo Sugar Limited	Increase the supply of sugar cane to the Sezela Mill by assisting independent small-growers with cane rehabilitation.
6) Kwakhoza Cane Project	Lima Rural Development	Increase the supply of sugar cane to the Amatikulu Mill by forming small-grower cooperatives and assisting with cane rehabilitation.
7) Isinembe Cane Growers	Tongaat-Hulett Sugar Limited	Increase the supply of sugar cane to the Maidstone Mill by assisting local small-growers with cane rehabilitation.
8) Wilderness Safaris Dive Camp	Wilderness Safaris	Construct and manage a dive camp near Sodwana Bay in a shared ownership arrangement with the community.
9) BlueBrand Beef Eshowe Abattoir	BlueBrand Beef	Construct a cattle feedlot near Eshowe and increase the supply of cattle to their abattoir.
10) Stables Wine Estate	Stables Wine Estate	Develop the stables winery by increasing the amount of hectares planted, purchasing equipment, and starting a restaurant.
11) Crosswind Maize Mill	Crosswind Business Projects	Develop the Crosswind Maize Mill by expanding the mill, upgrading equipment, and purchasing raw materials.
12) Corrida Shoes Thread of Hope	Corrida Shoes	Import a specialized sole making machine to increase input manufacturing.
13) Africa Media Online Image Pipeline	Africa Media Online	Create a pipeline for the digitization of photographic media and train photographers in commercialization.
14) Superior Vegetables Farming Tunnel Tomatoes	Superior Vegetables Farming	Construct a greenhouse in order to establish a tomato farming business.
15) Eshowe Craft Support Agency	UKZN Centre for Environment, Agriculture and Development	Create an Eshowe craft support agency to increase the incomes of local crafters.
16) Hlabisa Sugarcane Project	Ingwe Development Co-operative	Increase the supply of sugar cane to the Ushukella Mill by assisting independent small-growers with cane rehabilitation.
17) Muthi Futhi	Enzangahko Consultancy	Strengthen their traditional medicine business through increased planting and improved community relationships.
18) Project Preparation Trust Local Economic Action Partnership	Project Preparation Trust	Provide life skills training, support with business plan development, and advice for local entrepreneurs.
19) Project Gateway	Gateway Tourism Initiative	Develop the local historic prison site in order to increase visitors to the site and area.

Table 4 (cont.): Summary of completed Gijima KZN LCFI projects

Project Name	Implementing Partner	Primary Objective
20) Zikulise Entrepreneur and SMME Support & Training Centre	Zikulise Community Upliftment Project NPC	Complete structural changes to the center, purchase office and training equipment, provide personnel support, and expand entrepreneurship training.
21) Ugu Fresh Produce Market Packhouse	Ugu District Municipality	Construct a fresh produce centre to allow for cleaning and packaging by local small-growers.
22) KwaXolo Chicken Abattoir	Scientific Roets	Construct a chicken abattoir to provide a market for local poultry farming co-operatives.
23) Aloe and Berg Tea	Emnabithi/Ladysmith Local Municipality	Expand the current aloe and berg tea facility, source and cultivate raw material, develop infrastructure, and provide project support and facilitation.
24) Nkandla Essential Oils	Indian Ocean Trading	Increase the number of hectares of planted herbs and improve yields.
25) Sisonke Express	Ingwe Municipality	Re-establish the Sisonke stem train and rail route in order to increase tourism in the area.

APPENDIX B:

LIST OF PROJECT INTERVEIWS

Table 5: List of project interviews

Project Name	Person Interviewed	Role in the Project
1) Illovo Sugar Umzimkulu	Guy Shange	Project manager (Illovo Sugar)
2) Umlalazi Small Cane Growers	Peter Greene	Project manager (Lima Rural Development)
	David Armstrong	Private sector partner (Illovo Sugar)
3) Darnall Sugar Cane	David Armstrong	Project manager (Illovo Sugar)
4) Noodsberg Cane Growers	Peter Greene	Project manager (Lima Rural Development)
	Brian Pearce	Representative of project beneficiaries (Manager of the Noodsburg cane Growers Trust)
5) Illovo Sugar Sizele Mill	Edgar Bruggemann	Project manager (Illovo Sugar)
	Busani Gumede	Representative of the co-funding institution (Sizanayo – Sezela Cane Growers Association)
6) Kwakhoza Cane Project	Peter Greene	Project manager (Lima Rural Development)
7) Isinembe Cane Growers	Joe Reddy	Project manager (Tongaat-Hewlitt)
	David Armstrong	Private sector partner (Illovo Sugar)
8) Wilderness Safaris Dive Camp	Clive Poultney	Project manager (Wilderness Safaris)
	Karen Johnson	Beneficiary (Employee)
9) Blue Brand Beef Eshowe Abattoir	James Schnettler	Project Manager (BlueBrand Beef)
10) Stables Wine Estate	Tiny Van Nierkerk	Project Manager (Stables Wine Estate)
11) Crosswind Maize Mill	Wim Botes	Project manager (Crosswind Business Projects)
12) Corrida Shoes Thread of Hope	Bryan Reynolds	Project manager (Corrida Shoes)
	Mr. Mabaso	Beneficiary (Principal at Jabula Combined School)
13) Africa Media Online Image Pipeline	David Larsen	Project manager
	Dwayne Bailey	Non-profit partner (translate.org)
14) Superior Vegetables Farming Tunnel Tomatoes	Kingsford Ntuli	Project manager
	Warren Hewlitt	Private sector partner
	Telela Maqoma	Representative of the co-funding institution (Ithala Bank)
15) Eshowe Craft Support Agency	Duncan Hay	Project manager (UKZN)
	Thadazile Magubane	Beneficiary (Financial and Operations Manager of the craft centre)
16) Hlabisa Sugarcane Project	George Mthethwa	Project manager (Ingwe Development Cooperative)
17) Muthi Futhi	Gill Whittingham Banda	Project manager (Enzanghako Consultancy)
	Patti Joshua	Representative of the community partner (Senzokhule Co-operative)
18) Project Preparation Trust Local Economic Action Partnership	Mark Misselhorn	Project manager (Project Preparation Trust)
19) Project Gateway	Colin Nadioo	Project manager (Project Gateway)
	Jabulani Mwanencu	Representative of the non-profit partner (Project Gateway)

Table 5 (cont.): List of project interviews

Project Name	Person Interviewed	Role in the Project
20) Zikulise Entrepreneur and SMME Support & Training Centre	Julie Johnson	Project manager (Zikulise Entrepreneur and SMME Support Agency)
	Marcia Zungu	Representative of co-funding institution (ABSA Foundation)
	Annalie Fouche	Representative of co-funding institution (Exxaro Sands)
21) Ugu Fresh Produce Market Packhouse	Sizumbuzo Hlongwe	Project manager (Ugu Municipality)
22) KwaXolo Chicken Abattoir	Merida Roets	Project manager (Scientific Roets)
	Raymod Van Vuuren	Site Manager (independent consultant)
	Mandla Macebe	Representative of the public sector partner (Hibiscus Coast Municipality)
	Bongiwe Mauundla	Beneficiary (chicken producer)
	Zodumo Cele	Beneficiary (chicken producer)
23) Aloe and Berg Tea	Neville Meyer	Project manager (independent consultant)
	Madoda Khatide	Representative of the public sector partner (DEDT)
	Thelumusa Mazibuko	Beneficiary (employee)
	Hlukamisile Khanyile	Beneficiary (employee)
	Rita Buthelezi	Beneficiary (employee)
24) Nkandla Essential Oils	Rob Cairns	Project manager (Indian Ocean Trading)
25) Sisonke Express	Dudley Smith	Project manager (Sisonke Municipality)
	Ibrahim Desani	Beneficiary (local business owner)
	Bruce Paterson	Beneficiary (local business owner)

APPENDIX C:

LIST OF EXPERT INTERVIEWS

Table 6: List of expert interviews

Person Interviewed	Title/Role
1) Ranveer Persad	Giima KZN Programme Manager
2) Gerry McDonald	Gijima KZN Programme Coordinating Unit (PCU) Team Leader
3) Mandla Sibeko	Gijima KZN Financial Contracting Unit (FCU) Team Leader
4) Marcelle Abrahams	Gijima KZN Finance Manager (former)
5) Jay Anurith	Gijima KZN Fund Advisor
6) Sicengile Mthimkhulu	Gijima KZN Area Manager – Umkhanyakude
7) Thisha Mhlanga	Gijima KZN Area Manager – Uthungulu
8) Paul Zille	Director of the Shared Growth Challenge Fund
9) Deon Van Wyk	ABSA Agri Business Specialist (former Gijima KZN Funding Forum member)
10) Vika Ngcobo	Nedbank Business Bank Advisor (former Gijima KZN Funding Forum member)
11) Vusi Nkuna	DBSA Development Fund (former Gijima KZN Funding Forum member)
12) Richard Clacey	Gijima KZN Programme Management Unit (LED Specialist)
13) Name not disclosed	Independent Application Evaluator for Gijima KZN
14) Fezile Sineke	Gijima KZN ormer Area Manager (Uthungulu)
15) Jonathan Mitchell	Former KZN DEDT LED desk manager and Gijima KZN project officer
16) Name not disclosed	Gijima KZN Assessor and Evaluator
17) Gareth Coleman	Team Leader of the Programme Management Unit (PMU)
18) Andrew Layman	CEO of PMB Chamber of Commerce (former consultant to Gijima KZN)