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MONITORING THE L.E.D. FUND IN SOUTH AFRICA

LESSONS FROM A BRAVE NEW PROGRAMME

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A. INTRODUCTION: THE L.E.D. FUND AND M&E

During the last eight years, profound and rapid changes have taken place in South African local government, as well as the entire landscape of development delivery. In brief, municipalities are now regarded as the front-line agencies in local development design and delivery. At the same time, the definition of "development" has been extended to include a wide range of sectors (including infrastructure, economic development, social development and environmental management).

These radical changes were inaugurated by the White Paper on Local Government (1998). This represents a major advance on the Constitution itself. While the Constitution created a guaranteed role for local government, the developmental functions of municipalities remained poorly defined.[1]

Subsequent to the White Paper, several key pieces of municipal legislation were enacted. These gave much greater substance to the new developmental role of municipalities. In particular, municipalities are now required to undertake extensive community participation, as part of their day – to-day functioning; to undertake multi-sectoral integrated development planning; to implement performance management measures; and to create partnerships with state and non-state actors.

At the same time, municipalities have been re-demarcated (in December 2000), and are now much larger spatial entities than ever before. This has placed huge management demands on already fragile institutions.

In this context, South Africa's LED Fund has performed poorly, as will be shown in this paper. (This poor performance has been due to structural reasons, despite the remarkable motivation and effort of individual participants at all levels). Rather, the significance is that it is the first time that a special fund has been created for LED promotion; that it is the first fiscal recognition of municipalities' economic development role; and that it gives municipalities an opportunity to select and design economic projects, and secure funding for them.

For the purposes of Monitoring and Evaluation, the programme also offers a useful laboratory of experience. It has shown up alarming capacity problems at municipal level. It has also revealed the dangers of inadequate understanding of LED. And finally, it offers useful pointers to the role which municipalities should play regarding M&E of LED.

The LED Fund has been evaluated thoroughly (at provincial level), and is now in the process of being fundamentally re-evaluated at a national level. This indicates a profound willingness, on the part of the Cabinet and DPLG, to assess the worth of the current approach.

The paper will, firstly, provide background about the LED Programme. Secondly, it will show that the M&E procedures have been profoundly inadequate. Thirdly, it will reflect on the theoretical underpinnings of the M&E system, and in particular, the indicators which are used to monitor the programme.

Thirdly, these arguments will then be used to suggest how the LED Programme was fundamentally misconceived. It is primarily "supply-driven", because the design of the programme focuses on the perceived needs of municipalities, and not the real needs of communities.[2] It is artificial, because the projects are usually identified by consultants and municipalities, who are eager to spend money. It is bureaucratic and fragmented, because the disbursing agency (national level) is divorced from the

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1 Notably, in Schedules 4 and 5 of the Constitution, which provide a rather antiquated list of municipal powers and functions.

2 The term "community" in this paper refers to a gamut of social phenomena, ranging from individuals to various types of interest groups and local citizenries, amongst whom there may well be conflicts of interest. The term is not used to imply communitarianism.

supportive and monitoring agencies (provincial level) and the implementing agencies (municipal level), who maintain uneasy relationships with their beneficiaries.

Finally, it will be shown that it the programme is primarily "welfarist" in its underlying philosophy, and therefore has been ineffective in assisting communities to promote LED effectively. The selection of indicators has promoted an undue focus on issues which are unrelated to the sustainability of the enterprises themselves.

In the final section, a radical alternative to the current structure of the LED Fund is proposed, and the M&E implications for municipalities will be assessed.

B. THEORETICAL BACKGROUND

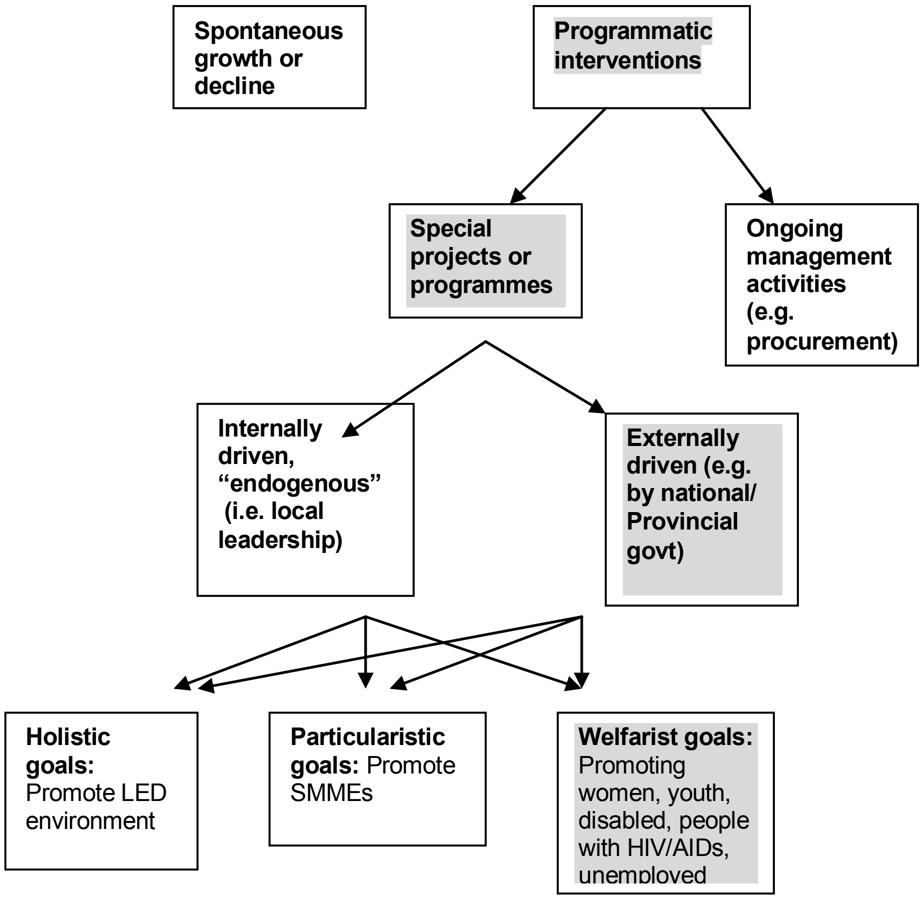
"Local Economic Development" (LED) is an elusive term. In practice, it can mean at least five different things – and these go a long way towards explaining policy confusions regarding LED.

There are at least four analytic distinctions to be made:

1. Whether LED refers simply to the *spontaneous trajectories* of local economies (i.e. does not include deliberate interventions), or whether it refers to *deliberate programmes* and initiatives
2. Whether LED promotion is done by *actors* as a programmatic activity, or whether it is regarded as a normal part of *ongoing management*
3. Whether LED promotion as a programmatic activity is done by *local or external actors* (i.e. endogenous or exogenous)
4. Whether the goals of LED programmes are (1) to promote *holistic goals*, i.e. the LED environment in a locality, or (2) *particularistic goals,* e.g. promoting SMMEs, or (3) *welfarist goals* i.e. promoting the benefits of women, youth, people living with AIDS, the unemployed.

These distinctions can be portrayed as follows (note that the shaded areas refer to the South African LED Fund, which will be analysed later in the paper):

Figure 1: Definitions of LED



Depending on which of these definitions is used, the implications for monitoring and evaluation (M&E) will be very different. For example, the first definition may meaningfully include monitoring (e.g. monitoring population trends or economic activities), but will exclude evaluation (since evaluation logically assumes a programme or project to be evaluated).

C. THE SOUTH AFRICAN L.E.D FUND

The LED Fund supports job creation and poverty alleviation, with a focus on social infrastructure.[3] The purpose of the LED Fund is "To promote Local Economic Development through local ideas". Through the programme, national government hopes to demonstrate "its commitment to support local initiative and innovation."

Some basic information is provided by an official LED booklet. However, in the light of the monitoring problems, outlined later in this paper, these figures should be treated with caution. (It speaks volumes that the information used in marketing the programme should be unreliable!)

The programme budget was the following:[4]

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3 Information is drawn from the official LED Fund booklet, issued by DPLG.

4 Very different figures appear in the "National Consolidation and Assessment of the LED Programme and Fund:, dated 8 November 2002, offer very different figures: A total of R187,5 million has been disbursed to date, with a total of 176 projects approved.

	Amount provided	**No of projects funded**
1999/2000	R42 million	49
2000/1	R75 million	72
2001/2	R78 million	59
2002/3	R100 million	95
TOTALS	**R295 million**	**275**

In total, 275 projects have been funded since the inception of the Fund. DPLG claims that 13 000 short-term and long-term jobs have been created.[5]

The fund is administered by the Department of Provincial and Local Government (DPLG), and is allocated to municipalities to spend on LED projects. According to the Fund, municipalities can use several ways to promote LED:

- Provision of business facilities
- Promotion of agri-industry.
- Support to tourism initiatives
- Human resource development programmes

In addition to these goals, the LED Fund hopes to promote "the broader agendas of government", viz. job creation, poverty alleviation, and redistribution. In addition to these "agendas", other pro-poor *desiderata* are employment of women and youth, and SMME promotion. "LED Fund projects, therefore, are not simply concerned with brick and mortar but with the ongoing impact of the projects to the quality of life of the poor within the community. The challenge is to generate innovative responses that will result in improved access to the formal economy by the poor".

The Fund funds specific development projects, up to R1.5 million (about $ 200 000) per project. Municipalities are able to apply for project funding for a maximum period of three years. The list of projects in the Free State gives some idea of the projects which have received funding:

- Bethelehem: Orca Boats
- Hlanganani vegetables
- Brandfort abattoir
- Dealesville saltworks
- Ficksburg organic farm
- Kopanong Hydro Weavers
- Harrismith SMME park
- Hobhouse piggery
- Jagersfontein commonage farm
- Kroonstad informal business centre
- Ladybrand business hive and craft centre
- Maluti dairy
- Philippolis art and craft centre
- Senekal sewing centre
- Mangaung agricultural project
- Thusanang poultry project
- Welkom informal business centre
- Wesselsbron: poultry, sewing, vegetables, catering, bakery
- Zastron charcoal project.

[5] The non-existent definition of a "short-term job" means that such jobs could include work which lasted only a day or a week!

Municipalities submit applications for assistance in the form of a project business plan and application forms that must meet the criteria of the LED Fund and that had been approved by way of Council resolution. Municipalities must demonstrate that their proposals are linked to municipal Integrated Development Plans.[6] The business plan acts as a contract between the department and the municipality, and the department will transfer funds directly to the municipality. The business plan must show how the projects will be sustainable by the end of the financing period.

Applications from any municipalities will receive consideration. However, municipalities that are affected by large-scale retrenchments or located within provincial growth nodes will receive particular attention.

Criteria for project section include a wide range of desirable outcomes. Significantly, however, these criteria do not refer to either the profitability of the proposed enterprise, nor to the broader multiplier impacts on the economic environment of the locality. The criteria include:

- Short-term and long-term job creation
- Targeting of the poor and disadvantaged
- Capacity to leverage other sources of funding
- A clear SMME focus
- Linkage to the municipal IDP and provincial planning processes
- Affirmative procurement
- Forging of partnerships
- Performance measurement
- Detailed marketing plan
- A clear role for the municipality in the project.

This paper will not provide a proper evaluation of the programme itself, since the paper is concerned with M&E practices. However, several substantive points can be made:

1. Policy goals of the programme

From a policy point of view, the focus of the LED Fund is primarily welfarist, and lacks any clear conception of either holistic local development or particularistic SMME promotion. While many of the criteria for allocation (see list above) refer to desirable consequences of the proposed projects, it is not clear what such projects should actually achieve in order to be viable at all. And while there are references to “sustainability”, there is no reference to the actual profitability of entrepreneurial projects. There is also no reference to multiplier effects within a specific locality. In fact, it is quite conceivable that a project may meet all the criteria listed above, and yet not be viable! For example, a project may attempt short-term job creation, target the poor and disadvantaged, lever additional donor funding, engage in partnerships, have a detailed marketing plan, link to the municipal IDP, and attempt to promote SMMEs – and yet not survive for a week after the Fund’s financial support dries up! The fact that beneficiaries are paid monthly salaries long before their projects show any potential of survival not only reduces any chance of survival, but also indicates the “welfarist” dimension of the programme.

The goals of the LED projects (“projects that will impact on poverty”) remain very vague. It is not clear whether the projects are intended as job-creation projects which will, in perpetuity, be managed by the municipality, as a welfare project; or whether the projects are intended to become viable business enterprises. The application form refers to “beneficiaries”, which gives a “welfarist”

[6] These are ambitious multi-sectoral planning documents which must be compiled by every municipality in the country. All sectors, including health, spatial planning, transport, housing, water, sanitation, electricity, roads and economic development need to be incorporated into the IDPs.

impression. There is little reference to the beneficiaries' real skills and experience and suitability for managing a business.

2. Design of the programme

The fundamental design problem of the programme is that it requires *bureaucrats* (who are often the least entrepreneurial of us all!) to stand in judgement about the merits of entrepreneurial or economic projects.

Furthermore, because it is bureaucratically convenient to dole out large amounts of money (up to R1.5 million, or about $200 000 per project), money is allocated to groups, and not individuals. These groups are often highly artificial constructs, with little internal cohesion, and often selected on quite the wrong basis (e.g. they are all women, or all unemployed). This creates endless problems of group cohesion and conflict management, and virtually condemns projects to an early death.

At a structural level, there are three fundamental problems:

- DPLG's Head Office remains the disbursement agency, but has no hands-on interaction with projects
- The municipalities, which are simply a channel of disbursements (a "middle-man" between DPLG and the project) become unnecessary bureaucratic obstacles in the process of implementation. Often the municipality has no real interest in the project, nor any skills to assist the project to flourish.
- The only agencies which show real interest in the future of the projects are the Provincial Departments, which are tasked with monitoring (including field visits). But the Provinces are not responsible for disbursements, which creates a contradictory role definition. Why should any municipality take the provincial monitors seriously, if it does not affect future disbursements?

The role of the Provincial Governments is particularly unclear. The role of the Provincial implementation agent (usually Department of Local Government, or Department of Economic Affairs) is to "Monitor the progress of the LEDF using key performance indicators and the inception report of each project". This includes:[7]

- Ensure project objectives are achieved
- Provide advice, guidance and assistance to municipalities in reaching their objectives
- Undertake frequent site visits
- Report any concerns to the DPLG.

The Provincial officials remain the most effective support agency (although their performance is patchy). However, they are not responsible for project approval or funding disbursements.

There is thus a disjunction between (1) effective control of money – by DPLG and the Municipalities, and (2) Monitoring and support – by the Provincial Governments, and (3) the ultimate beneficiaries, who remain dependent on municipalities to secure access to operational funds.

Since the LED programme is primarily designed to encourage and empower municipalities to engage in LED, the solution would be to keep municipalities as a channel of funding. However, intensive mentoring and monitoring needs to be done by Provincial Departments to assist municipalities to build the capacity to disburse funds effectively. Critically, if municipalities do not co-operate with such mentoring and monitoring efforts, Provincial Departments *should be in a position to withhold*

[7] DPLG. Implementing Local Economic Development Funds Projects: Project Management Guideline, 2002/3., p. 3-2.

later tranches of funding. This is extremely important. DPLG is too far away to be a proper judge of project progress. This, in turn, has serious implications for the levels of capacity (number of staff, appropriate project management and entrepreneurial skills) of Provincial officials, so that they can engage meaningfully with both municipalities and project managers on the ground.

A final problem is the fundamental lack of ownership of projects, by all concerned. The distinction between a role-player and a stakeholder is a fundamentally important one. In the current programme, there are many role-players (DPLG, provincial governments, municipalities, project managers, consultants, and beneficiaries). However, none of them have a real stake in the projects. Some of these players can make short-term financial (or political) gains, but if a project fails, no-one is seriously concerned. Even the beneficiaries are largely spectators to the programme – they were not part of project identification; they have little loyalty to the aims of the project; there is little likelihood of the projects ever taking off as serious enterprises; and even if a project is successful, there is a strong likelihood of conflict in the group about the distribution of benefits. Effectively, "the buck stops nowhere". This is an absolutely wrong premise on which to build a real LED programme.

3. Selection of projects

There is little evidence that projects are selected with the subjective goals or world-view of the beneficiaries in mind. From an entrepreneurial point of view, this is a hopeless way to start. Starting and running an enterprise requires an inordinate degree of motivation and determination, often way beyond normal working hours, and for a long time before benefits start rolling in. If the beneficiaries have a poor sense of "ownership", they will abandon the project as soon as times are hard. This has happened repeatedly, in practice, where project monitors perform site visits only to find the beneficiaries sitting at home because the money has run out.

The LED programme does not fund feasibility studies or site inspections for proposed projects, with the result that many projects fail for reasons that could well have been averted. For example, in Kopanong Municipality, half the funding was spent on constructing a new building – in a town with ample empty office space. No proper identification of beneficiaries is made, which creates significant scope for fraudulent expenses.

Because no proper checks are made of the information in the business plans, the proposals sometimes contain wildly fanciful goals and targets. For example, the application form asks: "What markets have been secured for the project?" This is one of the few really important questions. It is highly recommended that the LED Programme Managers requests telephone numbers of supposed markets, to verify whether those markets have actually been contacted by the project designers.[8] No alternative cost estimates are required, no alternative technology is considered, and no comparable projects are visited to find best practice examples. Budgets do not require any indication of future operating costs, and there is no indication of environmental impacts of proposed projects.

A recent study of Programme in the Eastern Cape and Western Cape suggests that the LED Fund functions as a largely application-based response to the availability of funds. It remains project-based, unconnected with other local activities. This indicates a real lack of understanding by many municipalities about the fundamentals of economic dynamics.

In setting people up for failure by approving projects on the basis of inadequate business plans, the provincial and national departments do the rural areas and themselves no favours. Some projects

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8 In the Free State, for example, one project proposal purported to have the US Navy as a market for the inflatable boats which were to be built. This was never verified, and the project collapsed after R1,5 million had been spent. The consultant has been blacklisted, since he was also responsible for the collapse of another project, valued at almost R2 million (where markets for crafts had also not been verified).

do survive, but legitimate questions can be asked about the cost-benefit ratio.[9] Where projects fail, a culture of entitlement, dependency and general helplessness is created. This is accompanied by an air of general grievance, demoralisation and feeling of betrayal when a project collapses.

4. Municipal capacity problems

From an implementation point of view, the programme is effectively supply-driven, despite making a formal attempt to appear to be demand-driven. Municipalities have to apply for funding. However, there is often real concern that the municipalities are not in touch with their residents in any meaningful way. This concern exists, for several reasons:

- Municipalities have recently been redemarcated, and are now often many times their previous size. The ratio between residents and Councillors has increased dramatically
- Many municipalities are consumed with day to day organisational difficulties
- Many IDPs were drafted by consultants (often with a spatial planning or engineering background), with little real economic understanding.

The reliance of municipalities on less-than-competent consultants to write business plans and implement projects has cost many of them dearly. There are several cases of projects which were quite unviable (and, in retrospect, were unviable from the start), due to poor project design.

Despite the intentions of the Fund designers to have a demand-driven approach, it evolves as a supply-driven programme. Projects are identified by municipalities in co-operation with consultants; these projects are nominally related to the IDPs (which are often not very reflective of community needs), and are funded whether community needs have been addressed or not. Either consultants prepare the business plans and therefore there is a tendency to inflate capacities and objectives to comply with government policy guidelines with express intention of netting the grant; or the business plans are prepared by municipal officials who are poorly equipped to undertake the necessary economic or institutional analyses. They thus tend to overstate capacities, goals and timeframes and understate the support that would be needed to sustain the project.

In the Free State, the provincial LED Manager tries to reduce the prominence of consultants by insisting that Municipal Managers at least sign the applications. This is to indicate some level of "ownership" by the Municipality. While this requirement is certainly a step in the right direction, it can be questioned whether this is sufficient guarantee that the Municipality has any real commitment to the project.

As regards municipal capacity, some interventions have been made. For example, DPLG offers a 2-day training for LED officers every year. However, it can be questioned whether this is sufficient, especially where LED officers do not have a business background.

5. Institutional mechanics of delivery

Municipalities are expected to manage the LED projects. This is problematic, given the very limited experience which many municipalities have of LED. "Economic development" is a relatively new function, and very few municipalities have sufficient financial resources to employ staff with an LED or business background. Furthermore, municipalities are chronically understaffed, and cannot devote the required attention to project management.

[9] It could hardly be value for money if more than R1 million is spent on a project (Jagersfontein in the Free State) to provide for less than 30 people by way of subsistence farming. The sole customers of the farming produce are the hospital and the crèche.

To secure interdepartmental co-operation in the LED Programme, DPLG requires each province to create a Provincial Co-ordinating Committee (PCC). Other departments are invited to sit on the PCC. Reaction has been mixed, with some provincial departments showing considerable enthusiasm, and others barely getting involved.

Intersectoral collaboration is particularly important to ensure *aftercare* for projects. After the disbursements of LED funding on a project, a major challenge remains the future sustainability of the enterprises. Consequently, the assistance of departments such as Agriculture, Economic Affairs, and Labour are important. Such assistance has not always been forthcoming, with deleterious consequences for some projects. The findings for the Eastern Cape and Northern Cape, for example, indicate the uniform failure to address the general lack of capacity at community level to maintain and operate new businesses. This includes their inability to manage new forms of production, costing, bookkeeping and marketing and to maintain new legal entities, and to maintain and operate new infrastructure.

6. Disbursement of funding

Funding is disbursed from the DPLG Headquarters in Pretoria. Provincial offices are required to do monitoring of projects (during project implementation and subsequently). Since Provincial offices are not responsible for disbursements, many municipalities do not take provincial offices very seriously when they carry out their monitoring function. In many cases, therefore, municipalities do not bother to send in monthly reports.

This does not affect the payment of funding tranches, however. Payments are made on the basis of claims submitted by municipalities, whether they have satisfied the *monitoring requirements* or not. Consequently, there is no way of enforcing good project performance – the funding is disbursed whether *project goals* have been met or not.

This is due to a badly designed incentive structure. The programme managers at DPLG are responsible to Cabinet, which is responsible, in turn, to requirements set by National Treasury. The overarching indicators for the programme are (a) amount of money spent, and (b) several indicators which are poorly linked to the criterion of sustainability or profitability. (This will be analysed in more detail in the section below). In sum, the LED Fund is not evaluated according to real impacts, but according to the amount of money spent.

D. BASIC PRINCIPLES OF MONITORING and EVALUATION

Why conduct monitoring and evaluation?

The short answer is: If we do not monitor and evaluate our activities, we do not know where we make mistakes, so we cannot rectify them. We also cannot learn from our best practice, and we don't know what impacts we are making.

Briefly, M&E can be defined as:

- **Monitoring** is an integral part of the day-to-day management of projects and programmes (true for departmental managers and those in implementing agencies). Monitoring is the collection and analysis of data to equip management in government departments and their programmes, as well as stakeholders and the public, with accurate data about progress and performance.

- **Evaluation** refers to the periodic assessments of issues such as the efficiency, effectiveness, impact, relevance and sustainability of the programme in relation to the stated objectives. Traditionally this involves the running of baseline surveys, with assessment studies being conducted to measure change. A wide range of methods - qualitative and quantitative - are available.

M&E raises several in-depth analytical questions simultaneously. It is an intellectual exercise, which must be bureaucratically administered, and must feed back into policy-making and management decisions. As such, M&E is a very complex, multi-faceted activity, requiring a diversity of skills.

The following are issues that need to be discussed when setting up an M&E system:

1. *Policies and normative analysis:* M&E of programmes or projects can only be done meaningfully if it refers to the normative goals (i.e. policies). This is the question of "What are we measuring, and why?" Unless this is done, M&E will simply become bean-counting, for its own sake, and will not feed back into decision-making.

2. *Methodology*: What theoretical methodologies will be employed? Is data quantitative or qualitative? In particular, the selection of indicators is an important aspect of M&E methodology (some pointers are suggested below). In many cases, quantitative and qualitative methodologies complement each other. Quantitative methods show "what?" and "how much?", whereas qualitative methods have explanatory value and answer the question "why?" Finding out whether something is working or not may be insufficient to plan solutions to problems. We often need to know and understand *why* there are problems, to make sure that the root causes can be addressed. This is where qualitative methods are very useful.

3. *Administration:* A broad topic, which includes:

    - Budgeting for M&E
    - Resource Inventories – Counting what you've got (infrastructure, equipment, supplies, finance, staff)
    - Data collection
    - Processing of information
    - Analysis of findings
    - Reporting procedures
    - Feedback into policy-making and management decisions
    - Dissemination to relevant audiences

4. *Public participation* in monitoring and evaluation – particularly if the ultimate goal is impacts on people's quality of life. There are several useful methodologies which have been evolved for this purpose. In South Africa, the experiences of Mvula Trust, with regard to the evaluation of community-based water and sanitation projects, are a noteworthy example. Additional points will be made about this issue later in the paper.

In particular, the concept of "indicator" has assumed a mystique in current development management, and it is useful to reflect on what makes a good indicator:[10]

[10] G. Rubio, G. Prennushi and K. Subbarao, "Monitoring and Evaluation chapter", Preliminary draft for comments, March 3 2000, World Bank (check website). Also World Health Organisation (2000): Tools for Assessing the O&M status of water supply and sanitation in developing countries, p. 26.

- A good indicator should be matched to the objectives and goals of the institution. The use of the information should be made clear from the beginning.

- A good indicator is a direct and unambiguous measure of progress – more (or less) is unmistakably better.

- The *definition* of an indicator is often a time-consuming process and should include key stakeholders. Indicators should be suggested, debated, critically analysed, and redefined until a consensus is reached about its meaning. If people disagree about what an indicator means, it serves no purpose!

- A measure of public participation (or participation by key stakeholders) may be useful in defining indicators. In this way, the municipality will know that it is measuring issues that the community finds relevant.

- It varies across areas, groups, over time, etc, and is sensitive to changes in policies, programmes and institutions. This means we can measure the performance of different policies, programmes, institutions and localities.

- It is not easily blown off course by unrelated developments, and cannot be easily manipulated to show achievements where none exists.

- Information is available, and it must not be too costly to track. Information must also be available in time to influence decisions.

- It should be verifiable.

There is no fixed set of questions or indicators that can be applied to all situations. There should be some national indicators, but local institutions (such as municipalities) should decide on additional indicators that are appropriate to its type of economy, spatial configuration, policy goals and infrastructural levels.

E. MONITORING THE L.E.D. FUND – INADEQUATE PROCEDURES

The current monitoring procedures of the LED Fund are insufficient. Clearly, the monitoring system was designed without any prior experience or knowledge of monitoring. At the inception of the programme, a consultants' report recommended undertaking an annual survey of provincial and local government's LED activities, and establishing a comprehensive LED database to aid and develop economic intelligence of the programme will be established.

One such annual survey was done by provincial consultants in 2002, and revealed some valuable insights, although the provincial studies varied significantly in quality. A data-base has been compiled, but as shown below, the selection of indicators has been very inadequate, and data collection has remained problematic.

It should be noted that almost all the defects in the monitoring system were pointed out by *the monitoring officials themselves*, who are only too aware of the faults and inadequacies of the information they are collecting. There is a profound sense of frustration, on the part of some Provincial officials, about problems in programme implementation, and the fact that even the trickle of information which gets through, is apparently not taken particularly seriously by decision-makers.

1. Policies and normative analysis

The monitoring process should take the lead from the policy and normative underpinnings of a programme. This indicates precisely *what* should be monitored, and *why*. Only if the monitoring exercise keeps within the policy framework will the monitoring exercise be taken seriously by policy-makers, in subsequent rounds of decision-making. As will be shown below, the fundamental rationale of the LED Fund is unclear. It hovers uneasily between at least four goals: a welfarist approach, the promotion of SMMEs, the promotion of economic activities in selected localities, and capacity-building of municipalities. The linkages between these four goals remain unclear in practice.

The ambiguities of the policy are reflected in the M&E system, as shown by the selection of monitoring indicators (see below).

Since the policy goals of the LED Fund hover ambiguously between business-oriented and welfarist goals, it is not surprising that the monitoring system has not been useful.

2. Methodology

M&E requires information about baseline conditions. Monitoring can only be done meaningfully if accurate and useful information is collected at the project design stage. This becomes the benchmark against which future information can be compared. As yet, there has been no attempt to collect baseline information.

A great deal of statistical information is required for the monthly progress reports of the projects. However, much of this information remains meaningless, as it is not always supplemented by a qualitative appraisal. There are no criteria for qualitative reporting. For example, there is insufficient qualitative information about levels and appropriateness of training inputs.

The monitoring system includes limited quantitative indicators including expenditure and profits, number of employment opportunities (broken down by gender and age), and deliverables in infrastructure production output. Implementation and operational costs are given without any justification. Information about linkages with other programmes, projects, businesses, grant sources, partnerships and other support remains sparse.

The KPIs of the programme have been badly selected. The statistics which are required on a monthly basis, are not only meaningless, but positively misleading, because it deflects project managers' energies into inappropriate targets. For example, the monthly report format requires a lot of statistics on:

- person-days of employment for temporary workers (listed by labourers, semi-skilled, skilled, supervisor, clerical, managerial and professional)
- Total remuneration, % wages paid to women
- Number of permanent jobs created.

The figures entered by municipalities are problematic on several counts. Firstly, the notion of a "temporary worker" or "short-term job" is never defined. Does it refer to one day's work, or one week's work? Secondly, it creates the impression that the short-term creation of jobs is the most important (by far the greatest amount of space is allocated to temporary workers). This creates the impression of the projects being emergency job-creation projects, rather than sustainable businesses. Thirdly, by measuring employment creation as an indicator of success, it encourages the expenditure (wastage?) of project money on employment – the indicator builds inappropriate incentives into the project. Fourthly, there is no qualitative assessment of the relevance of the employment created to the actual goals of the project.

Some of the questions on the current application forms are, arguably, red herrings. As shown above, there are questions about the involvement of the unemployed, of women, of youth and "other disadvantaged" (regardless of their suitability to the project). Furthermore, the form asks: "What percentage of the proposed budget will be spent on SMMEs"? The meaning of this question is unclear. Does it mean that the project beneficiaries are expected to become an SMME? Or that the beneficiary group must outsource certain functions to other SMMEs? This may be a useful question, but it may also be a red herring. Just because a project spends a lot of money on an SMME, and thereby "spreads the loot around", does not make it a viable or sustainable project.

The paucity of financial data required is particularly disturbing, since it can easily lead to misallocation of funds. Part of the problem lies with the monthly report format itself:

- "If current forecast differs from annual allocation, then include an explanation on variance, and identify any measures to be taken to rectify this" (3 lines provided)
- "If expenditure to-date differs from amounts transferred, then include here an explanation. Identify any measures to be taken to rectify this". (3 lines provided)
- "Compliance information: Indicate how the municipality has complied with the conditions of the grant" (3 lines provided)
- "General comments on transfers and expenditure of the grant".

These requirements are totally inadequate for effective qualitative monitoring. Firstly, the three lines provided per question does not reflect the complexity of the issues which need to be described. Secondly, the reports rely on the good faith of the municipal accounting officer, and other than occasional site inspections, there are no verification procedures of the data which is supplied. Total reliance is placed on the financial management at municipal level, and this has proven to be a weak reed. Thirdly, the expenditures may be perfectly on target (according to the business plan), but the project may actually be a failure. Many of the expenses may simply be "going through the motions", and this apparent progress may conceal huge underlying problems. Fourthly, the information provided about the past performance of the project has no bearing on future payment of tranches!

Page 2 of the Monthly Report form requires the municipality to list budget items and expenditures, for each month. However, no proof of these expenses have to be submitted. Hence it is quite possible that the manager of the project may submit a falsified list of items to the Municipal Manager, who signs it in good faith (or not in good faith, as the case may be!), without the LED Programme ever being aware of discrepancies.

As far as impacts are concerned, progress reports reveal insufficient information about expected or actual impact on quality of life. Baseline information is lacking, documentation is limited and provides minimum quantitative information on jobs created or training provided, no indication of quality of training and whether it resulted in higher efficiencies.

3. Administration of M&E

a) Budgeting for M&E

There is virtually no budget for M&E. In fact, only 3% of the entire R100 million programme is allocated to programme management. In some provinces, the salaries M&E staff are drawn from the budgets of other programmes. Provincial monitoring staff typically have to use the vehicles and equipment of other programmes to perform site visits.

b) Staffing for M&E

Each Province typically has only one M&E officer. In some provinces, regional departmental staff are asked to perform site visits. However, such staff do not have any business experience, and therefore the site visits are not always effective.

c) *Resource Inventories*

No records are kept by the National or Provincial departments (or even the municipalities themselves!) about infrastructure, equipment, or supplies which are acquired by the programme.

d) Data collection and verification

There are formidable difficulties in data collection, due to the fact that reporting by municipalities is not strictly enforced (i.e. disbursements do not require prior satisfactory reports).

Provincial monitoring officials try to visit the projects regularly, but with the inadequate financing for travel, this becomes a difficult task. Nevertheless, some provincial officials have been innovative in getting a true glimpse of project performance. This includes surprise site visits. The Northern Cape Monitoring Manager has drafted a comprehensive site visit report format, for regional officials to use. The main problem remains the lack of business experience of monitoring officials.

Some attempts at public participation in monitoring have been taken. In the Northern Cape, for example, monitoring officials do their best to meet with project committees. However, this is not always successful, and it is likely that more in-depth participatory methodologies would be very useful.

The main problem is the poor quality of information, and information gaps, in the monthly reports. For example, even where lists of expenditures are submitted in good faith (i.e. they are an accurate reflection of what was spent), there is very little checking of the *appropriateness* of such expenditure. For example, a sewing project may spend a lot of money on wheelbarrows or geysers, and no-one will ever pick up the anomaly!

e) Processing of information

The monthly reports are submitted by municipalities, who simply forward them to DPLG in Pretoria. The capacity of the Pretoria office to assemble and process information is very limited, due to understaffing.

In the meantime, Provincial officials collect information by means of site visits. This information is collated separately, and sent to DPLG. It appears doubtful that the national officials process this information in any way. Provincial officials suspect that most of their bi-monthly reports go unread.

f) Analysis of findings

Monthly monitoring information is used to collate statistics for National Treasury, according to the prescribed quantitative indicators. No qualitative analysis is being done.

Notably, one round of evaluations has taken place, on a province-by-province basis. These were done by external consultants. The quality of these evaluations varied from excellent to mediocre. At present, a programme-wide evaluation is being carried out by independent consultants.

g) Reporting procedures

Reporting to National Treasury takes place on a quarterly basis, on the welfarist quantitative indicators outlined earlier, as well as amounts of money disbursed.

Each province was evaluated in 2002, by different consultants. A separate consultants' firm compiled a national overview evaluation.[11] There are severe doubts about the veracity of the figures in the national evaluation, which frequently misrepresents the provincial evaluations. For example, figures for temporary jobs have been transfigured to become permanent jobs; and employment figures for the Free State (95 jobs) and the Northern Cape (150 jobs) have been mysteriously inflated (613 for the Free State and 378 for the Northern Cape). Remarkably, while the national evaluation report admits that no clear information about short and long-term employment is available from the provincial reports, the national report has no qualms with regard to creating tables representing employment figures! Figures for youth employment bear no resemblance to the findings of the provincial reports.

This problem of faulty reporting indicates several underlying problems. The first is that the collection of monitoring information is erratic, with the result that consultants are tempted to "improvise" information. Secondly, there are no clear and sustained verification procedures.

Thirdly, and more profoundly, the consultants who were brought in to do the provincial and national evaluations have capacity and expertise constraints of their own. This is perhaps a normal part of South Africa's inadequate skills levels, but there should be a salutary warning that consultants' reports should not be accepted without verification. There is simply no substitute for building M&E capacity within a development programme itself, and constantly reviewing the effectiveness of the M&E system itself.

Finally, it indicates the dangers that top-level decision-makers (programme managers, senior departmental staff, and Cabinet itself) may be seriously misled about programme impacts. The fact that Cabinet has now commissioned a far-reaching study of development impacts of various programmes indicates its own unease with its current state of knowledge.

h) Feedback into policy-making and management decisions

There appears to be no feedback loop into decision-making. Provincial officials feel that their concerns about the projects are never explored or acted upon. However, as stated above, the two rounds of evaluations do indicate that there must be a concern at senior level, about the impact of the programme.

F. TOWARDS AN ALTERNATIVE APPROACH TO LED

How, then, can a programme be designed which has real impacts on LED? Some of the distinctions made in Figure 1 are significant here.

Firstly, it is important to distinguish LED from welfarist goals. While LED should promote the welfare of the community, it is not its primary goal. The purpose of LED should be to create flourishing local economies, presumably through a robust diversity of enterprises. And it is absolutely critical that

[11] "National Consolidation and Assessment of the LED Programme and Fund for the Department of Provincial and Local Government", 8 November 2002.

LED should draw, significantly, on endogenous dynamics, whether in the form of local economic inputs or local leadership "to pull a community up with its own bootstraps".

LED should, therefore, either:

- promote the economic environment *holistically* (e.g. by providing easier access to local capital, or to broaden the local skills base, or to provide economically relevant infrastructure,etc), and/or
- it should promote SMMEs *particularlistically* – i.e. provide support to specific enterprise deemed to be of strategic import.

One way of actually combining these goals is to provide *SMME support centres,* staffed with well-experienced business mentors. Such centres can provide a wide range of support services (writing business plans, searching for loans and capital, providing marketing advice, securing technical advice, assisting enterprises with financial management expertise, providing tax guidance, etc). In small rural centres, which are often steeped in poverty, these centres should be able to assist particularly the very new emergent "barefoot" entrepreneurs. They should also be able to cross the divide between urban and agricultural economic sectors, since most people's lives in the small towns represent a mix of livelihoods.

This strategy is fundamentally based on a demand-driven approach. Local entrepreneurs (or proto-entrepreneurs) are able to find their own market niches, and approach the SMME support centre for advice and ongoing mentoring. There is simply no substitute for the creativity and innovativeness of local residents.

The strategy would support economic enterprises by groups and individuals. All group-based projects would be self-selected, and groups would be constituted according to economic rationales and not bureaucratic fiat.

The beneficial impacts of such a strategy would be numerous and direct. Every day that a new enterprise remains in business would be a beneficial impact on the local economy. Every marketing opportunity which is secured, or production advance which is achieved, will be a small victory for some or other entrepreneur. Some of these entrepreneurs may well be – literally – barefoot entrepreneurs, but the impact on their welfare, and the welfare of their families, may be inestimable.

This strategy would be demand-driven. The only supply-driven component would be the fact that that appropriate mentors are funded (together with some basic office infrastructure). All economic opportunities would be identified and "owned" by the beneficiaries themselves. Where the mentors can identify new opportunities, it would depend on local entrepreneurs to "own" and pursue those opportunities. They would not be artificially pursued by Government.

The strategy would require significant levels of support, at municipal, provincial and national level. The role of municipalities will have to be paramount. The proposed SMME Centres should be "owned" by the municipalities, as a public service. The salaries of mentors should be channelled through the municipalities (however, with firm prescriptions for skills and experience, to prevent patronage appointments). The Centres should become a centre-piece of municipalities' LED strategies, and should be used to bolster numerous other development programmes (e.g. promoting community-based entrepreneurship on infrastructure and housing projects).

The programme would not be "bureaucratic", because bureaucrats would not be making important allocative decisions. Rather, officials would play the role of assisting the front-line mentors with additional advice, networking and technical information. For example, a wide range of information about government and donor programmes should be provided.[12] Municipalities can play a

[12] South Africa has a number of potentially useful programmes, which remain under-utilised, and offer enormous possibilities for links with LED. Examples are the Land Bank's step-up loans, the

formidable role as multi-sectoral integrators of these programmes. The mentors at the Business Support Centres can tailor these programmes (or elements from these programmes) on a case-by-case basis, for each emergent entrepreneur.

In such a proposed strategy, disbursements should take the form of conditional and guaranteed grants for *all* municipalities. Each town within each municipality should qualify for at least one such centre. In this way, the disbursement role would be removed from the arbitrary approvals processes and disbursement decisions of government officials. Once an SMME support centre is created in a locality, the funding for the facility should be automatically channelled to the municipality, from where ongoing expenses for the centre can be paid.

The strategy would focus on *ongoing entrepreneurship support*. It would not be a stop-start programme with sudden project-based spurts of activity. It would become a continuous service, which local residents can rely on, and can factor into their decisions regarding their entrepreneurial activities. It would be a reliable service.

G. TOWARDS A NEW APPROACH FOR M&E

Finally, the strategy would lend itself to effective monitoring, because there would be much less incentive to comply with inappropriate "red herring indicators". The key deliverables would be the number of entrepreneurs who are assisted, and the businesses which are created and which survive the vagaries of the economy. The most important indicators would be *impact indicators* (the survival, success and profitability of local businesses), and not output indicators (the number of people visiting the office). The monitoring system will monitor phenomena which are really worth monitoring – i.e. the impact on people's lives.

Possible quantitative and qualitative indicators would be: (1) Number of entrepreneurs who received advice each month; (2) number and types of new business opportunities identified; (3) number and types of new businesses who received start-up capital (from a diversity of sources); (4) number of new entrepreneurs who benefited from technical and financial training (e.g. by the Department of Labour); (5) qualitative evaluation of all technical and financial training received. number of businesses who reached production stage or marketing stage; (6) difficulties encountered in production or marketing (qualitative analysis), (7) Length of time from start-up of a business to the first revenue flow; (8) Ratio between a business's costs and revenue each month, for a period of two years; (9) Take-home income generated per business per month.

The monitoring function should be driven by the SMME Centre Managers themselves (who collect primary data and qualitative insights on a monthly basis), and the municipalities (who should receive these monthly reports). These reports should be submitted to municipalities' Councils and specialist committees, for discussion. Municipalities should have their own LED officers who visit the Centres, and the entrepreneurs themselves, to verify information and detect new opportunities for profitable investment.

Municipalities should receive at least three types of reports:

- *Giving an overview* every month of the findings (For example, "33 entrepreneurs were assisted during May".)

- *"Exception reporting*" – only unusual findings are reported (For example, "An unusually high number of entrepreneurs complained about electricity outages".)

Department of Labour's Skills Development Funds for training, the Department of Public Works' Community-based Public Works Programme, the Department of Health's Integrated Nutrition Programme, and the Department of Land Affairs' land redistribution programme.

- *Qualitative reporting* – writing down the experiences of the staff, in addition to the "cold hard facts". For example, "The mentors found that it was difficult to access Land Bank loans for entrepreneurs, because the Land Bank staff are never available".

The Council and Municipal Manager must decide what kinds of reporting they would like for each type of information. Qualitative information is particularly important, because this helps the Council to take effective decisions.

M&E information should be used as a normal part of municipal planning and implementation of activities. Information should show whether a certain programme or activity is producing the desired results; if not, changes should be made! Senior officials and Councillors need the information to make sensible decisions. For example, based on the information collected, Council can meaningfully decide whether it should promote tourism, or rather build a vegetable market; whether it should reconsider its procurement policy; or whether it should construct a business hive.

The reporting process should refer back to the Municipality's goals, targets and indicators. "Input reporting" will tell the Council about the amount of money or staff time, which have been used. "Output reporting" refers to information about *what has actually happened* during the implementation of certain activities. And "impact reporting" will tell the Council whether its goals have been achieved – does the SMME mentoring centre actually create new enterprises, and are these businesses really viable?

The role of provincial level should be to assist municipalities to interpret the information they receive, and to analyse it in the context of other relevant information (e.g. new development programmes which are available). Provincial governments should be primarily responsible for collating qualitative reports about the successes and problems of the SMME centres. Provincial officials should visit municipalities on a regular basis, to offer technical advice and help with trouble-shooting.

The role of national level should be to monitor the progress with these centres, based on municipalities' and provincial governments' monthly reports. Since the national level is primarily a policy-making and disbursing agency, it should frequently review the adequacy of financial support to the SMME centres. It should also be able to undertake national-level cost-benefit analyses. Finally, the national level should assist provincial governments to strengthen their province-wide LED capacity (e.g. to promote intersectoral collaboration, spatial development corridors, and rural-urban linkages).

This strategy would benefit from participatory M&E approaches. There are five stages in the monitoring process when participation can be included:

- Participation in goal setting of projects or programmes (e.g. consulting with stakeholders about the functions of an SMME Support Centre)
- Participation in the design of the monitoring process (working with key stakeholders in deciding what to measure)
- Choice of methodology, especially through qualitative methods (e.g. focus groups), which enables better understanding of people's situations, opportunities and constraints
- Collaboration in data collection and analysis (e.g. by training local people to implement surveys)
- Dissemination of findings.

In the choice of methodology, participation can be included in various ways:[13]

[13] World Health Organisation, Geneva, Tools for assessing the O&M status of water supply and sanitation in developing countries (2000).

Method	**Advantages**	**Disadvantages**	**Alternatives/Keep in mind**
Public meetings	The audience will contain many different interests, with different levels of understanding and sympathy	• It is difficult to keep to a fixed agenda • Only a few people get a chance to have a say	• Identify and meet key interests informally • Run workshop sessions for different interest groups • Bring people together after the workshop sessions in a report-back seminar
Formal survey	Questionnaires, studies and in-depth discussion groups can be a good way to start the participation process	Surveys are insufficient on their own	• Surveys require expert design and piloting • Surveyors need training • Survey design can be a part of a process which leads to action
Consultative committee	Some focus of decision-making will be necessary in anything beyond a simple consultation process	• A committee may not be a channel for reaching most people • People invited to join a committee may be uncomfortable about being seen as representatives	• The committee can help to plan the participation process • Surveys, workshops and informal meetings can identify other people who may become actively involved • A range of groups can be formed, working on different issues.
Working through NGO's/CBOs	• Voluntary organisations are an important channel of communication, and may have resources to contribute to the participation process • They have a wealth of experience and are essential allies	Voluntary organisations are not "the community".	• There will be many small community groups who are not part of the formal NGO/CBO sector • Voluntary groups have their own agendas – they are not neutral.
Participatory rural appraisal (PRA)	If done well, the work belongs to the local people	Care needs to be exercised in choosing appropriate methods	A range of methods are available (see below).

Participatory Rapid Appraisal (PRA) is an important approach to participatory social research. An important feature of using participatory methods is that local people are directly involved in the processes of data-gathering and analysis. If the PRA process is well done, people will feel a sense of ownership of the research and its findings. This contributes to a shared learning and local capacity building.

There are numerous possible PRA methods or techniques:

- Secondary data sources, maps and reports
- Direct observation
- Case studies, work and incident histories from local experts
- Transect walks: Systematically walking through an area with local guides, observing, asking, listening and leaning about relevant issues
- Group discussions of different kinds (casual, focused, community)
- Mapping and modelling to show local world views
- Listing organisations which residents feel are most helpful to them
- Matrix scoring and ranking exercises to compare preferences and conditions
- Well-being grouping to establish local criteria for deprivation and disadvantage

- Time-lines and trend and change analysis to show chronologies of events, and to analyse local trends and causes of change
- Seasonal calendars and daily time-use analysis to show work patterns and activities.

In particular, beneficiaries who receive mentoring and funding assistance from the Business Support Centres can be gathered in periodic focus group meetings, to discuss the value of the support they are getting, and to suggest improvements.

To manage a PRA process requires experience in the methodology of PRA. PRA should be carefully managed, to prevent difficult situations arising in the community. It is advisable for Municipalities to recruit the services of a consultant company or research organisation which specialises in PRA. Municipal staff should participate in the PRA research process, so that they can also become familiar with these techniques. Over time, one or more of the municipal staff could enroll in specialised courses to learn the theory and techniques of PRA. This would be a valuable longer-term investment for the Municipality.

Information dissemination should become as important as information collection and reporting. M&E results should be disseminated to several audiences:

- To national and provincial officials – this helps senior officials know what is going on “on the ground”
- To front-line municipal officials – this helps to empower staff to understand the “big picture” of the entire programme or municipal performance
- To municipal Councillors – this helps them to decide on policies, programmes, projects and methods of improving municipal performance
- To the local public- this creates a sense of “buy-in” to the municipality’s operations (e.g. by means of a regular newsletter)
- To programme and project beneficiaries – this creates a sense of ownership
- To other relevant provincial and national departments, e.g. Department of Water Affairs and Forestry, Department of Labour, Department of Trade and Industry
- To developmental institutions, e.g. Development Bank of SA
- To donors and funders.

Wide dissemination is a positive thing in itself, because it helps to create an outcome-based culture in the municipality. Dissemination should be in an accessible form, e.g. through meetings, pamphlets, posters, and newsletters.

For all this to happen, dedicated funding should be made available for M&E – not only for the proposed SMME centres, but for all municipal development programmes and projects. If M&E is not budgeted for, then it will not happen! The costs of M&E will depend on the type of data the Municipality wishes to collect, and the methods it chooses to collect it. For example, collecting information on entrepreneurs’ facilities will not be expensive if it is done as part of the meter readers’ normal duties; but launching a community questionnaire will cost a lot of money.

One of the challenges to achieve affordable M&E will be to combine it with the normal duties of staff. Meter readers, for example, can administer a basic opinion survey on an ongoing basis, since they have to visit every business every month to read the meter. M&E may require an additional staff post, or part of a post. If it is added to an existing staff member’s job description, then it should be clear that such a person has the time to do the extra work. Staff involved in M&E will require additional training, e.g. in data collection, computer use or in report-writing.

CONCLUSION

This paper has reflected on the experiences of the South African LED Programme – a programme with all the right intentions, but fundamentally flawed in its design. It has also provided an overview of the main problems with the M&E system, as it is currently working.

One of the main beneficial consequences of the LED Programme is to suggest what does *not* work, and by implication, what approach to LED may work better. Consequently, this paper has proposed a different approach, much more fundamentally demand-driven, and focused on providing an *LED mentoring service*, rather than funding for specific LED projects.

Such a programme would also benefit from overhauling our approach to M&E, towards making it a much more useful and relevant management tool.

At a profound level, we need to re-think what M&E is all about. A fundamental mind-set is needed. M&E is not primarily about policing officials, or checking invoices, or collating statistics. Rather, evaluation can and should make a further contribution to the development process by building *capacity for ongoing learning* beyond the life of a specific project as well. It should produce findings that provide *useful* input into current and future planning, policy making and other resource allocation decisions. In order to do, this the emphasis or evaluation focus must shift from producing 'knowledge products' (reports of progress and output indicators), to a goal of strengthening the 'learning process'. User-oriented evaluation is inherently participatory and collaborative in actively involving primary intended users in all aspects of the evaluation. Participation and collaboration can lead to an ongoing, longer-term commitment to using evaluation logic and building a culture of learning in a programme or organisation.